

First Habib Income Fund

First Habib Stock Fund



## Half Yearly Report

December 2010



**Habib Asset Management Limited**

(An Associate Company of Bank AL Habib Ltd.)

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**First Habib Income Fund**  
**Half Yearly Report**  
December 2010

**FUND'S INFORMATION**

**Management Company**

Habib Asset Management Limited

**Board of Directors of the Management Company**

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

**CFO and Company Secretary**

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

Mr. Mohammad Ali Jameel	Chairman
Mr. Ali Raza D. Habib	Member
Mr. Mansoor Ali	Member

**Auditors**

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

**Internal Auditors**

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

**Trustee**

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

**Registrar**

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

**Bankers to the Fund**

Bank AL Habib Limited  
Bank Alfalah Limited  
JS Bank Limited  
NIB Bank Limited  
Habib Metropolitan Bank Limited

**Legal Advisor**

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

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

**DIRECTORS' REPORT**

The Directors of Habib Asset Management Limited are pleased to present condensed interim financial statements of First Habib Income Fund (FHIF) for the half year ended December 31, 2010.

**FUND'S PERFORMANCE**

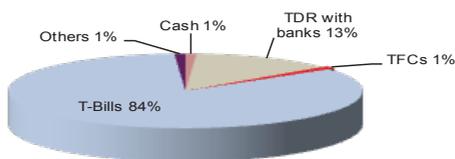
The net assets of the Fund as at December 31, 2010 were Rs. 1,662.91 million. Net Assets Value (NAV) per Unit of the Fund improved from Rs.100.03 (ex-distribution) to Rs. 102.66.

During the period under review, the Fund earned an income of Rs. 106.795 million, of which Rs. 92.196 million i.e. 86 per cent pertains to income from government securities (T-Bills).

**DIVIDEND DISTRIBUTION**

The Board of Directors in their meeting held on January 3, 2011 has approved second interim cash dividend of Rs. 2.60 per Unit for Unit holders having class 'C' Units and 2.5969 bonus Units for every 100 Units for other Unit holders. This is in addition to the first interim dividend of Rs. 2.25 per unit declared on October 7, 2010, making a total distribution of Rs. 4.85 per unit.

**ASSET ALLOCATION**



**FUTURE OUTLOOK**

During the last quarter of 2010, the State Bank of Pakistan raised the discount rate by 50bps to 14% due to rising inflation, concerns over high budgetary borrowings and weak economic situation in the post flood scenario.

The cut off yields on T-Bills has increased which will generate healthy returns for the Fund. FHIF has shifted its major allocation of portfolio towards T-Bills and bank deposits thus minimizing its exposure to valuation losses on TFCs. The Fund is expected to perform better as yields on T-bills and return on bank deposits have improved.

**ACKNOWLEDGEMENT**

We are indeed thankful to our valued investors who have placed their faith and confidence by investing in FHIF. We wish to thank the Securities & Exchange Commission of Pakistan, Central Depository Company of Pakistan Limited as Trustee and the Lahore Stock Exchange for their continuous support. We also wish to place on record the appreciation for the services rendered by the members of the Management Company

On behalf of the Board of Directors

February 18, 2011  
Karachi

Ali Raza D. Habib  
Chairman

**TRUSTEE REPORT TO THE UNIT HOLDERS**

**Report of the Trustee pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

The First Habib Income Fund (the Fund), an open-end Fund was established under a trust deed dated September 06, 2006, executed between Habib Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the six months period ended December 31, 2010 in accordance with the provisions of the following:

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

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

February 28, 2011  
Karachi

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED  
INTERIM FINANCIAL INFORMATION TO THE UNIT HOLDERS**

**INTRODUCTION**

We have reviewed the accompanying condensed interim statement of assets and liabilities of **First Habib Income Fund** (the "Fund") as at 31 December 2010 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds, condensed interim cash flow statement and notes to the accounts for the six months period ended 31 December 2010 (here-in-after referred to as the "condensed interim financial information"). The Management Company is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

**SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in audit. Accordingly, we do not express an audit opinion.

**CONCLUSION**

Based on our review nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the six months period ended 31 December 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

**OTHER MATTERS**

The figures for the quarter ended 31 December 2010 in the condensed interim financial information have not been reviewed and we do not express a conclusion on them.

February 18, 2011

Karachi

**KPMG Taseer Hadi &Co.**  
Chartered Accountants  
Mazhar Saleem

## First Habib Income Fund

### CONDENSED INTERIM STATEMENT OF ASSET AND LIABILITIES (UNAUDITED) AS AT 31 DECEMBER 2010

	(Unaudited) 31 December 2010 (Rupees in '000)	(Audited) 30 June 2010
<b>Assets</b>		
Bank balances	6 245,465	164,847
Investments	7 1,421,399	1,570,925
Certificate of investments	8 -	3,375
Income receivable	9 4,652	20,121
Deposits and prepayments	10 2,620	2,600
Preliminary expenses and floatation costs	741	1,005
<b>Total assets</b>	<b>1,674,877</b>	<b>1,762,873</b>
<b>Liabilities</b>		
Payable to Habib Asset Management Limited - Management Company	2,434	2,237
Payable to Central Depository Company of Pakistan Limited - Trustee	248	232
Payable to Securities and Exchange Commission of Pakistan	698	1,408
Payable against redemption of units	-	56,668
Workers' Welfare Fund	11 7,635	5,941
Accrued expenses and other liabilities	947	924
<b>Total liabilities</b>	<b>11,962</b>	<b>67,410</b>
<b>Net assets</b>	<b>1,662,915</b>	<b>1,695,463</b>
<b>Unit holders' funds (as per statement attached)</b>	<b>1,662,915</b>	<b>1,695,463</b>
	(Number of units)	
<b>Number of units in issue</b>	<b>16,197,553</b>	<b>16,536,076</b>
	(Rupees)	
<b>Net asset value per unit</b>	<b>102.66</b>	<b>102.53</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)  
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2010**

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
<b>Income</b>				
Profit on bank deposits	7,446	30,733	4,771	15,147
Income from Term Finance Certificates	19,329	36,386	7,399	17,424
Income from Certificate of Investments	49	2,983	-	2,024
Income on Government Securities	92,196	53,896	49,940	27,875
Income from Placements	489	6,752	89	3,486
Income on Reverse Repo Transactions	-	2,096	-	1,347
(Loss)/ gain on sale of investments	(1,437)	1,821	(147)	(1,277)
Unrealised appreciation / (diminution) on investments at fair value through profit or loss	(5,141)	4,679	(1,590)	8,136
<b>Total income</b>	<b>112,931</b>	<b>139,346</b>	<b>60,462</b>	<b>74,162</b>
<b>Expenses</b>				
Remuneration of Habib Asset Management Limited - Management Company	13,965	15,192	7,332	7,670
Remuneration of Central Depository Company of Pakistan Limited - Trustee	1,435	1,517	741	763
Annual fee - Securities and Exchange Commission of Pakistan	698	760	367	384
Brokerage	260	387	167	142
Settlement and bank charges	188	134	97	86
Annual listing fee	20	15	10	8
Auditors' remuneration	174	194	88	100
Amortisation of preliminary expenses and floatation costs	264	264	132	132
Legal expenses	63	25	-	13
Mutual fund rating fee	88	25	44	12
Printing charges	59	95	5	95
Provision against debt securities	4,878	7,783	1,909	4,531
Workers' Welfare Fund	1,694	-	838	-
<b>Total expenses</b>	<b>23,786</b>	<b>26,391</b>	<b>11,730</b>	<b>13,936</b>
	<b>89,145</b>	<b>112,955</b>	<b>48,732</b>	<b>60,226</b>
Net element of income /(loss) and capital gain/ (loss) included in prices of units issued less those in units redeemed	(6,136)	(7,907)	(7,672)	(7,640)
<b>Net income for the period</b>	<b>83,009</b>	<b>105,048</b>	<b>41,060</b>	<b>52,586</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director

## First Habib Income Fund

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### CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2010

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
Net income for the period	83,009	105,048	41,060	52,586
Other comprehensive income / (loss) for the period	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>83,009</b>	<b>105,048</b>	<b>41,060</b>	<b>52,586</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)  
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2010**

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	(Rupees in '000)			
<b>Undistributed income brought forward</b>	<b>41,856</b>	36,466	<b>42,465</b>	53,326
Final cash dividend for class 'C' unit holders @ Rs. 2.10/- per unit and bonus units @ 2.0989/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2009	-	(35,602)	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.50/- per unit and bonus units @ 2.4900/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2009	-	(47,557)	-	(47,557)
Final cash dividend for class 'C' unit holders @ Rs. 2.50/- per unit and bonus units @ 2.4993/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2010	<b>(41,340)</b>	-	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit and bonus units @ 2.2457/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2010	<b>(40,366)</b>	-	<b>(40,366)</b>	-
Net income for the period	<b>83,009</b>	105,048	<b>41,060</b>	52,586
<b>Undistributed income carried forward</b>	<b>43,159</b>	58,355	<b>43,159</b>	58,355

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director

## First Habib Income Fund

### CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2010

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
------(Rupees in '000)-----				
Net assets at the beginning of the period	1,695,463	1,731,680	1,835,097	1,975,372
Amount received on sale of units	765,211	1,306,730	455,750	840,575
Amount paid on redemption of units	(846,397)	(1,285,874)	(657,672)	(1,032,889)
	(81,186)	20,856	(201,922)	(192,314)
Net element of loss / (income) and capital loss / (gain) included in prices of units issued less those in units redeemed	6,136	7,907	7,672	7,640
Final cash dividend for class 'C' unit holders @ Rs. 2.1/- per unit	-	(22,207)	-	-
Final cash dividend for class 'C' unit holders @ Rs. 2.50/- per unit	(21,515)	-	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit	(18,992)	-	(18,992)	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.5/- per unit	-	(23,493)	-	(23,493)
Net income / (loss) for the period	83,009	105,048	41,060	52,586
Net assets at the end of the period	<u>1,662,915</u>	<u>1,819,791</u>	<u>1,662,915</u>	<u>1,819,791</u>

	------(Number of Units)-----			
	2010	2009	2010	2009
Units at the beginning of the period	16,536,076	16,952,168	17,926,326	19,220,456
Number of units issued	7,555,230	12,804,405	4,500,365	8,194,859
Number of units redeemed	(8,305,274)	(12,515,751)	(6,442,463)	(10,040,641)
	(750,044)	288,654	(1,942,098)	(1,845,782)
<i>Issue of bonus units:</i>				
Final bonus units distribution @ 2.4993/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2010	198,196	-	-	-
Interim bonus units distribution @ 2.2457/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2010	213,325	-	213,325	-
Final bonus units distribution @ 2.0989/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2009	-	133,852	-	-
Interim bonus units distribution @ 2.4900/- for class 'A' and 'B' unit holders for every 100 units held as at 6 October 2009	-	239,686	-	239,686
Units at the end of the period	<u>16,197,553</u>	<u>17,614,360</u>	<u>16,197,553</u>	<u>17,614,360</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)  
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2010**

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	(Rupees in '000)			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net income for the period	83,009	105,048	41,060	52,586
<b>Adjustments for non-cash items</b>				
Unrealised (appreciation) / diminution on investments at fair value through profit or loss - net	5,141	(4,679)	1,590	(8,136)
Workers' Welfare Fund	1,694	-	838	-
Net element of loss / (income) and capital loss / (gain) included in prices of units issued less those in units redeemed	6,136	7,907	7,672	7,640
Provision against debt securities	4,878	7,783	1,909	4,531
Amortisation of preliminary expenses and floatation costs	264	264	132	132
	<b>101,122</b>	<b>116,323</b>	<b>53,201</b>	<b>56,753</b>
<b>(Increase) / decrease in assets</b>				
Term deposit receipt	100,000	150,000	-	-
Receivable against reverse repurchase transactions	-	-	-	94,531
Placements	-	-	-	95,000
Investments	139,507	(46,441)	391,914	336,777
Certificates of investment and deposit	3,375	11,500	-	57,750
Income receivable	15,469	12,023	2,429	(15,546)
Advances, deposits, prepayments and other receivables	(20)	(13)	10	8
Receivable against sale of investments	-	(17,483)	-	(7,483)
	<b>258,331</b>	<b>109,586</b>	<b>394,353</b>	<b>561,037</b>
<b>Increase / (decrease) in liabilities</b>				
Payable to Habib Asset Management Limited - Management Company	197	2,484	194	21
Payable to Central Depository Company of Pakistan Limited - Trustee	16	23	17	4
Payable to Securities and Exchange Commission of Pakistan	(710)	(739)	366	384
Payable on redemption of units	(56,668)	30,863	-	9,808
Accrued expenses and other liabilities	23	(64)	(130)	(108)
	<b>(57,142)</b>	<b>32,567</b>	<b>447</b>	<b>10,109</b>
<b>Net cash flow from operating activities</b>	<b>302,311</b>	<b>258,476</b>	<b>448,001</b>	<b>627,899</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Net receipts / (payments) from sale and redemption of units	(81,186)	20,856	(201,922)	(192,314)
Dividend paid during the period	(40,507)	(45,700)	(18,992)	(23,493)
Net increase in cash and cash equivalents during the period	<b>180,618</b>	<b>233,632</b>	<b>227,087</b>	<b>412,092</b>
Cash and cash equivalents at beginning of the period	<b>64,847</b>	<b>385,245</b>	<b>18,378</b>	<b>206,785</b>
Cash and cash equivalents at end of the period	<b>245,465</b>	<b>618,877</b>	<b>245,465</b>	<b>618,877</b>
<b>Cash and cash equivalents at the end of the period comprise of :</b>				
Cash and cash equivalents at end of the period	20,465	68,877	20,465	68,877
Term deposit receipts maturity of 3 months and less	225,000	550,000	225,000	550,000
	<b>245,465</b>	<b>618,877</b>	<b>245,465</b>	<b>618,877</b>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director

### NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2010

#### 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 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.

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 seeks to enhance returns through active portfolio management using efficiency tools.

Pakistan Credit Rating Agency (PACRA) has assigned asset management rating of 'AM3 -' and 'AA-(f)' to the Management Company and the Fund respectively.

The Fund invests in a diversified portfolio of investment grade term finance certificates, government securities, corporate debt securities, certificates of investments, term deposit receipts, continuous funding system and other money market instruments (including the clean placements). The Fund has been categorised as income scheme.

Title to the assets of the Fund are held in the name of Central Depository Company Limited as a trustee of the Fund.

#### 2. BASIS OF PRESENTATION

##### 2.1 Statement of compliance

This condensed interim financial information has been prepared in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. The disclosures in the condensed interim financial information do not include the information reported for full annual financial statements and should therefore be read in conjunction with the financial statements for the year ended 30 June 2010.

This condensed interim financial information is unaudited and is being submitted to the unit holders as required under Regulation 38(g) of the Non-Banking Finance Companies and Notified Entities Regulations 2008 (NBFC Regulation). However, a limited scope review has been carried out by the auditors.

This condensed interim financial information comprise of the condensed interim statement of assets and liabilities as at 31 December 2010 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes thereto for the six months period ended 31 December 2010.

The comparatives in the statements of assets and liabilities presented in the condensed interim financial information as at 31 December 2010 have been extracted from the audited financial statements of the Fund as at and for the year ended 30 June 2010.

**2.2 Functional and presentation currency**

This condensed interim financial information is presented in Pak Rupees, which is the functional and presentation currency of the Fund and has been rounded off to the nearest thousand rupees.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements of the Fund as at and for the year ended 30 June 2010.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of condensed interim financial information in conformity with approved accounting standards ,as applicable in Pakistan, requires the Management Company to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates.

The significant judgments made by the Management Company in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to financial statements as at and for the year ended 30 June 2010.

**5. FINANCIAL RISK MANAGEMENT**

The Fund's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 30 June 2010.

**6. BANK BALANCES**

	(Unaudited) 31 December 2010	(Audited) 30 June 2010
	(Rupees in '000)	
Savings accounts	6.1      20,465	64,847
Term deposit receipts	6.2      225,000	100,000
	245,465	164,847

**6.1** Savings accounts carry profit rates ranging from 5% to 10.5% (30 June 2010: 5% to 12.5%) per annum.

**6.2** Term deposit receipts (TDRs) have tenor of three months (30 June 2010: one year) and carry profit rates ranging from 12.70% to 13.20% (30 June 2010: 12% ) per annum. These TDRs will mature up to 9 March 2011.

# First Habib Income Fund

## 7. INVESTMENTS

### At fair value through profit or loss - held for trading

Term Finance Certificates	7.3	40,111	250,432
Provision	7.3.1	(19,121)	(12,719)
		<u>20,990</u>	<u>237,713</u>
Government securities	7.4	1,400,409	1,333,212
		<u>1,421,399</u>	<u>1,570,925</u>

7.1 Details of deviations from circular no. 7 of 2009 dated 6 March 2009 issued by SECP required vide circular no. 16 dated 7 July 2010 are as follows:

Name of Non-Compliant Investment	Type of Investment	Value of investment before provision	Provision held, if any	Value of investment after provisioning	% of Gross Assets	% of Net Assets
Saudi Pak Leasing Company Limited-III issue	Term Finance Certificate	15,799	(1,521)	14,278	0.85%	0.86%
Gharibwal Cement Limited	Term Finance Certificate	17,600	(17,600)	-	-	-

7.2 Net unrealised (diminution) /appreciation in fair value of investments classified as 'fair value through profit or loss' - held for trading

	(Unaudited) 31 December 2010	(Audited) 30 June 2010
	(Rupees in '000)	
Term Finance Certificates	(3,608)	(4,664)
Government Securities	(1,533)	(1,066)
	<u>(5,141)</u>	<u>(5,730)</u>

7.3 Term Finance Certificates

Name of the investee company	Status	Number of certificates			As at 31 December 2010		Market value as a percentage of net assets	Outstanding principal value as a percentage of issued debt capital
		As at 1 July 2010	Acquired during the period	Sold during the period	As at 31 December 2010	Carrying value		
<b>Held for trading</b>								
(Rupees in '000)								
Allied Bank Limited	Listed	2,000	-	2,000	-	-	-	-
Askari Bank Limited - I	Listed	2,990	-	2,990	-	-	-	-
Askari Bank Limited - II	Listed	4,190	-	4,190	-	-	-	-
Bank Alfalah Limited - II	Listed	3,140	-	3,140	-	-	-	-
Engro Corporation Limited	Listed	-	2,000	2,000	-	-	-	-
Engro Corporation Limited -PP -TFC - I	Unlisted	2,000	-	2,000	-	-	-	-
Engro Corporation Limited -PP -TFC - II	Unlisted	3,800	-	3,800	-	-	-	-
First Dawood Investment Bank Limited	Unlisted	2,900	-	2,900	-	-	-	-
IGI Investment Bank Limited	Listed	5,379	-	-	5,379	6,709	6,712	0.40
Gharibwal Cement Limited	Unlisted	4,450	-	-	4,450	19,200	17,600	1.06
Orix Leasing Pakistan Limited	Listed	5,500	-	5,500	-	-	-	-
The Royal Bank of Scotland	Listed	3,090	-	3,090	-	-	-	-
Saudi Pak Leasing Company Limited - III	Listed	5,999	-	-	5,999	17,810	15,799	0.95
Sitara Chemicals Limited	Listed	4,000	-	4,000	-	-	-	2.11
Soneri Bank Limited	Listed	-	2,000	2,000	-	-	-	-
Standard Chartered Bank (Pakistan) Limited	Listed	4,548	-	4,548	-	-	-	-
United Bank Limited - III	Listed	4,400	-	4,400	-	-	-	-
United Bank Limited - IV	Listed	4,000	-	4,000	-	-	-	-
<b>Total as at 31 December 2010</b>						<u>43,719</u>	<u>40,111</u>	
Total as at 30 June 2010						<u>255,096</u>	<u>250,432</u>	

7.3.1 Provision

	(Unaudited) 31 December 2010	(Audited) 30 June 2009
	(Rupees in '000)	
Opening balance	12,719	7,253
Provision for the period /year	6,402	12,719
Reversal of provision during the period /year	-	(7,253)
Closing balance	<u>19,121</u>	<u>12,719</u>

## First Habib Income Fund

- 7.3.1.1** This represents specific provision made against Gharibwal Cement Limited and Saudi Pak Leasing Company Limited in accordance with Circular No.1 of 2009 dated 6 January 2009 and the provisioning policy of the Fund approved by the Board of Directors of the Management Company.
- 7.3.2** All Term Finance Certificates have a face value of Rs 5,000 each.
- 7.3.3** Significant terms and conditions of Term Finance Certificates outstanding as at period ended 31 December 2010.

Name of the investee company	Remaining principal (per TFC) as at 31 December 2010	Start date	Maturity	Credit rating	Mark-up Rate (Per annum)	Secured / Unsecured
<b>Term Finance Certificates - Held for trading</b>						
IGI Investment Bank Limited	1,249.50	11-Jul-06	11-Jul-11	A +	6 Month KIBOR + 2.25 %	Secured
Gharibwal Cement Limited	4,163.33	18-Jan-08	18-Jan-13	D	6 Month KIBOR + 3.00 %	Secured
Saudi Pak Leasing Company Limited - III	3,661.46	13-Mar-08	13-Mar-17	D	Fixed 6 %	Secured

- 7.3.3.1** The Term Finance Certificates of Saudi Pak Leasing Company Limited ("SPLC") were restructured on 13 September 2010. The details of which are as follows:

- Tenor for repayment extended to March 2017 from March 2013 i.e. by 4 Years.
- Principal Repayment of PKR 0.131 million / month for first 12 months including the month of September 2010. Thereafter, residual principal amount will be repaid in 67 monthly instalments of Rs. 0.312 million each.
- No grace period.
- Mark-up will be paid on following rates:

First 24 months @ 6% p.a (3% cash & 3% accrual).  
 25th month-48th month @ 8% p.a. (4% cash & 4% accrual),  
 49th month-78th month @ 1 month KIBOR (Offer Side) on cash basis.

- Accrued mark-up as of 13 September, 2010 will be paid in forty eight equal monthly instalments starting from 13 October, 2010 and the mark up for the said forty eight months will be paid in four equal annual instalments starting from September 2014.

#### 7.4 Government Securities

Issue date	Tenor	Face Value			As at 31 December 2010			Market value as a percentage of net assets	
		As at 01 July 2010	Purchases during the period	Sales / Matured during the period	As at 31 December 2010	Carrying value	Market value		Appreciation / (diminution)
(Rupees in '000)									
11-Mar-2010	1 Year	75,000	-	-	75,000	73,271	73,204	(67)	4.40
13-Aug-2009	1 Year	150,000	-	150,000	-	-	-	-	-
25-Feb-2010	1 Year	50,000	-	-	50,000	49,034	49,052	18	2.95
27-Aug-2009	1 Year	100,000	-	100,000	-	-	-	-	-
10-Sep-2009	1 Year	25,000	-	25,000	-	-	-	-	-
20-May-2010	1 Year	50,000	50,000	-	100,000	95,686	95,192	(494)	5.72
17-Jun-2010	1 Year	-	50,000	-	50,000	47,471	47,136	(335)	2.83
25-Mar-2010	1 Year	-	135,000	-	135,000	131,418	131,121	(297)	7.89
26-Sep-2009	1 Year	-	15,000	15,000	-	-	-	-	-
11-Mar-2010	6 Months	75,000	-	75,000	-	-	-	-	-
25-Feb-2010	6 Months	200,000	-	200,000	-	-	-	-	-
3-Jun-2010	6 Months	50,000	-	50,000	-	-	-	-	-
11-Feb-2010	6 Months	100,000	-	100,000	-	-	-	-	-
17-Jun-2010	6 Months	75,000	-	75,000	-	-	-	-	-
6-May-2010	6 Months	175,000	-	175,000	-	-	-	-	-
15-Jul-2010	6 Months	-	100,000	100,000	-	-	-	-	-
29-Jul-2010	6 Months	-	67,000	-	67,000	66,443	66,389	(54)	3.99
2-Dec-2010	6 Months	-	125,000	-	125,000	118,487	118,412	(75)	7.12
3-Jun-2010	3 Months	50,000	-	50,000	-	-	-	-	-
22-Apr-2010	3 Months	50,000	-	50,000	-	-	-	-	-
6-May-2010	3 Months	150,000	-	150,000	-	-	-	-	-
9-Sep-2010	3 Months	-	325,000	325,000	-	-	-	-	-
13-Aug-2010	3 Months	-	133,000	133,000	-	-	-	-	-
15-Jul-2010	3 Months	-	50,000	50,000	-	-	-	-	-
26-Aug-2010	3 Months	-	315,000	315,000	-	-	-	-	-
29-Jul-2010	3 Months	-	85,000	85,000	-	-	-	-	-
23-Sep-2010	3 Months	-	25,000	25,000	-	-	-	-	-
2-Dec-2010	3 Months	-	150,000	-	150,000	147,181	147,157	(24)	8.85
4-Nov-2010	3 Months	-	300,000	-	300,000	297,360	297,262	(98)	17.88
7-Oct-2010	3 Months	-	275,000	275,000	-	-	-	-	-
18-Dec-2010	3 Months	-	65,000	-	65,000	63,451	63,443	(8)	3.82
21-Oct-2010	3 Months	-	150,000	-	150,000	149,389	149,369	(20)	8.98
16-Nov-2010	3 Months	-	165,000	-	165,000	162,751	162,672	(79)	9.78
<b>Total as at 31 December 2010</b>						<b>1,401,942</b>	<b>1,400,409</b>	<b>(1,533)</b>	
Total as at 30 June 2010						1,334,278	1,333,212	(1,066)	

#### 8. CERTIFICATE OF INVESTMENTS

The Fund had investment in Certificate of Investments amounting to Rs. 6 million in Saudi Pak Leasing Company Limited ("SPLC") as at 30 June 2010. Considering the financial difficulties faced by SPLC the management made provision of Rs. 2.625 million during the financial year ended 30 June 2010 as per the provisioning policy of the fund approved by the Board of Directors of the Management Company. During the six month period ended 31 December 2010, SPLC paid Rs. 4.9 million as full and final settlement and the remaining amount of Rs. 1.1 million has been written-off.

## First Habib Income Fund

### 9. INCOME RECEIVABLE

	(Unaudited) 31 December 2010	(Audited) 30 June 2010
	(Rupees in '000)	
Profit receivable on Term Finance Certificates	464	9,853
Profit receivable on Bank Deposits	4,188	10,268
	<u>4,652</u>	<u>20,121</u>

### 10. DEPOSITS AND PREPAYMENTS

Deposit with National Clearing Company of Pakistan Limited	10.1	2,500	2,500
Deposit with Central Depository Company of Pakistan Limited	10.1	100	100
Prepayments		20	-
		<u>2,620</u>	<u>2,600</u>

10.1 These deposits are non remunerative.

### 11. WORKERS' WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. A Petition has been filed with the Honourable High Court of Sindh by some of Collective Investment Schemes (CISs) through their trustee on the ground that the CIS (mutual funds) are not establishments and as a result not liable to pay contribution to WWF.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 8 July 2010 issued advice and clarifications which stated that WWF Ordinance 1971 does not have any provisions for the applicability of WWF on those entities whose incomes are exempt from income tax under any provisions of any law, and West Pakistan Shops and Establishment Ordinance, 1969 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section 4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

Further, the Secretary (Income Tax Policy) Federal Board of Revenue issued a letter dated 6 October 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formation for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office for two mutual funds for payment of levy under WWF has been withdrawn. However, there have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds including First Habib Income Fund. The Management Company has filed the reply to said show cause notice informing the taxation officer that the levy of WWF to mutual funds is subjudice before Court and that the Court has directed not to enforce recovery of WWF. Further, MUFAP has requested Member Policy Direct Taxes for withdrawal of such show cause notices issued to such mutual funds. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011 has cancelled *ab-initio* clarificatory letter dated 6 October 2010 on applicability of WWF on mutual funds. On December 14, 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry in the Court.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds due to show cause notices issued to a number of mutual funds, the management company as a matter of abundant caution has decided to continue to maintain the provision for WWF amounting to Rs. 7.635 million (30 June 2010: Rs. 5.941 million) up to 31 December 2010.

**12. EARNINGS PER UNIT**

Earnings per unit (EPU) for the period ended 31 December 2010, has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

**13. TAXATION**

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The management intends to distribute at least 90% of the income earned by the year end by this Fund to the unit holders. Accordingly, no provision has been made in these condensed interim financial information.

**14. TRANSACTIONS WITH CONNECTED PERSONS**

Connected persons include Habib Asset Management Limited being the Management Company, associated companies of the Management Company, First Habib Stock Fund being the Fund managed by common Management Company, Central Depository Company of Pakistan Limited being the trustee of the Fund and all other concerns that fall under common management or control.

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

Remuneration to management company and trustee is determined in accordance with the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non - Banking Finance Companies and Notified Entities Regulations, 2008 and the Trust Deed respectively.

Details of the transactions with connected persons are as follows:

	<b>Six months ended</b>		<b>Quarter ended</b>	
	<b>31 December</b>		<b>30 September</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>			
<b>Habib Asset Management Limited - Management Company</b>				
Management fee	13,965	15,192	7,332	7,670
Term Finance Certificates sold	<b>24,154</b>	-	<b>24,154</b>	-
<b>First Habib Stock Fund - Associated Undertaking</b>				
Government security sold	<b>19,960</b>	-	-	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration	<b>1,435</b>	1,517	<b>741</b>	763

## First Habib Income Fund

	(Unaudited) 31 December 2010	(Audited) 30 June 2010
	(Rupees in '000)	
<b>Habib Asset Management Limited - Management Company</b>		
Management fee payable	<u>2,434</u>	<u>2,237</u>
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	<u>248</u>	<u>232</u>

### 14.1 Sale / Redemption of units for the period ended 31 December

	Six months ended 31 December 2010		Six months ended 31 December 2009	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<b>Units sold to:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	39,205	4,000	81,566	8,300
<b>Associated Companies</b>				
Habib Insurance Company Limited	<u>1,859,842</u>	<u>189,000</u>	4,094,300	<u>420,000</u>
<b>Other related parties</b>				
Directors of the Management Company	<u>1,954</u>	<u>200</u>	<u>2,461</u>	<u>250</u>
Habib Asset Management Limited - Employees Provident Fund	<u>2,898</u>	<u>293</u>	<u>1,069</u>	<u>109</u>
<b>Bonus Units Issued:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	<u>36,300</u>	<u>3,634</u>	<u>37,196</u>	<u>3,728</u>
<b>Associated Companies</b>				
Habib Insurance Company Limited	<u>10,974</u>	<u>1,100</u>	<u>24,353</u>	<u>2,438</u>
<b>Other related parties</b>				
Directors of the Management Company	<u>1,030</u>	<u>103</u>	<u>1,048</u>	<u>105</u>
Executives of the Management Company	<u>181</u>	<u>18</u>	<u>167</u>	<u>16</u>
Habib Sugar Mills Limited - Staff Provident Fund	<u>-</u>	<u>-</u>	<u>6,717</u>	<u>673</u>
Habib Sugar Mills Limited - Employees Gratuity Fund	<u>-</u>	<u>-</u>	<u>6,717</u>	<u>673</u>
Hyderi Hostel Trust	<u>-</u>	<u>-</u>	<u>1,622</u>	<u>163</u>
Habib Insurance Company Limited - Employees Provident Fund	<u>2,745</u>	<u>275</u>	<u>2,408</u>	<u>241</u>
Habib Asset Management Limited - Employees Provident Fund	<u>207</u>	<u>21</u>	<u>162</u>	<u>16</u>
Mrs. Shama Sajjad Habib	<u>6,129</u>	<u>613</u>	<u>5,377</u>	<u>538</u>
Mr. Salman Hussain D Habib	<u>65</u>	<u>6</u>	<u>-</u>	<u>-</u>
Mr. Imran Ali Habib	<u>431</u>	<u>43</u>	<u>-</u>	<u>-</u>
Mr. Murtaza Habib	<u>462</u>	<u>46</u>	<u>-</u>	<u>-</u>
Mr. Asghar D Habib	<u>461</u>	<u>46</u>	<u>-</u>	<u>-</u>
Mr. Qumail Habib	<u>461</u>	<u>46</u>	<u>-</u>	<u>-</u>
Mr. Abas D Habib	<u>461</u>	<u>46</u>	<u>-</u>	<u>-</u>
Mr. Ali Asad Habib	<u>414</u>	<u>42</u>	<u>-</u>	<u>-</u>
Mrs. Razia Ali Habib	<u>291</u>	<u>29</u>	<u>-</u>	<u>-</u>

## First Habib Income Fund

	Six months ended 31 December 2010		Six months ended 31 December 2009	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<b>Units redeemed by:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	<u>327,370</u>	<u>33,500</u>	<u>289,374</u>	<u>29,500</u>
<b>Associated Companies</b>				
Habib Insurance Company Limited	<u>1,037,552</u>	<u>105,150</u>	<u>3,878,784</u>	<u>399,136</u>
<b>Other related parties</b>				
Directors of the Management Company	-	-	493	50
Executives of the Management Company	-	-	1,738	175
Hyderi Hostel Trust	-	-	42,943	4,373
Habib Asset Management Limited - Employees Provident Fund	<u>308</u>	<u>31</u>	<u>492</u>	<u>50</u>
<b>Units held by:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	<u>509,335</u>	<u>52,288</u>	<u>734,547</u>	<u>75,886</u>
<b>Associated Companies</b>				
Bank AL Habib Limited	<u>5,744,925</u>	<u>589,774</u>	<u>7,224,291</u>	<u>746,342</u>
Habib Insurance Company Limited	<u>833,265</u>	<u>85,543</u>	<u>1,209,950</u>	<u>125,000</u>
<b>Other related parties</b>				
Directors of the Management Company	<u>23,517</u>	<u>2,414</u>	<u>24,794</u>	<u>2,561</u>
Executives of the Management Company	<u>3,209</u>	<u>329</u>	<u>2,952</u>	<u>116</u>
Habib Sugar Mills Limited - Staff Provident Fund	-	-	151,433	15,645
Habib Sugar Mills Limited - Employees Gratuity Fund	-	-	151,433	15,645
Habib Insurance Company Limited Employees Provident Fund	<u>59,925</u>	<u>6,152</u>	<u>54,302</u>	<u>5,610</u>
Habib Asset Management Limited - Employees Provident Fund	<u>6,788</u>	<u>697</u>	<u>4,149</u>	<u>429</u>
Mrs. Shama Sajjad Habib	<u>133,776</u>	<u>13,733</u>	<u>121,223</u>	<u>12,524</u>
Mr. Salman Hussain D Habib	<u>1,422</u>	<u>146</u>	-	-
Mr. Imran Ali Habib	<u>9,401</u>	<u>965</u>	-	-
Mr. Murtaza Habib	<u>10,075</u>	<u>1,034</u>	-	-
Mr. Asghar D Habib	<u>10,073</u>	<u>1,034</u>	-	-
Mr. Qumail Habib	<u>10,068</u>	<u>1,034</u>	-	-
Mr. Abas D Habib	<u>10,068</u>	<u>1,034</u>	-	-
Mr. Ali Asad Habib	<u>9,045</u>	<u>929</u>	-	-
Mrs. Razia Ali Habib	<u>6,341</u>	<u>651</u>	-	-

### 15. GENERAL

- 15.1 These condensed interim financial statements were authorised for issue by the Board of Directors of the Management Company on February 18, 2011.
- 15.2 The Board of Directors have approved Interim cash dividend for class 'C' unit holders @ Rs. 2.60 per unit and bonus units @ 2.5969 for class 'A' and 'B' unit holders for every 100 units held as at 3 January 2011, amounting to Rs. 42.114 million, in their meeting held on 03 January 2011. These condensed interim financial statements do not reflect the impact of this distribution.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director





# Habib Asset Management Limited

(An Associate Company of Bank AL Habib Ltd.)

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

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