

First Habib Income Fund

Quarterly Report

For the quarter ended September 30, 2007



Habib Asset Management Limited

(An Associate Company of Bank AL Habib Ltd.)

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

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Managed by:

Habib Asset Management Limited

(An Associate Company of Bank AL Habib Ltd.)

CONTENTS

Fund's Information	2
Directors' Report	3
Statement of Assets and Liabilities	4
Income Statement	5
Distribution Statement	6
Statement of Movement in Unit Holders' Funds	7
Cash Flow Statement	8
Notes to the Financial Statements	9

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. Mohammad Ali Jameel	Chairman
Mr. Imran Azim	Member
Mr. Mahmood S. Allarakhia	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
JS Bank Limited

Distributors

Bank AL Habib Limited
Habib Insurance Company Limited
IGI Investment Bank Limited
Foundation Securities Limited
JS Global Capital Limited
Pak Oman Investment Company

Legal Advisor

Mohsin Tayebaly & Co.
Barristers & Advocates Corporate
Legal Consultants
Block-9, Kehkashan, Clifton, Karachi.

Registered Office

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

First Habib Income Fund

DIRECTORS' REPORT

The Directors of Habib Asset Management Limited are pleased to present the un-audited financial statements of First Habib Income Fund for the first quarter ended September 30, 2007.

Fund Performance

During the first quarter Net Assets increased from Rs. 1.05 billion as on June 30, 2007 to Rs. 2.14 billion as on September 30, 2007 showing an increase of 104% for the first quarter of FY08. Net Asset Value (NAV) per unit increased from Rs. 100.17 as at July 1, 2007 to Rs. 102.58 as at September 30, 2007, earning a return of 9.55%. The units in issue increased from 10.293 million to 20.819 million.

This quarterly return has been the result of our continued efforts to increase the return for unit holders by maintaining an optimum mix of investment avenues available to the fund. The fund's asset allocation has been shifted from Cash and Continuous Funding System (CFS) to Term Deposit Receipts (TDR) and Certificates of Investment (COI) during the quarter due to better returns on these avenues.

Asset Mix	June 30, 2007	September 30, 2007	Change
CFS	49.00%	13.69%	-35.31
COI	0.00%	21.07%	+21.07
TDR	10.00%	32.77%	+22.77
TFC	17.00%	20.97%	+3.97
Cash	24.00%	11.5%	-12.50
Total	100.00%	100.00%	

Market Review

The Governor State Bank of Pakistan announced Monetary Policy on 31st July, 2007. The SBP increased the discount rate by 50 bps to 10% and announced to maintain the tight monetary policy for another six months, i. e. till December this year. However, we did not witness any significant change in the return on T-Bills during the quarter, where as the PIB rates did witness a slight change.

During the first quarter, the KSE-100 index witnessed a mix trend. The KSE-100 index was at 13,772.46 points on June 29, 2007 and settled at 13,351.79 points on September 28, 2007 showing a decrease of 420.67 points during the quarter. The KSE-100 index ended on a negative note of 33.59 points on July 31, 2007 and further dipped 1,524.61 points by the end of August 2007. The index rebounded in September 2007 and ended on positive 1,137.53 points on September 28, 2007. This recovery also supported the CFS rates which increased during the month of October 2007.

Future outlook

Though, the political picture is uncertain but InshAllah, we hope that things will settle and the market remains positive. We also hope that there will be continuity in the present economic policies. The fund will however, make all efforts in maintaining an asset mix that should provide an optimum and sustainable return.

On behalf of the Board of Directors

Karachi: October 29, 2007

Ali Raza D. Habib
Chairman

First Habib Income Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 30 SEPTEMBER 2007

	Note	30 September 2007 Unaudited	30 June 2007 Audited
			(Rupees)
Assets			
Bank balances	4	887,586,918	355,975,400
Receivable against continuous funding system transactions		292,490,390	511,552,750
Investments	5	474,184,186	177,573,592
Certificate of Investments and Deposits		450,000,000	-
Income receivable		33,043,644	8,806,676
Security deposits and other receivables		1,106,400	1,158,971
Preliminary expenses and floatation costs		2,446,290	2,578,367
Total assets		2,140,857,828	1,057,645,756
Liabilities			
Payable against purchase of investments		1,504,237	5,274,704
Payable to Habib Asset Management Limited - Management Company		2,487,922	5,006,186
Payable to Central Depository Company of Pakistan Limited - Trustee		247,844	200,011
Payable to Securities and Exchange Commission of Pakistan		369,116	81,626
Accrued expenses and other liabilities		532,784	638,796
Total liabilities		5,141,903	11,201,323
Commitments	6	-	-
Net Assets		<u>2,135,715,925</u>	<u>1,046,444,433</u>
Unit holders' funds (as per statement attached)		<u>2,135,715,925</u>	<u>1,046,444,433</u>
			(Number of units)
Number of Units in issue		<u>20,819,004</u>	<u>10,293,012</u>
			(Rupees)
Net Asset Value per Unit		<u>102.58</u>	<u>101.67</u>

The annexed notes 1 to 9 form an integral part of these financial statements.

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

Chief Executive

Director

First Habib Income Fund

INCOME STATEMENT (UNAUDITED) FOR THE QUARTER ENDED 30 SEPTEMBER 2007

	2007 (Rupees)
Income	
Profit on bank deposits	16,248,680
Income on Continuous Funding System Transactions	8,453,368
Income from Term Finance Certificates	8,767,150
Income from Certificate of Investments and Deposits	5,299,444
Gain on sale of investments	893,783
Unrealised appreciation on investments at fair value through profit or loss	3,407,478
Total income	43,069,903
Expenses	
Remuneration of Habib Asset Management Limited - Management Company	5,536,741
Remuneration of Central Depository Company of Pakistan Limited - Trustee	620,494
Annual fee - Securities and Exchange Commission of Pakistan	369,116
Brokerage	989,847
Brokerage - relating to transactions with AL Habib Capital Markets (Private) Limited	183,928
Settlement and bank charges	218,151
Annual listing fee	7,541
Auditors' remuneration	62,844
Amortisation of preliminary expenses and floatation costs	132,077
Total expenses	8,120,739
Net income from operating activities	34,949,164
Element of income and capital gains included in prices of Units issued less those in Units redeemed	17,188,272
Net income for the period	52,137,436

The annexed notes 1 to 9 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

**DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2007**

	2007 (Rupees)
Undistributed income brought forward	17,143,271
Distribution during the period (1 July 2007)	(15,465,765)
Net income for the period	52,137,436
Undistributed income carried forward	<u>53,814,942</u>

The annexed notes 1 to 9 form an integral part of these financial statements.

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

Chief Executive

Director

First Habib Income Fund

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE QUARTER ENDED 30 SEPTEMBER 2007

	2007	
	Units	(Rupees)
Net assets at the beginning of the period	10,293,012	1,046,444,433
Amount received on sale of units	18,997,733	1,936,773,000
Amount paid on redemption of units	(8,626,136)	(882,450,672)
	10,371,597	1,054,322,328
Element of income and capital gains included in prices of units issued less those in units redeemed	-	(17,188,272)
Issue of bonus units on 1 July 2007	154,395	-
Net income for the period	-	52,137,436
Net assets at end of the period	20,819,004	2,135,715,925

The annexed notes 1 to 9 form an integral part of these financial statements.

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

Chief Executive

Director

First Habib Income Fund

CASH FLOW STATEMENT (UNAUDITED) FOR THE QUARTER ENDED 30 SEPTEMBER 2007

	2007 (Rupees)
CASH FLOW FROM OPERATING ACTIVITIES	
Net income for the period	52,137,436
Adjustments for non-cash items	
Unrealised appreciation on investments at fair value through profit or loss - net	(3,407,478)
Element of income and capital gains included in prices of Units issued less those in Units redeemed	(17,188,272)
Amortisation of preliminary expenses and floatation costs	132,077
	31,673,763
(Increase) / decrease in assets	
Receivable against Continuous Funding System transactions	219,062,360
Investments	(293,203,116)
Certificate of Investments and Deposits	(450,000,000)
Income receivable	(24,236,968)
Security deposits and other receivables	52,571
	(548,325,153)
Increase / (decrease) in liabilities	
Payable against purchase of investments	(3,770,467)
Payable to Habib Asset Management Limited - Management Company	(2,518,264)
Payable to Central Depository Company of Pakistan Limited - Trustee	47,833
Payable to Securities and Exchange Commission of Pakistan	287,490
Accrued expenses and other liabilities	(106,012)
	(6,059,420)
Net cash flow from operating activities	(522,710,810)
CASH FLOW FROM FINANCING ACTIVITIES	
Net receipts from sale and redemption of units	1,054,322,328
Net increase in cash and cash equivalents during the period	531,611,518
Opening cash and cash equivalents	355,975,400
Cash and cash equivalents as at 30 September 2007	887,586,918

The annexed notes 1 to 9 form an integral part of these financial statements.

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

Chief Executive

Director

First Habib Income Fund

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) FOR THE QUARTER ENDED 30 SEPTEMBER 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. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the requirements of International Accounting Standard No. 34 "Interim Financial Reporting" and are being submitted to the Unit holders as required under section 245 of the Companies Ordinance 1984; Rule 65(f) of the NBFC Rules, 2003 and listing regulations of Lahore Stock Exchange. These financial statements are unaudited.

3. ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of the published financial statements of the Fund for the period ended 30 June 2007.

4. BANK BALANCES

	Profit/ Mark-up Rate (%)	Note	30 September 2007 (Unaudited)	30 June 2007 Audited
(Rupees)				
In savings accounts	5.5% to 9.25%	4.1	187,586,918	255,975,400
Term deposit receipts (TDRs)	9.75% to 10.75%		700,000,000	100,000,000
			<u>887,586,918</u>	<u>355,975,400</u>

First Habib Income Fund

4.1 Saving accounts include Rs. 1,097,734 (30 June 2007: 1,858,353) maintained with Bank AL Habib Limited, an associated concern.

5. INVESTMENTS

		30 September 2007 (Unaudited)	30 June 2007 Audited
In marketable securities -'at fair value through Profit or Loss'			
Pre IPO Investment in TFC's	5.1	386,184,186	157,573,592
		<u>88,000,000</u>	<u>20,000,000</u>
		<u>474,184,186</u>	<u>177,573,592</u>

5.1 Investment in marketable securities-'at fair value through Profit or Loss'

Term Finance Certificates	5.2	361,015,267	157,573,592
Investment in Mutual Fund	5.3	25,168,919	-
		<u>386,184,186</u>	<u>157,573,592</u>

5.2 TERM FINANCE CERTIFICATES

Name of Securities	Status	Number of Certificates				Market value as at 30 September 2007	% of Net Assets
		As at 1 July 2007	Acquired during the period	Sold during the period	As at 30 September 2007		
		(Rupees)					
Bank Alfalah Limited - II issue	Listed	3,117	-	1,000	2,117	11,104,465	0.52
Naimat Basal Oil and Gas Securitization Company Limited	Listed	14,000	2,000	16,000	-	-	-
Bank AL Habib Limited-II issue	Listed	3,000	9,200	2,000	10,200	55,622,588	2.60
Orix Leasing Pakistan Limited	Listed	15,000	5,000	4,000	16,000	82,513,142	3.86
Allied Bank Limited	Listed	1,000	15,400	8,000	8,400	45,744,450	2.14
Askari Commercial Bank Limited - II issue	Listed	-	9,200	-	9,200	48,385,951	2.27
Askari Commercial Bank Limited - I issue	Listed	-	400	-	400	2,099,498	0.10
United Bank Limited -III issue	Listed	-	3,400	-	3,400	18,098,001	0.85
First International Investment Bank Limited	Listed	-	784	-	784	4,041,247	0.19
Pakistan Mobile communication Limited	Listed	-	2,200	-	2,200	12,011,122	0.56
Prime Commercial Bank Limited	Listed	-	4,000	-	4,000	21,087,748	0.99
Standard Chartered Bank Pakistan Limited	Listed	-	5,000	-	5,000	26,607,598	1.25
Soneri Bank Limited	Listed	-	2,299	-	2,299	12,153,457	0.57
Jahangir Siddiqui & Company Limited	Unlisted	-	4,200	-	4,200	21,546,000	1.01
Market Value of investments as at 30 September 2007						<u>361,015,267</u>	

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

5.2.2 Cost of Term Finance Certificates as at 30 September 2007 is Rs 357,776,708 (30 June 2007 : 156,642,014)

First Habib Income Fund

5.3 INVESTMENT IN MUTUAL FUND- Listed

Name of the Investee Fund	----- Number of Units -----					Market Value as at 30 September 2007
	As at 1 July 2007	Acquired during the period	Bonus/ Right issue	Sold during the period	As at 30 September 2007	

(Rupees)

CDC Trustee- KASB Liquid Fund	-	244,810	-	-	244,810	25,168,919
	-	244,810	-	-	244,810	25,168,919

5.3.1 Cost of investment in mutual funds as at 30 September 2007 is
Rs. 25,000,000 (30 June 2007 : NIL)

**30 September
2007
Unaudited
(Rupees)**

6. COMMITMENTS

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

156,555,480

First Habib Income Fund

7. TRANSACTIONS WITH CONNECTED PERSONS

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

	30 September 2007 Unaudited (Rupees)
Habib Asset Management Limited - Management Company	
Management fee	5,536,741
AL Habib Capital Markets (Private) Limited - Brokerage house	
Brokerage	183,928
Central Depository Company of Pakistan Limited - Trustee	
Remuneration	620,494

Sale / Redemption of units for the quarter ended 30 September 2007

	Sale		Redemption		Bonus	
	Units	Rupees	Units	Rupees	Units	Rupees
Habib Asset Management Ltd. - Management Company	-	-	-	-	725	72,609
Bank AL Habib Limited	8,345,799	850,000,000	4,193,381	429,192,565	11,250	1,126,913
Habib Insurance Company Limited	490,581	50,000,000	-	-	3,713	371,882
Trakker Direct Insurance Ltd. Directors of the Management Company	-	-	-	-	750	75,128
Executives of the Management Company	1,992	200,000	6,925	700,395	460	46,101
Habib Sugar Mills Limited-Staff Provident Fund	-	-	-	-	36	3,575
Habib Sugar Mills Limited - Employees Gratuity Fund	-	-	-	-	1,875	187,819
Hyderi Hostel Trust	-	-	-	-	1,875	187,819
Habib Insurance Company Limited - Pakistan Employees Provident Fund	-	-	-	-	825	82,640
Mrs. Shama Sajjad Habib	4,896	500,000	-	-	600	60,102
Central Depository Company of Pakistan Limited	-	-	-	-	1,501	150,350
	-	-	-	-	1,500	150,255

8. CORRESPONDING FIGURES

These are the first quarterly financial statements of the Fund, hence comparative figures are not applicable to some of the figures presented in these financial statements.

9. DATE OF AUTHORISATION

These financial statements were authorised for issue on 29 October 2007 by the Board of Directors of the Management Company.

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

Chief Executive

Director