

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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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. Mahmood S. Allarakhia	Director
Mr. Mohammad Ali Jameel	Director

Company Secretary and CFO

Mr. A. Aziz Siwani	Company Secretary
Mr. Aquil Raza Khoja	Chief Financial Officer

Audit Committee

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Member
Mr. Mohammad Ali Jameel	Member

Internal Auditors

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

Auditors

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

Trustee

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

Registrar

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

Bankers to the Fund

Bank AL Habib Limited
Atlas Bank Limited
Bank Alfalah Limited
My Bank Limited

Distributors

Bank AL Habib Limited
Habib Insurance Company Limited
IGI Investment Bank Limited

Registered Office

1st Floor, Imperial Court,
Dr. Ziauddin Ahmed Road,
Karachi-75530.

Legal Advisor

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

REPORT OF THE DIRECTORS' OF THE MANAGEMENT COMPANY

The Board of Directors of Habib Asset Management Limited (HAML) is pleased to present the first Annual Report of First Habib Income Fund (the Fund) for the period from 6 September 2006 to 30 June 2007. Habib Asset Management Limited was incorporated on 30 September 2005. The Trust Deed of the Fund was executed on 6 September 2006. After arranging seed capital of Rs. 262 million and pre IPO of Rs. 552.5 million, the Initial Public Offer (IPO) for the Fund was made from 30 May to 1 June 2007.

Fund's Performance

After IPO the first Net Asset Value (NAV) of the Fund was announced on 4 June 2007 at Rs. 101.01 which went up to Rs. 101.67 by 30 June 2007 reflecting an increase of 9.17% on an annualized basis.

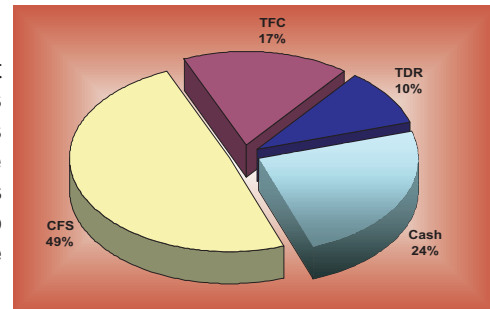
During the period under review the Fund earned a total income of Rs. 19.3 million. After deducting total expenses of Rs. 2.2 million net profit of Rs. 17.1 million was available for distribution i.e. Rs. 1.67 per Unit.

Income Distribution

The Board has approved distribution of bonus Units in the ratio of 1.5 Units for every 100 Units held by an investor as on 30 June 2007. The bonus Units have been issued at ex-dividend NAV of Rs. 100.17 per Unit. The distribution has resulted in payment of Rs. 15.4 million to Unit holders in the form of bonus Units which is 90.2% of the net income for the period. As at 30 June 2007 the Net Asset Value of the Fund stood at Rs. 1.05 billion.

Investments

During the month of June 2007 the return on Term Deposit Receipt (TDR) was very low and apart from Continuous Funding System (CFS), there were not many opportunities available for investment in the market. Therefore, the maximum investment was made under CFS. The Fund has also started building Term Finance Certificate (TFC) portfolio from secondary market. The asset allocation as at 30 June 2007 is shown in the graph:



Sale and Redemption of Units

After IPO 1,681,621 Units were sold and 1,080,039 Units were redeemed i.e. net sale of 601,582 Units.

Front-end Load

The Management has decided not to charge any front-end load on sale of Units with effect from 9 July 2007. However, back-end load @ 0.5% will be charged to those investors whose requests for redemption are received within 15 calendar days from the date of purchase of Units.

Unit Holders' Classification

Unit-holders' classification as on 30 June 2007 is as follows:

Sr. No.	Particulars	Unit Holder Accounts		Units Held	
		No.	%	No.	%
1	Associated Companies	3	0.91	1,047,500	10.18
2	Management Company	1	0.30	48,324	0.47
3	Related Concerns	6	1.82	545,064	5.29
4	Directors	2	0.61	30,682	0.30
5	Executives	5	1.52	2,379	0.02
6	Banks and Financial Institutions	16	4.85	4,250,000	41.29
7	Corporate	8	2.42	2,109,779	20.50
8	Insurance	1	0.30	50,000	0.48
9	Leasing	1	0.30	250,000	2.43
10	Mutual Funds	5	1.52	500,000	4.86
11	Individuals	272	82.42	925,284	8.99
12	Provident/ Gratuity/ Pension Funds	8	2.42	434,000	4.22
13	Welfare Trust	2	0.61	100,000	0.97
			100.00	10,293,012	100.00

Future Prospects

The average CFS rates which went up to 13% p.a. during the second quarter of June 2007 have come down to 11% p.a. As the return on TDRs from the banks are comparatively better, some funds have been transferred from CFS to bank deposits. We will continue to review and change the asset allocation as and when return improves on other avenues. In view of our cautious investment strategy, we expect a steady rate of return during the next financial year.

Management Company's Rating

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an Asset Manager Rating of AM3- to Habib Asset Management Limited. The AM3- Asset Manager Rating of HAML demonstrates that the Company meets high investment management industry standards and benchmarks, and it reflects relative strength of HAML compared to an average start-up asset management company.

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 2008. 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 30 June 2008 as recommended by the Audit Committee.

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:

- ◆ 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.
- ◆ The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
- ◆ The Board of Directors of Habib Asset Management Limited held four meetings during current financial year. The attendance of all directors is appended below:

Name of Director	Total Meetings Held	Attended
Mr. Ali Raza D. Habib	4	3
Mr. Imran Azim	4	4
Mr. Mahmood S. Allarakhia	3	2*
Mr. Mohammad Ali Jameel	4	3

* elected on 30 October 2006

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 30 June 2007 are as follows:

Name	Number of Units Purchased	Number of Units Redeemed
Mr. Mahmood S. Allarakhia	2000	-
Mr. Imran Azim	28,682	-
Mr. Aquil Raza Khoja	140	-
Mr. A. Aziz Siwani	500	-

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 Directors

21 August 2007
Karachi

Ali Raza D. Habib
Chairman

REPORT OF THE TRUSTEE

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

First Habib Income Fund, an open-end fund was established under a trust deed executed between Habib Asset Management Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on September 6, 2006. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on August 3, 2006.

In our opinion, Habib Asset Management Limited, the Asset Management Company of First Habib Income Fund has in all material respects managed First Habib Income Fund during the period from September 6, 2006 to June 30, 2007 in accordance with the provisions of the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

For the purpose of information, the attention of the Unit Holders is drawn towards the valuation of Term Finance Certificates-Listed which have been valued on the basis of quotations received from three brokerage houses, however, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 requires them to be valued on the basis of closing rate of stock exchange.

Mohammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: August 27, 2007

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE PERIOD FROM 6 SEPTEMBER 2006 TO 30 JUNE 2007**

This statement is being presented 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 at 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 was incorporated on 30 September 2005. It got license from the Securities and Exchange Commission of Pakistan (SECP) for establishing the Fund on 25 April 2006. The Trust Deed of the Fund was executed between the HAML and the Central Depository Company of Pakistan Limited (CDC) on 6 September 2006.

First Habib Income Fund is an open ended mutual fund and was quoted on Lahore Stock Exchange on 4 June 2007. The units of the Fund have been offered for public subscription on a continuous basis from 30 May 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. At present the Board consists of four directors including two 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the period from 6 September 2006 to 30 June 2007.
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.
8. The meetings of the Board were presided over by the Chairman 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 well aware of operations of the Fund and the Management Company, therefore no orientation courses were arranged during the period 6 September 2006 to 30 June 2007.
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.
11. The Directors' Report for the period 6 September 2006 to 30 June 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 CFO before the approval of the Board.
13. The Directors, CEO and Executives do not hold units other than those disclosed in note 19 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, one executive director and two non-executive directors, the Chairman of the Committee is a non-executive director. The requirements of the Code became effective upon listing of the Fund at the Lahore Stock Exchange on 4 June 2007. No Audit Committee meeting took place from 4 June 2007 to 30 June 2007. The Management Company plans to hold meetings of the Audit Committee every quarter, prior to approval of the interim and annual results of the Fund, as required by the Code.
16. 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.
17. 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.
18. 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.
19. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board of Directors

21 August 2007
Karachi

Imran Azim
Chief Executive Officer

**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 the **First Habib Income 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 period from 6 September 2006 to 30 June 2007.

21 August 2007
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **First Habib Income Fund**, which comprise the statement of assets and liabilities as at 30 June 2007 and the income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from 6 September 2006 to 30 June 2007 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 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.

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 2007, and of its financial performance, cash flows and transactions for the period from 6 September 2006 to 30 June 2007 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 and NBFC Rules.

21 August 2007
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2007**

	<i>Note</i>	2007 (Rupees)
Assets		
Bank balances	5	355,975,400
Receivable against continuous funding system transactions	6	511,552,750
Investments	7	177,573,592
Income receivable	8	8,806,676
Security deposits and other receivables	9	1,158,971
Preliminary expenses and floatation costs	10	2,578,367
Total assets		1,057,645,756
Liabilities		
Payable against purchase of investments		5,274,704
Payable to Habib Asset Management Limited - Management Company	11	5,006,186
Payable to Central Depository Company of Pakistan Limited - Trustee	12	200,011
Payable to Securities and Exchange Commission of Pakistan	13	81,626
Accrued expenses and other liabilities	14	638,796
Total liabilities		11,201,323
Commitments	15	-
Net Assets		<u>1,046,444,433</u>
Unit holders' funds (as per statement attached)		<u>1,046,444,433</u>
		(Number of Units)
Number of units in issue		<u>10,293,012</u>
		(Rupees)
Net Asset Value per unit		<u>101.67</u>

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

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

Chief Executive

Director

INCOME STATEMENT
FOR THE PERIOD FROM 6 SEPTEMBER 2006 TO 30 JUNE 2007

	<i>Note</i>	For the period from 6 September 2006 to 30 June 2007 (Rupees)
Income		
Profit on bank deposits	16	14,128,341
Income on Continuous Funding System Transactions		3,224,098
Income from Term Finance Certificates		419,676
Unrealized appreciation on investments at fair value through profit or loss		931,578
Total income		18,703,693
Expenses		
Remuneration of Habib Asset Management Limited - Management Company	11.1	1,224,391
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	160,908
Annual fee - Securities and Exchange Commission of Pakistan	13	81,626
Brokerage		432,221
Brokerage - relating to transactions with AL Habib Capital Markets (Private) Limited		58,951
Settlement and bank charges		102,495
Annual listing fee		30,000
Auditors' remuneration	17	90,000
Amortization of preliminary expenses and floatation costs		41,633
Total expenses		2,222,225
Net income from operating activities		16,481,468
Element of income and capital gains included in prices of units issued less those in units redeemed		661,803
Net income for the period		17,143,271
Earnings per unit	18	-

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

Chief Executive

Director

**DISTRIBUTION STATEMENT
FOR THE PERIOD FROM 6 SEPTEMBER 2006 TO 30 JUNE 2007**

	For the period from 6 September 2006 to 30 June 2007 (Rupees)
Net income for the period	17,143,271
Undistributed income carried forward	<u>17,143,271</u>

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

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

Chief Executive

Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE PERIOD FROM 6 SEPTEMBER 2006 TO 30 JUNE 2007**

	For the period from 6 September 2006 to 30 June 2007 (Rupees)
Issue of 11,373,051 units	1,139,145,625
Redemption of 1,080,039 units	(109,182,660)
	1,029,962,965
Element of income and capital gains included in prices of units issued less those in units redeemed	(661,803)
Net income for the period	17,143,271
Net assets as at the end of the period	<u>1,046,444,433</u>

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

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

Chief Executive

Director

**CASH FLOW STATEMENT
FOR THE PERIOD FROM 6 SEPTEMBER 2006 TO 30 JUNE 2007**

	For the period from 6 September 2006 to 30 June 2007 (Rupees)
CASH FLOW FROM OPERATING ACTIVITIES	
Net income for the period	17,143,271
Adjustments	
Unrealized appreciation on investments at fair value through profit or loss	(931,578)
Element of income and capital gains included in prices of units issued less those in units redeemed	(661,803)
Amortization of preliminary expenses and floatation costs	41,633
	15,591,523
Increase in assets	
Preliminary expenses and floatation cost	(2,620,000)
Receivable against Continuous Funding System transactions	(511,552,750)
Investments	(176,642,014)
Income receivable	(8,806,676)
Security deposits and other receivables	(1,158,971)
	(700,780,411)
Increase in liabilities	
Payable against purchase of investments	5,274,704
Payable to Habib Asset Management Limited - Management Company	5,006,186
Payable to Central Depository Company of Pakistan Limited - Trustee	200,011
Payable to Securities and Exchange Commission of Pakistan	81,626
Accrued expenses and other liabilities	638,796
	11,201,323
Net cash outflow from operating activities	(673,987,565)
CASH FLOW FROM FINANCING ACTIVITIES	
Net receipts from sale and redemption of units	1,029,962,965
Net increase in cash and cash equivalents during the period	355,975,400
Cash and cash equivalents at beginning of the period	-
Cash and cash equivalents as at 30 June 2007	355,975,400

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

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

Chief Executive

Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 6 SEPTEMBER 2006 TO 30 JUNE 2007**

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 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. The 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. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with the requirements of the Trust Deed, the NBFC Rules, the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, the NBFC Rules or directives issued by 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 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 July 2007 and are 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 in the certain cases:

- IAS 1 - Presentation of Financial Statements - Amendments relating to Capital Disclosures;
- IAS 23 - Borrowing Costs - Amendments relating to mandatory capitalization of borrowing costs relating to qualifying assets;
- IAS 41 - Agriculture;
- IFRS 2 - Share-based Payments;
- IFRS 3 - Business Combinations;
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations;
- IFRS 6 - Exploration for and Evaluation of Mineral Resources;
- IFRIC 10 Interim Financial Reporting and Impairment;
- IFRIC 11 Group and Treasury Share Transactions;
- IFRIC 12 Service Concession Arrangements;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 14 IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interactions.

3. BASIS OF PREPARATION

3.1 Basis of Measurement

These financial statements have been prepared under the historical cost convention, except that certain financial assets are included at fair value.

3.2 Functional and Presentation Currency

These financial statements are presented in Pak Rupees which is the functional currency of the Fund.

3.3 Use of Estimates and Judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires Management Company to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

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 the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgment in applying accounting policies that have most significant effect on the amount recognized in the financial statements are given in note 23 and 24 to these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Investments

All investments are initially recognized at fair value, being the cost of the consideration given including transaction cost associated with the investment, except in case of financial assets at fair value through profit or loss, in which case the transaction costs are charged off to the profit and loss account.

The Management Company determines the appropriate classification of the Fund's investments in accordance with the requirements of IAS 39; 'Financial Instruments: Recognition and Measurement', at the time of purchase. As at the year end, securities held by the Fund have been classified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

This category has two sub-categories, namely; financial instruments held for trading and those designated at fair value through profit or loss at inception;

- a) Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading.
- b) Investments designated at fair value through profit or loss upon initial recognition include those that are not held for trading purposes and which may be sold.

Subsequent to initial recognition these investments are marked to market 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.

Fair value of the above mentioned investments is determined with reference to the average rate of quotation provided by three brokerage houses.

4.2 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 recognized in the statement of assets and liabilities. Amount paid under these agreements are recognized 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 settlement date.

4.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the company during business hours on that day. 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. The sales load is payable to the investment facilitators and distributors through the Management Company. 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 redemption price, applicable on units for which the company receive redemption applications during business hours on 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. Redemption of units is recorded on acceptance of application for redemption.

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

An equalization 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 realized capital gains / (losses) relating to units issued and redeemed during an accounting period in the income statement.

4.5 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 period end.

4.6 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 realized or unrealized, is distributed amongst the Fund's unit holders.

The Management Company 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 realized or unrealized, to its unit holders every year. Accordingly, no tax liability or deferred tax has been recognized in these financial statements.

4.7 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealized capital gain / (losses) arising on the valuation of investment classified as financial assets at fair value through profit or loss are included in the Income Statement in the period in which they arise.
- Income on term finance certificate, term deposit receipts and bank deposits are recognized using the effective rate of return on a time proportionate basis.
- Income on investment in continuous funding system is recognized on accrual basis using the effective yield method at the rate agreed at the time of entering into the transaction.

4.8 Expenses

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

4.9 Impairment

The carrying amount of the Fund's assets 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 recognized whenever the carrying amount of an asset exceed its recoverable amount. Impairment losses are recognized in the income statement.

4.10 Provisions

Provisions are recognized 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.

4.11 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 amortized over a period of five years commencing from 2 June 2007 as per the Trust Deed of the Fund.

4.12 Financial instruments

All the financial assets and liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at fair value and are subsequently measured at fair value or amortized cost as the case may be. The Fund de-recognizes the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments. Any gain or loss on de-recognition of financial assets and financial liabilities is taken to income directly.

4.13 Offsetting of financial instruments

Financial assets and 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 recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liabilities simultaneously.

4.14 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances.

4.15 Other assets

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

4.16 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 recognized in the period in which they are authorized or approved.

5. BANK BALANCES

	<i>Notes</i>	2007 (Rupees)
In savings accounts	5.1	255,975,400
Term deposit receipts (TDRs)	5.2	100,000,000
		<u>355,975,400</u>

5.1 Savings accounts carry profit rates ranging from 9% to 10% per annum. This includes Rs. 1.858 million with related parties on which return is earned at 9% per annum.

5.2 Term deposit receipts carry profit rate of 10.5% per annum and will mature by 26 December 2007.

6. RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM TRANSACTIONS

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

7. INVESTMENTS

At fair value through profit or loss 7.1 **177,573,592**

7.1 Investment at fair value through profit or loss

Name of the investee company	Note	Profit/ Mark-up Rate (%)	----- Number of certificates -----				Market value as at 30 June 2007	% of Net Assets on the basis of Market value
			Purchases during the period	Sales during the period	Redemptions during the period	As at 30 June 2007		
(Rupees)								
Term Finance Certificates - Listed								
Bank Alfalah Ltd-II issue	7.1.1	11.66	3,117	-	-	3,117	16,009,081	1.53
Naimat Basal Oil and Gas Securitization Company Limited	7.1.2	12.55	14,000	-	-	14,000	43,869,059	4.19
Bank AL Habib Ltd-II issue	7.1.3	12.45	3,000	-	-	3,000	15,991,500	1.53
Orix Leasing Pakistan Ltd	7.1.4	11.67	15,000	-	-	15,000	76,462,500	7.31
Allied Bank Ltd	7.1.5	11.93	1,000	-	-	1,000	5,241,452	0.50
Engro Chemical Pakistan Ltd - Pre-IPO	7.1.6	11.57	-	-	-	-	20,000,000	1.91
			36,117	-	-	36,117	177,573,592	

7.1.1 These term finance certificates (TFCs) carry mark-up equal to the base rate of 1.50% plus average of 6 months Karachi Interbank Offer Rate per annum, receivable semi-annually in arrears with no floor no cap and will mature on 23 November 2012. The principal redemption is on semi - annual basis. These term finance certificates are unsecured and subordinated. At 30 June 2007, profit at 11.66% per annum was due on the above TFCs.

7.1.2 These term finance certificates (TFCs) carry mark-up equal to the base rate of 2.5% plus average of 6 months Karachi Interbank Offer Rate per annum, receivable monthly in arrears with a floor of 7.5% and cap of 13% and will mature on 12 April 2010. The principal redemption is on monthly basis. Naimat Basal is an asset backed / securitized term finance certificate. The instrument has been issued by Naimat Basal Oil and Gas Securitization Company Limited, a company registered as a Special Purpose Vehicle (SPV) under the SECP's Asset Backed Securitization Rules, 1999, notified vide SRO 1338(1)/99. At 30 June 2007, profit at 12.55% was due on the above TFCs.

7.1.3 These term finance certificates (TFCs) carry mark-up equal to the base rate of 1.95% plus average of 6 months Karachi Interbank Offer Rate per annum, receivable semi-annually in arrears with no floor no cap and will mature on 7 February 2015. The principal redemption is on semi - annual basis. These term finance certificates are unsecured and subordinated. At 30 June 2007, profit at 12.45% per annum was due on the above TFCs.

7.1.4 These term finance certificates (TFCs) carry mark-up equal to the base rate of 1.50% plus average of 6 months Karachi Interbank Offer Rate per annum, receivable semi-annually in arrears with no floor no cap and will mature on 25 May 2012. The principal redemption is on semi - annual basis. These term finance certificates are secured by a first charge over specific leased assets and associated lease receivables with 25% security margin. At 30 June 2007, profit at 11.67% per annum was due on the above TFCs.

7.1.5 These term finance certificates (TFCs) carry mark-up equal to the base rate of 1.90% plus average of 6 months Karachi Interbank Offer Rate per annum, receivable semi-annually in arrears with no floor no cap and will mature on 6 December 2014. The principal redemption is on semi - annual basis. These term finance certificates are unsecured and subordinated. At 30 June 2007, profit at 11.93% per annum was due on the above TFCs.

7.1.6 This represent application money for subscription of 4,000 term finance certificates (Pre-IPO) and carry a mark-up equal to the base rate of 1.55% plus average of 6 months Karachi Interbank Offer Rate per annum, receivable semi-annually in arrears with no floor no cap and will mature in 8 years after the issue. At 30 June 2007, profit at 11.57% per annum was due on the above TFCs.

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

7.3 The cost of these securities as at 30 June 2007 amounted to Rs. 176.642 million.

7.4 Unrealized appreciation in the value of investments classified as at fair value through profit or loss

	2007 (Rupees)
Fair value of investments	177,573,592
Less: Cost of investments	(176,642,014)
	<u>931,578</u>

8. INCOME RECEIVABLE

Income accrued on continuous funding system transactions	1,588,676
Profit accrued on term finance certificates	2,207,610
Profit receivable on bank deposits	5,010,390
	<u>8,806,676</u>

9. SECURITY DEPOSITS AND OTHER RECEIVABLES

Deposit with National Clearing Company of Pakistan Limited	1,000,000
Deposit with Central Depository Company of Pakistan Limited	100,000
Tax deducted at source	58,971
	<u>1,158,971</u>

10. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs		2,620,000
Less: Amortization during the period	<i>10.1</i>	(41,633)
Balance as at 30 June		<u>2,578,367</u>

10.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortized over a period of five years commencing from 2 June 2007.

**11. PAYABLE TO HABIB ASSET MANAGEMENT LIMITED
MANAGEMENT COMPANY**

Management fee	11.1	1,224,391
Sales load		1,795
Formation cost		2,620,000
Other payables		1,160,000
		<u>5,006,186</u>

11.1 Under the provisions of 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 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 period.

**12. PAYABLE TO CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED - TRUSTEE**

		2007 (Rupees)
Trustee fee	12.1	160,908
CDS charges		39,103
		<u>200,011</u>

12.1 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.

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

Under the provisions of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, 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 Fund.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	90,000
Brokerage	491,172
NCCPL Settlement Charges	57,624
	<u>638,796</u>

15. COMMITMENTS

Continuous funding system transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at 30 June 2007

167,627,985

16. PROFIT ON BANK DEPOSITS

Income on savings accounts	13,984,505
Income on term deposit receipts	143,836
	<u>14,128,341</u>

17. AUDITORS' REMUNERATION

Audit fee	75,000
Out of pocket expenses	15,000
	<u>90,000</u>

18. EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended 30 June 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

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.

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

Remuneration payable to management company and trustee is determined in accordance with the provisions of NBFC Rules and the Trust Deed respectively.

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

<u>Units sold to:</u>	(Units)	2007	(Rupees)
Management Company			
Habib Asset Management Limited	48,324		4,832,410
Associated Companies			
- Bank AL Habib Limited	750,000		75,000,000
- Habib Insurance Company Limited	247,500		25,000,000
- Trakker Direct Insurance Limited	50,000		5,000,000
Other related parties			
- Directors and executives of the Management Company	34,010		3,434,000
- Habib Sugar Mills Limited-Staff Provident Fund	125,000		12,500,000
- Habib Sugar Mills Limited-Employees Gratuity Fund	125,000		12,500,000
- Hyderi Hostel Trust	55,000		5,500,000
- Habib Insurance Company Limited - Pakistan Employees Provident Fund	40,000		4,000,000
- Sukaina Education and Welfare Trust	50,000		5,000,000
- Mrs. Shama Sajjad Habib	100,063		10,006,340
- Central Depository Company of Pakistan Limited	100,000		10,000,000

<u>Units redeemed by:</u>	2007	
	(Units)	(Rupees)
Other related parties		
- Sukaina Education and Welfare Trust	50,000	5,060,500
- Executives of the Management Company	949	96,156
<u>Units held by:</u>		
Management Company		
Habib Asset Management Limited	48,324	4,913,101
Associated Companies		
- Bank AL Habib Limited	750,000	76,252,500
- Habib Insurance Company Limited	247,500	25,163,350
- Trakker Direct Insurance Limited	50,000	5,083,500
Other related parties		
- Directors and executives of the Management Company	33,061	3,361,332
- Habib Sugar Mills Limited-Staff Provident Fund	125,000	12,708,750
- Habib Sugar Mills Limited-Employees Gratuity Fund	125,000	12,708,750
- Hyderi Hostel Trust	55,000	5,591,850
- Habib Insurance Company Limited - Pakistan Employees Provident Fund	40,000	4,066,800
- Mrs. Shama Sajjad Habib	100,063	10,173,446
- Central Depository Company of Pakistan Limited	100,000	10,167,000

Transactions and balances with connected persons	Note	2007 (Rupees)
Habib Asset Management Limited - Management Company		
Management fee		1,224,391
Sales load for the period		1,795
Preliminary expenses and floatation costs		3,780,000
		<u>5,006,186</u>
Amounts paid during the period		-
Balance at the end of the period		<u>5,006,186</u>
 AL Habib Capital Markets (Private) Limited- Brokerage house		
Brokerage expense for the period	19.1	58,951
Payments made during the period		-
Balance at the end of the period		<u>58,951</u>
 Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the period		160,908
CDS charges for the period		39,103
		<u>200,011</u>
Amounts paid during the period		-
Balance at the end of the period		<u>200,011</u>
Security deposit - profit free		<u>100,000</u>

19.1 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.

20. MARKET / PROFIT RATE RISK

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

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)						
On-balance sheet financial instruments							
Financial Assets							
Bank balances	9 to 10.5	355,975,400	255,955,400	-	100,000,000	-	20,000
Receivable against CFS transactions	11.29 to 19.71	511,552,750	511,552,750	-	-	-	-
Investments	11.57 to 12.55	177,573,592	-	15,991,500	161,582,092	-	-
Income receivable	-	8,806,676	-	-	-	-	8,806,676
Security deposits and other receivables	-	1,158,971	58,971	-	-	-	1,100,000
		1,055,067,389	767,567,121	15,991,500	261,582,092	-	9,926,676
Financial Liabilities							
Payable against purchase of investments	-	5,274,704	-	-	-	-	5,274,704
Payable to Habib Asset Management Limited - Management Company	-	5,006,186	-	-	-	-	5,006,186
Payable to Central Depository Company of Pakistan Limited -Trustee	-	200,011	-	-	-	-	200,011
Payable to Securities and Exchange Commission of Pakistan	-	81,626	-	-	-	-	81,626
Accrued liabilities and other expenses	-	638,796	-	-	-	-	638,796
		11,201,323	-	-	-	-	11,201,323
On-balance sheet gap -2007(a)		1,043,866,066	767,567,121	15,991,500	261,582,092	-	(1,274,647)

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

21. MATURITIES OF ASSETS AND LIABILITIES

	2007					
	Total	not later than one month	Later than one month and upto three months	Later than three months and not later than one year	Later than one year and not later than five year	Later than five years
	(Rupees)					
Financial Assets						
Bank balances	355,975,400	255,975,400	-	100,000,000	-	-
Receivable against CFS transactions	511,552,750	511,552,750	-	-	-	-
Investments	177,573,592	-	177,573,592	-	-	-
Income receivable	8,806,676	6,723,527	734,714	1,348,435	-	-
Security deposits and other receivables	1,158,971	58,971	-	-	-	1,100,000
Preliminary expenses and floatation costs	2,578,367	44,504	87,573	391,924	2,054,366	-
	1,057,645,756	774,355,152	178,395,879	101,740,359	2,054,366	1,100,000
Financial Liabilities						
Payable against purchase of investments	5,274,704	5,274,704	-	-	-	-
Payable to Habib Asset Management Limited - Management Company	5,006,186	5,006,186	-	-	-	-
Payable to Central Depository Company of Pakistan Limited -Trustee	200,011	200,011	-	-	-	-
Payable to Securities and Exchange Commission of Pakistan	81,626	81,626	-	-	-	-
Accrued liabilities and other expenses	638,796	638,796	-	-	-	-
	11,201,323	11,201,323	-	-	-	-
Net Assets	1,046,444,433	763,153,829	178,395,879	101,740,359	2,054,366	1,100,000

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 Management Company 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 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.

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 ruling 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 judgments 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 certain investments by using quotations from active market. 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 judgments (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

24.2 Other assets

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

25. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company have approved bonus of 1.5 units for every 100 units held for the period ended 30 June 2007, amounting to Rs. 15.466 million in total in their meeting held on 06 July 2007. These financial statements do not reflect this proposed issue of bonus units.

26. PERFORMANCE TABLE

	2007
	(Rupees)
Net income	17,143,271
Net assets value per unit	101.67
Highest offer price per unit	102.61
Lowest offer price per unit	100.00
Highest redemption price per unit	101.59
Lowest redemption price per unit	101.01

27. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Management company on 21 August 2007.

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

Chief Executive

Director