



KPMG Taseer Hadi & Co.
Chartered Accountants

First Habib Stock Fund

Financial Statements
For the period from 10 October
2009 to 31 December 2009

Directors' Report

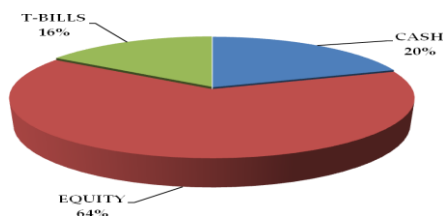
The Board of Directors of Habib Asset Management Limited is pleased to present the condensed financial statements of First Habib Stock Fund (FHSF), for the period from October 10, 2009 to December 31, 2009. The Initial Public Offer (IPO) for the Fund was made from October 8, 2009 to October 9, 2009. By the Grace of Allah, the Fund size at the close of IPO was Rs. 152.34 million.

Fund's Performance

The Fund started its trading activity from October 12, 2009 with KSE-100 index at 9,642.56. During the period under review, KSE-100 index touched the high of 9,845.73 and closed at 9,386.92 points on December 31, 2009. The NAV of the Fund which started at Rs. 100.09 on October 12, 2009, went up to Rs. 100.40 on October 15, 2009 and closed at Rs. 98.87 on December 31, 2009.

The Fund incurred loss of Rs. 1.73 million during this period mainly due to unrealised loss on equity investment.

Asset Allocation



Future Outlook

Despite the general uncertainty prevailing in the Country, we see some bright spots positively towards the recovery of the economy. A continuing trend towards reduction in the discount rates, as has taken place during last six months would certainly bring a positive impact on corporate earnings.

We look, Inshallah, forward to all round improvement in other sensitive areas as well to bring about the much needed stability and progress.

Acknowledgement

The Board takes this opportunity to thank its valued unit holders for their confidence and patronage. The Board also wishes to place its appreciation for the help and guidance given by the Securities & Exchange Commission of Pakistan, Central Depository Company of Pakistan Limited as Trustee and the Lahore Stock Exchange.

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

On behalf of the Board of Directors

Ali Raza D. Habib
Chairman

Karachi: February 26, 2010

TRUSTEE REPORT TO THE UNIT HOLDERS

FIRST HABIB STOCK FUND

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

The First Habib Stock Fund (the Fund), an open-end Fund was established under a trust deed dated August 21, 2008, 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 period from October 10, 2009 to December 31, 2009 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) Rule, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

Muhammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: February 24, 2010

**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 Stock Fund** (the "Fund") as at 31 December 2009 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, and condensed interim cash flow statement for the period from 10 October 2009 to 31 December 2009 (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 annexed condensed interim financial information as at and for the period from 10 October 2009 to 31 December 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

Date:

Karachi

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

First Habib Stock Fund

Condensed Interim Statement of Assets and Liabilities (Unaudited)

As at 31 December 2009

	Note	2009 (Rupees in '000)
Assets		
Bank balance - Saving account	4	29,577
Investments	5	123,944
Dividend and income receivable	6	521
Deposits and prepayments	7	2,665
Preliminary expenses	8	955
Total assets		157,662
Liabilities		
Payable to Habib Asset Management Limited - Management Company	9	3,983
Payable to Central Depository Company of Pakistan Limited - Trustee	10	60
Payable to Securities and Exchange Commission of Pakistan	11	32
Payable against purchase of investments		2,756
Accrued expenses and other liabilities		108
Total liabilities		6,939
Net assets		150,723
Contingent liability	12	
Unit holders' funds (as per statement attached)		150,723
		(Number of units)
Number of units in issue	13	1,524,525
		(Rupees)
Net asset value per unit		98.87

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

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

Chief Executive

Director

First Habib Stock Fund

Condensed Interim Income Statement (Unaudited)

For the period from 10 October 2009 to 31 December 2009

		2009 (Rupees in '000)
Note		
Income		
		1,316
		554
		582
		(2,904)
		6
		296
		<u>(150)</u>
Expenses		
		1,019
		159
		32
		133
		83
		81
		45
		30
		10
		<u>1,592</u>
		<u>(1,742)</u>
		12
		<u><u>(1,730)</u></u>

Net element of income and capital gain included in
prices of units issued less those in units redeemed

Net loss for the period

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

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For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

First Habib Stock Fund

Condensed Interim Statement of Comprehensive Income (Un-audited)

For the period from 10 October 2009 to 31 December 2009

	2009 (Rupees in '000)
Net loss for the period	(1,730)
Other comprehensive income / (loss) for the period	-
Total comprehensive income/ (loss) for the period	<u>(1,730)</u>

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

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

Chief Executive

Director

First Habib Stock Fund

Condensed Interim Distribution Statement (Unaudited)

For the period from 10 October 2009 to 31 December 2009

	2009 (Rupees in '000)
Net loss for the period	(1,730)
Deficit carried forward	<u>(1,730)</u>

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

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

Chief Executive

Director

First Habib Stock Fund

Condensed Interim Statement Of Movement in Unit Holders' Funds (Unaudited)

For the period from 10 October 2009 to 31 December 2009

2009
(Rupees in '000)

Net assets at the beginning of the period

-

Cash received on issuance of units

153,176

Cash paid on redemption of units

(711)

152,465

Net element of income and capital gain included in
prices of units issued less those in units redeemed

(12)

Net loss for the period

(1,730)

Net assets at the end of the period

150,723

(Number of Units)

Units at the beginning of the period

-

Number of Units Issued

1,531,875

Number of Units Redeemed

(7,350)

1,524,525

Units at the end of the period

1,524,525

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

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For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

First Habib Stock Fund

Condensed Interim Cash Flow Statement (Unaudited)

For the period from 10 October 2009 to 31 December 2009

2009
(Rupees in '000)

CASH FLOW FROM OPERATING ACTIVITIES

Net loss for the period (1,730)

Adjustments for non-cash items

Unrealised diminution on investments at fair value through profit or loss - net 2,904

Net element of income and capital gain included in prices of units issued less those in units redeemed (12)

Amortisation of preliminary expenses 45
1,207

(Increase) in assets

Investments	(126,848)
Income receivable	(521)
Advances, deposits, prepayments and other receivables	(2,665)
Preliminary expenses and floatation costs	(1,000)
	(131,034)

Increase in liabilities

Payable to Habib Asset Management Limited - Management Company	3,983
Payable to Central Depository Company of Pakistan Limited - Trustee	60
Payable to Securities and Exchange Commission of Pakistan	32
Payable against purchase of investments	2,756
Accrued expenses and other liabilities	108
	6,939
	(122,888)

Net cash flow from operating activities

CASH FLOW FROM FINANCING ACTIVITIES

Net receipts from sale and redemption of units 152,465

Net increase in cash and cash equivalents during the period 29,577

Cash and cash equivalents at the beginning of the period -

Cash and cash equivalents at the end of the period 29,577

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

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For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

First Habib Stock Fund

Notes to the Financial Statements

For the period from 10 October 2009 to 31 December 2009

1. LEGAL STATUS AND NATURE OF BUSINESS

First Habib Stock 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 21 August 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 11 August 2008 under Rule 67 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

The Fund is an open-end mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. Units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder.

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

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.

The Fund invests in a diversified portfolio of listed equity securities and treasury bills.

Title of the assets of the Fund are held in the name of CDC as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, requirements of Trust Deed, requirements of Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008. In case, requirements differ, the provisions and directive of Companies Ordinance 1984, the requirements of Trust deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, and Non - Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

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This condensed interim financial information comprise of the condensed interim statement of assets and liabilities as at 31 December 2009 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 from 10 October 2009 to 31 December 2009.

As the accounting period of the Fund started on 10 October 2009 , therefore, there are no comparative figures to report in respect of condensed interim statement of assets and liabilities, condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement.

This condensed interim financial information is unaudited and has been reviewed by the auditors.

2.2 Standard or an Interpretation not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Fund's operations or are not expected to have a significant impact on the Fund's financial statements other than increase in disclosures in certain cases:

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Fund's operations.

The International Accounting Standards Board made certain amendments to existing standards as part of its second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Fund's 2010 financial statements. These amendments are unlikely to have an impact on the Fund's financial statements.

Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Fund's financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt

for equity swaps. This interpretation has no impact on the Fund's financial statements.

IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 1 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Fund's financial statements.

2.3 Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention, except that investments classified as 'at fair value through profit or loss' which are measured at fair value.

2.4 Functional and presentation currency

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

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements are given below:

Investments stated at fair value through profit and loss

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' by using quotations from active market. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates

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are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

Impairment of investment

The Fund determines that investments are impaired in accordance with the provisioning guidelines prescribed by the Securities and Exchange Commission of Pakistan and the provisioning criteria approved by the Board of Directors of the Management Company. Actual results may differ and the difference could be material.

Other assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted and applied by the Fund in the preparation of these condensed interim financial information are set out below:

3.1 Financial instruments

3.1.1 The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

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

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

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

b) Available-for-sale

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

c) Loans and receivables originated by the enterprise

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

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d) Financial liabilities

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

3.1.2 Recognition

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

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

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

3.1.3 Measurement

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

Subsequent to initial recognition, financial instruments classified as at 'fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement.

3.1.4 Fair value measurement principles

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

3.1.5 Basis of valuation of Government Securities

A government security not listed on a stock exchange and traded in the interbank market is valued at the average rate quoted on a widely used electronic quotation system and such average rate is based on the remaining tenor of the security.

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3.1.6 Impairment

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial assets is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit and loss account.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated cash flows discounted at the original effective interest rate.

3.1.7 Derecognition

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

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

3.1.8 Offsetting of financial instruments

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

3.2 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

3.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Fund, applicable for the day on which fund(s) have been realised in the bank account. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load (if any).

Units redeemed are recorded at the redemption price, applicable to the units for which the Fund receives redemption applications during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less the allowable purchase load (if any). Redemption of units is recorded on acceptance of application for redemption.

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3.4 Net element of income and capital gain included in prices of units issued less those in units redeemed

To prevent the dilution of per unit income and distribution of income already paid out on redemption, as dividend, an equalisation account called "element of income and capital gains included in prices of units sold less those in units redeemed" is created.

The "element of income and capital gains included in prices of units sold less those in units redeemed" account is credited with the amount representing net income and capital gains accounted for in the last announced net assets value and included in the sale proceeds of units. Upon redemption of units, the element of income included in prices of units sold less those in units redeemed account is debited with the amount representing net income and capital gains accounted for in the last announced net assets value and included in the redemption price.

The net "element of income and capital gains included in prices of units sold less those in units redeemed" during an accounting year is recognised in the Income Statement.

3.5 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 year / period end.

3.6 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 realised or unrealised, is distributed amongst the Fund's unit holders.

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

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

3.7 Revenue recognition

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

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rate method.

- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.
- Dividend income is recognised when the right to receive the dividend is established.
- Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.8 Expenses

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

3.9 Preliminary expenses

Preliminary expenses represent expenditure incurred up to the close of Initial period of the Fund. These costs are being amortised over a period of five years commencing from 10 October 2009 as per the Trust Deed of the Fund.

3.10 Cash and cash equivalents

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

3.11 Other assets

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

3.12 Dividend (including bonus units)

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

4. BANK BALANCE

This represents saving account maintained with Bank AL Habib Limited and carries profit rate of 11% per annum.

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

(Unaudited)
2009
(Rupees in '000)

Equity securities	5.1	99,051
Government securities	5.2	24,893
		<u>123,944</u>

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5.1 Equity securities

Name of the investee	As at 10 October 2009	Purchased during the period	Bonus / right issue	Disposed during the period	As at 31 December 2009	Carrying value as at 31 December 2009	Market value as at 31 December 2009	Appreciation / (diminution)	Market value as a percentage of net assets	Market value of investments as percentage of paid up capital of investee company
	Number of shares				(Rupees in '000)					
AUTOMOBILE ASSEMBLER										
Indus Motor Company Limited	-	11,375	-	4,875	6,500	1,288	1,277	(11)	0.85	0.16
Millat Tractors Limited	-	14,574	1,193	3,767	12,000	3,988	4,558	570	3.02	1.56
Pak Suzuki Motor Company Limited	-	4,000	-	1,000	3,000	240	267	27	0.18	0.03
CEMENT										
Attock Cement Pakistan Limited	-	9,400	-	-	9,400	533	489	(44)	0.32	0.06
D. G. Khan Cement Company Limited	-	35,500	-	-	35,500	1,143	1,156	13	0.77	0.04
Lucky Cement Limited	-	6,000	-	2,500	3,500	220	232	12	0.15	0.01
COMMERCIAL BANKS										
Bank Al-Falah Limited	-	10,000	-	-	10,000	140	138	(2)	0.09	0.00
Bank AL-Habib Limited	-	21,500	-	-	21,500	710	704	(6)	0.47	0.01
Habib Bank Limited	-	82,500	-	17,500	65,000	8,490	8,024	(466)	5.32	0.09
Habib Metropolitan Bank Limited	-	17,000	-	-	17,000	535	529	(6)	0.35	0.01
National Bank Of Pakistan	-	60,000	-	-	60,000	4,916	4,462	(454)	2.96	0.04
ENGINEERING										
International Industries Limited	-	9,000	-	-	9,000	534	528	(6)	0.35	0.05
FERTILIZER										
Dawood Hercules Chemicals Limited	-	12,500	-	-	12,500	2,169	2,248	79	1.49	0.21
Engro Chemical (Pakistan) Limited	-	27,000	-	8,000	19,000	3,279	3,482	203	2.31	0.12
Fauji Fertilizer Company Limited	-	61,600	-	10,000	51,600	5,370	5,311	(59)	3.52	0.08
INSURANCE										
Adamjee Insurance Company Limited	-	27,000	-	10,000	17,000	1,939	2,096	157	1.39	0.19
Eastern Federal Union Insurance Company Limited	-	42,500	-	7,500	35,000	3,771	3,416	(355)	2.27	0.30
Habib Insurance Company Limited	-	1,000	-	-	1,000	16	16	-	0.01	0.00
New Jubilee Insurance Company Limited	-	1,000	-	-	1,000	56	58	2	0.04	0.01
INVESTMENT BANKS/SECURITIES										
Arif Habib Securities Limited	-	10,000	-	-	10,000	503	493	(10)	0.33	0.01
Jahangir Siddiqui Company Limited	-	33,000	-	5,000	28,000	1,027	842	(185)	0.56	0.01
MISCELLANEOUS										
Tri-Pack Films Limited	-	7,000	-	-	7,000	732	721	(11)	0.48	0.24
OIL & GAS EXPLORATION COMPANIES										
Oil & Gas Development Company Limited	-	95,000	-	13,000	82,000	8,879	9,070	191	6.02	0.02
Pakistan Oilfields Limited	-	29,000	-	13,000	16,000	3,338	3,692	354	2.45	0.16
Pakistan Petroleum Limited	-	43,000	-	7,500	35,500	6,682	6,730	48	4.47	0.07
OIL & GAS MARKETING COMPANIES										
Pakistan State Oil Company Limited	-	42,176	-	18,176	24,000	7,820	7,139	(681)	4.74	0.42
Shell Pakistan Limited	-	22,440	-	-	22,440	5,947	5,618	(329)	3.73	0.82
PAPER & BOARD										
Packages Limited	-	32,200	-	-	32,200	5,174	4,637	(537)	3.08	0.55
PHARMACEUTICALS										
Abbot Laboratories (Pakistan) Limited	-	11,100	-	1,000	10,100	1,014	1,224	210	0.81	0.13
POWER GENERATION & DISTRIBUTION										
Hub Power Company Limited	-	135,000	-	-	135,000	4,091	4,196	105	2.78	0.04
Kot Addu Power Company	-	115,000	-	-	115,000	5,662	5,275	(387)	3.50	0.06
REFINERY										
National Refinery Limited	-	40,720	-	-	40,720	8,194	7,200	(994)	4.78	0.90
TECHNOLOGY & COMMUNICATION										
Pakistan Telecommunication Corporation Limited	-	182,600	-	-	182,600	3,556	3,223	(333)	2.14	0.01
TEXTILE COMPOSITE										
Nishat (Chunian) Limited	-	10,000	-	10,000	-	-	-	-	0.00	0.00
						101,956	99,051	(2,905)	65.72	6.38

5.2 Investment in government securities - 'At fair value through profit or loss'

Issue date	Tenor	Face value			As at 31 December 2009				Market value as a percentage of net assets
		As at 10 October 2009	Purchases during the period	Disposed / Matured during the year	As at 31 December 2009	Carrying value	Market value	Appreciation / (diminution)	
		(Rupees in '000)							
22-Oct-09	3 Months	-	25,000	-	25,000	24,892	24,893	1	16.52

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6. DIVIDEND AND INCOME RECEIVABLE		(Unaudited) 2009 (Rupees in '000)
	Note	
Profit receivable on saving account		300
Dividend receivable		221
		<u>521</u>
7. DEPOSITS AND PREPAYMENTS		
Deposit with National Clearing Company of Pakistan Limited		2,500
Deposit with Central Depository Company of Pakistan Limited		100
Prepayments		65
		<u>2,665</u>
8. PRELIMINARY EXPENSES		
Unamortised cost	8.1	1,000
Amortised to the income statement during the period		(45)
Balance as at 31 December		<u>955</u>
8.1 This represents expenses incurred on the formation of the Fund. Regulation 60 (2) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 requires that all expenses incurred in connection with the incorporation, establishment and registration of collective investment scheme (formation cost) shall be reimbursable by a collective investment scheme to an AMC subject to the audit of expenses. The said formation cost shall be amortised by the collective investment scheme over a period of not less than five years or with in the maturity date of collective investment scheme. Accordingly the said expenses are being amortised over a period of five years effective from 10 October 2009, i.e. after the close of initial period of the Fund.		
9. PAYABLE TO HABIB ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY		
Management fee	9.1	380
Formation cost	9.2	1,000
Others		2,603
		<u>3,983</u>
9.1 Under the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non- Banking Finance Company and Notified Entities Regulation 2008, 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 three percent per annum for the current year in accordance with the Trust Deed.		
9.2 This represents expenses incurred by the management Company for the establishment of the funds under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. These expenses are reimbursable by the fund over a period of five years in equal annual instalments.		
10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
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.		
11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)		
This represents annual fee payable to SECP at the rate of 0.095% of the average daily net assets of the Fund in accordance with regulation 62 of NBFC regulations 2008.		
12. CONTINGENT LIABILITY		
Through Finance Act, 2008 an amendment was made in section 2(f) of 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. Management, based on legal advice, is of a firm view that as Collective Investment Schemes are paper entities and are not establishment, accordingly the WWF ordinance, 1971 is not applicable, and therefore no provision is required in these condensed interim financial information. However, in a remotely probable event, if the Collective Investment Schemes are considered as industrial establishments, there will be no impact on NAV per unit, as of 31 December 2009, due to loss for the current period.		
Mutual Funds Association of Pakistan (MUFAP), of which the Management Company is a member, has filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the collective investment schemes are not establishments and as a result are not liable to pay contribution to the WWF. The legal proceedings in respect of the aforementioned petition are currently in progress.		
13. CLASS OF UNITS IN ISSUE		
The Fund has three classes of units as per the Trust Deed. Class 'A' units pertain to core investors. Such core units are invested in the scheme for a period of two years or life of collective investment scheme whichever is earlier from the date of the closure of initial offer period. Class 'B' units are issued and redeemed in the usual course of business on a daily basis. Class 'C' units are entitled to cash dividend only even if the distribution to other classes is in the form of bonus units.		
Units in issue as at December 31 in each class are:		
		2009 (Number of units)
Type 'A' Units		500,000
Type 'B' Units		1,024,525
Type 'C' Units		-
		<u>1,524,525</u>

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14. EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended 31 December 2009, has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

15. TRANSACTIONS AND BALANCES WITH CONNECTED PERSONS (RELATED PARTIES)

Connected persons include Habib Asset Management Limited being the Management Company, First Habib Income Fund, AL Habib Capital Markets (Private) Limited and Bank AL Habib Limited being companies under common management, 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 Company and Notified Entities Regulation 2008 and the Trust Deed respectively.

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

	(Unaudited) For the period from 10 October 2009 to 31 December 2009 (Rupees in '000)
Habib Asset Management Limited - Management Company	
Management fee	1,019
AL Habib Capital Markets (Private) Limited - Brokerage house	
Brokerage	41
Central Depository Company of Pakistan Limited - Trustee	
Remuneration	159

Details of the balances with connected persons are as follows:

	(Unaudited) 31 December 2009 (Rupees in '000)
Habib Asset Management Limited - Management Company	3,983
Central Depository Company of Pakistan Limited - Trustee	
Remuneration	60

	For the period from 10 October to 31 December 2009	
	(Units)	(Rupees in '000)
Units sold to:		
Management Company		
Habib Asset Management Limited	150,100	15,010
Associated Companies		
- Bank AL Habib Limited	500,000	50,000
- Habib Insurance Company Limited	350,000	35,000
- Trakker Direct Insurance Limited	5,000	500
Other related parties		
- Directors of the Management Company	6,046	600
- Executives of the Management Company	253	25
- Habib Asset Management Limited - Employees Provident Fund	1,021	100
Units held by:		
Management Company		
Habib Asset Management Limited	150,100	14,840
Associated Companies		
- Bank AL Habib Limited	500,000	49,435
- Habib Insurance Company Limited	350,000	34,605
- Trakker Direct Insurance Limited	5,000	494
Other related parties		
- Directors of the Management Company	6,046	598
- Executives of the Management Company	253	25
- Habib Asset Management Limited - Employees Provident Fund	1,021	101

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16. RISK MANAGEMENT

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the management company supervises the overall risk management approach within the Fund.

The Fund's Audit Committee oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the fund.

The Fund primarily invests in a portfolio of equity and government securities. Such investments are subject to varying degrees of risk.

The Fund is exposed to following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

16.1 Credit risk

Credit risk management

Credit risk arises from the inability of the issuers of the instruments or 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 investment guidelines approved by the Investment Committee, its Trust Deed and the requirements of NBFC rules and regulations.

In summary, compared to the maximum amount included in statement of assets and liabilities, the maximum exposure to credit risk as at 31 December 2009 is as follows:

	Balance as per the Condensed Interim Statement of assets and liabilities (Rupees in '000)	Maximum exposure
Bank balances	29,577	29,577
Investments	24,893	-
Dividend and income receivable	521	521
Deposits	2,600	2,600
	<u>57,591</u>	<u>32,698</u>

Difference in the balances as per the statement of assets and liabilities and maximum exposure in investments was due to the fact that investments of Rs. 24.893 million relates to investments in Government securities which are not considered to carry credit risk.

The management is of view that credit risk is managed and controlled in the following manner:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of the credit ratings and financial statements on a regular basis.
- Cash is held only with reputable banks with high quality external credit enhancements.

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None of the financial assets of the Fund are past due / impaired.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. All of the Fund's investments are in equity and government securities which are not exposed to the credit risk, while the remaining portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

16.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable securities which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement. The present settlement system is a T+2 system, which means that proceeds from sales (to pay off redemptions) of holdings will be received on the second day after the sale, while redemptions have to be paid within a period of six days from the date of the redemption request.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. No such borrowings was made during the period.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	31 December 2009				
	Carrying amount	Contractual cash flows	Upto 3 months	More than three months and upto one year	More than one year
(Rupees in '000)					
Payable to Habib Asset Management Limited - Management Company	3,983	3,983	2,983	150	850
Payable to Central Depository Company of Pakistan Limited - Trustee	60	60	60	-	-
Payable to Securities and Exchange Commission of Pakistan	32	32	-	32	-
Payable against purchase of investments	2,756	2,756	2,756	-	-
Accrued expenses and other liabilities	108	108	16	92	-
	<u>6,939</u>	<u>6,939</u>	<u>5,815</u>	<u>274</u>	<u>850</u>
					<u>4,183</u>

16.3 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 the 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. The maximum risk resulting from financial instruments equals their fair values.

The Fund is exposed to interest rate risk only.

16.3.1 Interest rate risk

16.3.1.1 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Funds interest rate exposure arises on balance in saving account amounting to Rs. 29.577 million. Currently this carries fixed interest rates. The Management Company monitors the interest rate environment on a regular basis. Other risk management procedures are the same as those mentioned in the credit risk management.

None of the financial liabilities carry any interest rate.

Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account.

16.3.1.3 The following table analyses the Fund's interest rate exposure, categorised on the basis of the earlier of contractual repricing or maturity dates:

On-balance sheet financial instruments	mark-up/ profit (%)	31 December 2009			Total
		Mark-up / profit bearing		Non mark-up	
		Upto 30 days	More than 30 days and upto three months	/ profit bearing	
(Rupees in '000)					
Financial assets					
Bank balances	11	29,577	-	-	29,577
Investments		24,893	-	99,051	123,944
Income receivable		-	-	521	521
Advances, deposits, prepayments and other receivables		-	-	2,665	2,665
		54,470	-	102,237	156,707
Financial liabilities					
Payable to Habib Asset Management Limited - Management Company		-	-	3,983	-
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	60	-
Payable to Securities and Exchange Commission of Pakistan		-	-	32	-
Payable against purchase of investments		-	-	2,756	2,756
Accrued expenses and other liabilities		-	-	108	108
		-	-	6,939	2,864
On-balance sheet gap 2009 (a)		54,470	-	95,298	153,843

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

16.4 Unit Holders' Fund risk management

Management's objective when managing unit holders' funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

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The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The capital structure depends on the issuance and redemption of units and the Fund is not subject to any externally imposed minimum Fund maintenance requirement.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund is of the view that the fair market value of the financial assets and liabilities are not significantly different from their carrying values as its assets and liabilities are essentially short term in nature and / or frequently repriced.

18. GENERAL

18.1 These condensed interim financial information are unaudited and have been reviewed by the auditors.

18.2 These condensed interim financial information were authorised for issue on _____ by the board of directors of the Management Company.

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

Chief Executive Officer

Director