Contents

Vision / Mission

To be a leading investment company excelling in every aspect of its business and in delivering its obligations as a good corporate citizen to all the stakeholders.

To be a significant participant in developing Pakistan's capital market for it to become the engine of industrial and economic growth and in integrating it into the world markets.

Our responsive and energetic corporate strategy strives for enhancing shareholders' satisfaction by accumulation worth over the long run. We aim at creating a value for the stakeholders by maintaining and improving our competitive position in the market. To grow and maintain a high performance culture with continually improvement, through which Company can get the status which stakeholders are willing to see. To develop strategic plan to curtail weak areas and respond to threats to Company's worth. We consider diversification of our investments as a significant factor behind corporate sustainability in the significant changing capital market scenario.

Core Values / and Code of Conduct / Ethics

The code of conduct guides the decision, procedures and system of the Company in a way that it contributes to welfare of all stakeholders and respects the rights of all constituents affected by the Company's operations. A summary of code of ethics are as follows:

- **Respect for the Individual**

  Discrimination on any basis is fundamentally unacceptable.

- **Conflict of Interest**

  The employees must act in the Company's interest and to avoid themselves from a position where their personal interest conflicts with the Company's interest.

- **Financial and Operational Integrity**

  Compliance with accepted accounting rules and procedures is required at all times. All information supplied to auditors and shareholders must be complete and not misleading.

- **Bribery**

  All kinds of bribes or facilitation payments or receipt in cash or in kind are strictly prohibited.

- **Regulatory Compliance and Corporate Governance**

  The Company cooperates fully with all governmental and regulatory bodies and is committed to the highest standards of cooperative governance.

- **High Standards**

  Voluntarily sets, and adhere to, the highest standards of professional conduct: this will assure peace of mind and fair treatment for all stakeholders.

- **Efficiency**

  Efficiencies, appropriate risk management measure and pricing strategies should enable profitable operations and good shareholder returns in all market scenarios.

- **Growth and Development**

  The Company's social responsibility and it's intend role in the growth and development of capital markets, must always be kept in mind in choosing the projects and business offered by the market opportunity, considered adequacy at the appropriate forums may also be taken up as a contributory tool.

Company Information

Board of Directors
Arif Habib
(Chairman & Chief Executive)
Asadullah Khawaja
Kamaluddin Khan
Kashif A. Habib
Muhammad Akmal Jameel
Nasim Beg
Sirajuddin Cassim
Syed Ajaz Ahmed

Audit Committee
Sirajuddin Cassim
(Chairman)
Kashif A. Habib
Muhammad Akmal Jameel
Syed Ajaz Ahmed

Company Secretary
Haroon Usman

Chief Financial Officer
Tahir Iqbal

Auditors
Rahman Sarfaraz
Rahim Iqbal Rafiq
Chartered Accountants

Legal Advisors
Bawaney & Partners

Bankers

Allied Bank Ltd.
Arif Habib Bank Ltd.
Atlas Bank Ltd.
Bank Al Falah Ltd.
Bank Al-Habib Ltd.
Faysal Bank Ltd.
First Women Bank Ltd.
Habib Bank Ltd.
Habib Metropolitan Bank Ltd.
KASB Bank Ltd.
MCB Bank Ltd.
My Bank Ltd.
NIB Bank Ltd.
Standard Chartered Bank
Soneri Bank Ltd.
The Bank of Punjab
United Bank Ltd.

Registered Office

60-64, Karachi Stock Exchange Building
Stock Exchange Road Karahi-74000
Phones: 2415213-15 Fax No: 2416072 - 2429653
E-mail: ahsl@arifhabib.com.pk

Corporate Office

Pardesi House, 2/1, R.Y. 16,
Old Queens Road Karachi-74000
Phone: 2460717-19 Fax No: 2470496

website: www.arifhabib.com.pk

Registrar & Share Transfer Office

Technology Trade (Pvt.) Ltd.
Dagia House, 241-C, Block-2, PECHS
Off: Shahrah-e-Quaideen, Karachi.
Ph: 4391316-7 Fax: 4391318

At Arif Habib Securities Limited, various Committees have been constituted both at the Board and management levels.

Committees of the Board of Directors

Committees of Board of Directors assist Board of Directors in performance of its duties.

Audit Committee (AC)

In line with best practices the Board of Directors has established the Audit Committee and its terms of reference.

The Audit Committee, in addition to ensure compliance of Code of Corporate Governance, shall carry out following functions:

- To assist Board of Directors in reviewing, approving and monitoring effective compliance with the Company's mission, vision, corporate strategy & objectives, core values and standard of conduct.
- To review matters relating to the Company's Business Plan, financial reporting process including review of quarterly, half-yearly and annual financial statements, monitoring compliance with applicable accounting standards and review of financial and non-financial publications.
- Held separate meetings with the Chief Financial Officer, Head of Internal Audit and the External Auditors as required under listing regulation.
- The Audit Committee recommends to the Board of Directors the selection of the independent audit firm(s), considering independence and effectiveness and approves the fees and other compensation to be paid to the independent audit firm(s).
- Currently, the Audit Committee comprises following non-executives Directors:

S.No.	Name	Designation
1.	Mr. Sirajuddin Casim	Chairman
2.	Mr. Kashif. A. Habib	Member
3.	Mr. Syed Ajaz Ahmed	Member
4.	Mr. Akmal Jameel	Member

InvestmentS & Projects Diversification Committee (IPDC)

The function of IPDC is to present its findings for Board of Directors' review and approval for the acquisitions or expansion with attractive return and satisfactory growth and success potential.

The IPDC meets on required/directed basis to discharge its responsibilities for evaluating and discussing feasibilities for potential projects and new avenues for diversified investments of the Company's resources.

The IPDC comprises Chief Executive, two non-executive Directors and Chief Financial Officer which are as follows:

S.No.	Name	Designation
1.	Mr. Arif Habib	Chairman
2.	Mr. Nasim Beg	Member
3.	Mr. Akmal Jameel	Member
4.	Mr. Tahir Iqbal	Member

Management Committees

The purpose of the Management Committees is to improve coordination and review issues including strengths & weaknesses, opportunities & threats and facilitates/coordinates timely decision making to improve performance and efficiency.

Executive Committee on Risk Management (ECRM)

The prime objective of ECRM is to use structured approach in identifying, assessing and controlling risks to support better decision making for effective and efficient use of resources.

The terms of reference of ECRM is to assist Board of Directors developing, reviewing and approving risk management policies, instituting special projects, value of money studies. ECRM meets on required/directed basis.

The ECRM comprises Chief Executive, Company Secretary, Chief Financial Officer and a senior Advisor which are as follows:

S.No.	Name	Designation
1.	Mr. Arif Habib	Chairman
2.	Mr. Haroon Usman	Member
3.	Mr. Tahir Iqbal	Member
4.	Mr. Shafi Malik	Member

Executive Committee on Human Resource (ECHR)

The leading objective of ECHR is to assist in promotion of an environment conducive to the Company employees for their optimal performance.

The terms of reference of ECHR include recommendation on human resource management, organizational development, policies to attract and retained quality personnel, assessment of corporate culture and recommendation of change management. ECHR meets on required/directed basis.

The ECHR comprises Chief Executive, Company Secretary and Chief Financial Officer which are as follows:

S.No.	Name	Designation
1.	Mr. Arif Habib	Chairman
2.	Mr. Haroon Usman	Member
3.	Mr. Tahir Iqbal	Member

NOTICE OF FOURTEENTH ANNUAL GENERAL MEETING

Notice is hereby given that the Fourteenth Annual General Meeting of Arif Habib Securities Limited will be held on Saturday 27 September 2008 at 10:00 a.m. at the Beach Luxury Hotel, Moulvi Tamizuddin Khan Road Karachi to transact the following business:

Ordinary Business

1) To confirm minutes of the Extraordinary General Meetings held on 17 May 2008 and 5 June 2008.

2) To receive, consider and adopt audited accounts of the company together with the directors' and auditors' report thereon for the year ended 30 June 2008.

3) To declare final cash dividend @ 15% i.e. Rs. 1.50/- per share for the year ended 30 June 2008, as recommended by the directors.

4) To consider and approve bonus issue at the rate of 25% i.e. one share for every four shares held, as recommended by the directors.

5) To appoint auditors of the company and fix their remuneration for the financial year 2008-09. The directors have recommended to appoint M/s. Rahman Sarfaraz Rahim Iqbal Rafiq and M/s. KPMG Tasir Hadi & Company Chartered Accountants as the joint auditors.

Special Business

6) To pass the following resolution as an ordinary resolution to give effect to the bonus issue:

Resolved that:

"A sum of Rs. 750,000,000/- out of companys' free reserves and unappropriated profits be capitalized for issuing 75,000,000 fully paid ordinary shares of Rs. 10/- each as bonus shares to be allotted to those shareholders whose names will appear on the members' register and the entitlement list to be provided by CDC at the close of business on 19 September 2008, in the proportion of one share for every four shares held i.e. 25%. These shares shall be treated for all purposes as an increase in paid-up capital of the company and shall rank pari passu in future with existing shares in all respects except that they shall not qualify for the entitlement of the final dividend declared & being paid simultaneously."

Further resolved that:

"Fractional shares to be allocated as a result of distribution of bonus shares be consolidated with the company secretary for sale in the open market in due course and the proceed be donated to any recognized charitable trust".

7) To consider and approve increase in the authorized share capital of the Company from Rs. 3,000,000,000 to Rs. 10,000,000,000 as recommended by the Board of Directors and to pass the following resolution as special resolution:

Resolved that:

"The authorized capital of the company be increased from Rs. 3,000,000,000/- (Rupees Three Billion Only) to Rs. 10,000,000,000/- (Rupees Ten Billion Only)".

Further resolved that:

"In the clause V of Memorandum and clause 7 of Articles of Association the words and figures appearing as Rs. 3,000,000,000/- (Rupees Three Billion Only) divided into 300,000,000 (Three Hundred Million) ordinary shares of Rs. 10/- each be and hereby substituted by the words and figures Rs. 10,000,000,000/- (Rupees Ten Billion Only) divided into 1,000,000,000 (One Billion) ordinary shares of Rs. 10/- each.

8) To consider any other business with the permission of the Chair.

By order of the Board

Karachi
Dated: 30 July 2008

Haroon Usman
Company Secretary

Notes:

1. Share transfer books of the company will remain closed from 20 September 2008 to 27 September 2008 (both days inclusive). Transfers received in order at the office of our registrar: M/s. Technology Trade (Pvt.) Ltd; Dagia House 241-C Block-2, P.E.C.H.S. off Shahrah-e-Quaideen Karachi; by the close of business on 19 September 2008 will be treated in time.

2. A member entitled to attend and vote at the meeting may appoint another member as his / her proxy who shall have such rights as respects attending, speaking and voting at the meeting as are available to a member.

3. Procedure including the guidelines as laid down in Circular No. I- Reference No. 3(5-A) Misc/ARO/LES/96 dated 26 January 2000 issued by Securities & Exchange Commission of Pakistan:

   (i) Members, proxies or nominees shall authenticate their identity by showing their original national identity card or original passport and bring their folio numbers at the time of attending the meeting.

   (ii) In the case of corporate entity, Board of Directors' resolution/power of attorney and attested copy of the CNIC or passport of the nominee shall also be produced (unless provided earlier) at the time of meeting.

(iii) In order to be effective, the proxy forms must be received at the office of our registrar not later than 48 hours before the meeting, duly signed and stamped and witnessed by two persons with their names, address, CNIC numbers and signatures.

(iv) In the case of individuals, attested copies of CNIC or passport of the beneficial owners and the proxy shall be furnished with the proxy form.

(v) In the case of proxy by a corporate entity, Board of Directors resolution/power of attorney and attested copy of the CNIC or passport of the proxy shall be submitted alongwith the proxy form.

4. Members are requested to promptly notify any change in address by writing to the office of the registrar.

Statement under Section 160(1)(b) of the Companies Ordinance 1984

Material facts concerning special business to be transacted at the Annual General Meeting are being given below:

Issue of Bonus Share

While recommending stock dividend the directors have taken cognizance of the financial strength of the company. They are of the view that the company's financial position and its reserves justify the capitalization of free reserves.

Pursuant to rule 6 (iii) of the Companies (issue of capital) Rules 1996, the auditors have certified that the free reserves and surpluses retained after the issue of bonus shares will not be less than twenty five percent of the increased capital.

Increase in Authorized Capital

The present authorized and paid-up capital equally stand at Rs. 3,000,000,000/-. The recommendation of 25% bonus issue for the financial year ended on 30-06-2008 will enhance the paid-up capital to Rs. 3,750,000,000/- thereby necessitating to raise the authorized capital at least by Rs. 750,000,000/-. To avoid frequent raise and to facilitate further issue of shares as and when deemed necessary, the directors have recommended to increase the authorized capital to Rs. 10,000,000,000.

The directors of the company have no additional inertest in any of the above business.

FINANCIAL HIGHLIGHTS

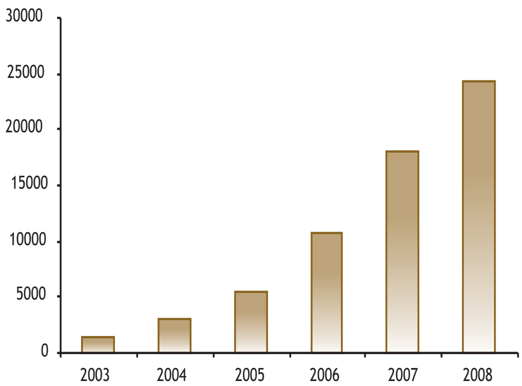
(Rupees in Million except per share data and ratios)

Rupees in million

	2003	2004	2005	2006	2007	2008
Profit and Loss Account						
Net turnover	840.9	1,878.2	2,872.6	5,048.6	4,058.1	9,977.9
Gross profit	764.2	1,748.0	2,633.0	4,776.1	3,937.0	9,825.6
Operating profit	767.3	1,753.9	2,640.0	4,768.4	3,934.9	9,840.6
Profit before tax	767.3	1,753.9	2,640.0	4,768.4	3,934.9	9,840.6
Profit after tax	751.9	1,705.3	2,583.4	4,157.4	3,682.3	8,297.2
EBITDA	799.9	1,787.6	2,751.1	4,966.6	3,990.7	9,913.2
Balance Sheet						
Share capital	60.0	80.0	200.0	270.0	3,000.0	3,000.0
Reserves	1,355.2	2,920.5	5,297.9	10,420.6	15,074.6	21,296.1
Property and equipment	3.8	3.1	6.8	9.0	5.4	28.3
Long term investments	16.0	17.0	436.1	6,540.3	14,508.8	22,877.8
Net current assets	2,067.6	3,088.6	6,502.5	5,259.8	5,534.9	5,905.4
Net current liabilities	763.8	222.3	2,340.1	117.5	140.8	1,599.2
Deferred liabilities	-	-	-	1,251.3	1,833.8	2,916.2
Total assets	2,178.9	3,222.8	7,837.9	12,059.4	20,049.2	28,811.5
Total liabilities	763.8	222.3	2,340.1	1,368.8	1,974.6	4,515.4
Ratios						
Operating						
Gross profit margin	90.9%	93.1%	91.7%	94.6%	97.0%	98.5%
Net profit margin	89.4%	90.8%	89.9%	82.3%	90.7%	83.2%
EBITDA margin	95.1%	95.2%	95.8%	98.4%	98.3%	99.4%
Performance						
Return on equity	104.0%	120.5%	86.1%	75.6%	34.4%	45.9%
Return on capital employed	56.5%	59.5%	50.0%	41.6%	20.0%	36.4%
Debtor turnover ratio	51.8	70.3	17.1	30.4	106.9	383.6
Short-term investment turnover ratio	1.3	1.4	0.8	1.2	1.0	1.8
Total assets turnover ratio	2.3	2.8	3.1	3.3	1.3	2.4
Operating cycle	129.3	142.6	349.7	204.5	106.5	48.9
Leverage						
Debt:Equity ratio	0.5	-	0.2	0.0	-	0.1
Interest cover ratio	25.1	55.3	25.1	25.3	73.3	138.8
Dividend cover ratio	12.5	14.2	12.9	15.4	1.6	18.4
Liquidity						
Quick ratio	1.1	11.6	2.3	33.9	38.9	3.6
Weighed average cost of debt	9.6%	10.0%	20.0%	34.9%	452.3%	9.3%
Valuation						
Price earning ratio	0.0	0.1	0.2	0.3	9.5	5.8
Break-up value per share	235.9	375.1	274.9	395.9	60.2	81.0
Cash dividend per share	10.0	15.0	10.0	10.0	7.5	1.5
Dividend yield	175.4%	85.9%	45.5%	22.3%	6.4%	0.9%
Dividend payout ratio	8.0%	7.0%	7.7%	6.5%	61.1%	5.4%
Specie dividend (in kind)	-	-	-	-	-	10.0%
Bonus shares issued	33.3%	150.0%	50.0%	66.7%	322.2%	25.0%
Market value per share (end of year)	317.0	728.0	366.0	498.0	116.6	161.5
High (during the year)	339.0	757.8	740.0	644.0	605.0	201.4
Low (during the year)	101.0	200.0	246.0	259.0	107.9	112.7
Shareholders' Return %						
Arif Habib Securities Limited - annual total return	270%	203%	27%	82%	65%	39%
Karachi Stock Exchange 100 Index - annual return	117%	70%	51%	42%	38%	(10%)
Shareholders' return differential: AHSL-KSE-100 Index	+153%	+133%	(24%)	+40%	+27%	+49%

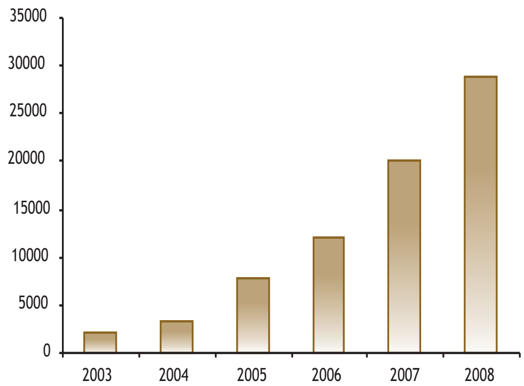
Share holders equity

Rupees in million



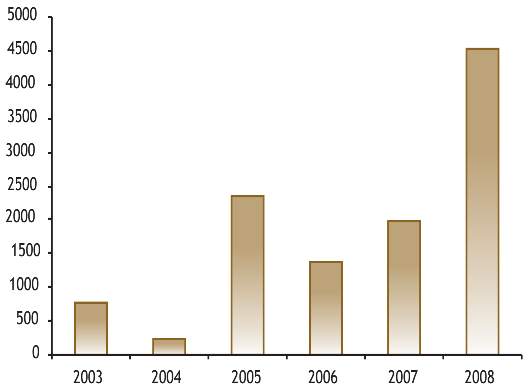
Total assets

Rupees in million



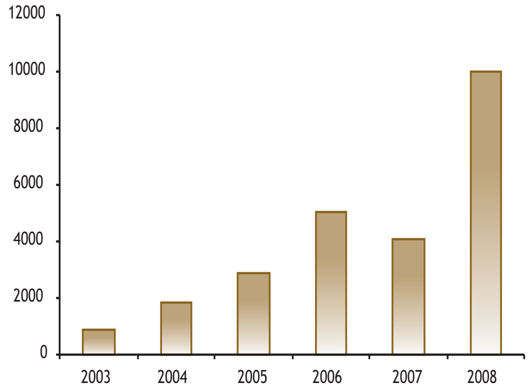
Total liabilities

Rupees in million



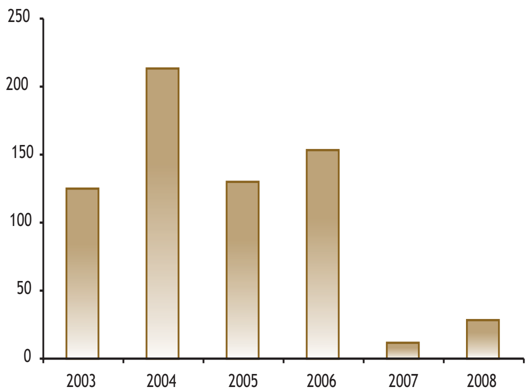
Net turnover

Rupees in million



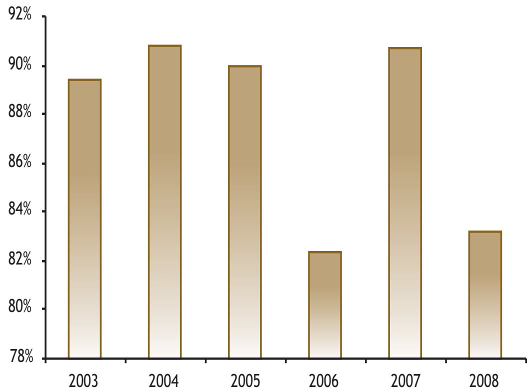
Earnings per share

Rupees

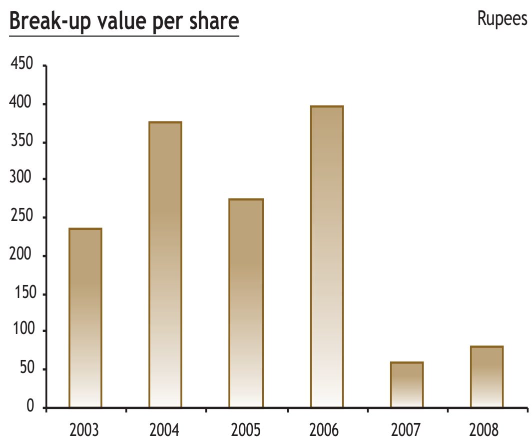


Net margin

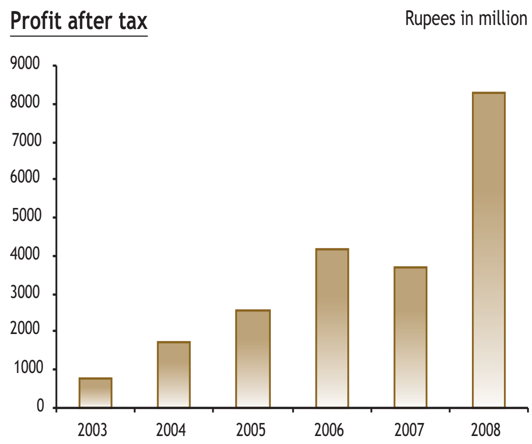
Percentage



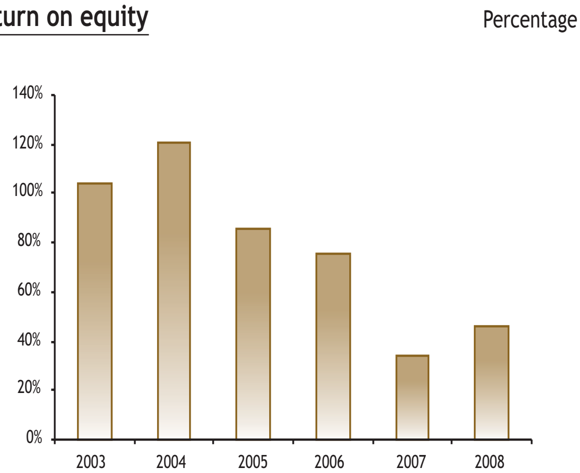
Break-up value per share



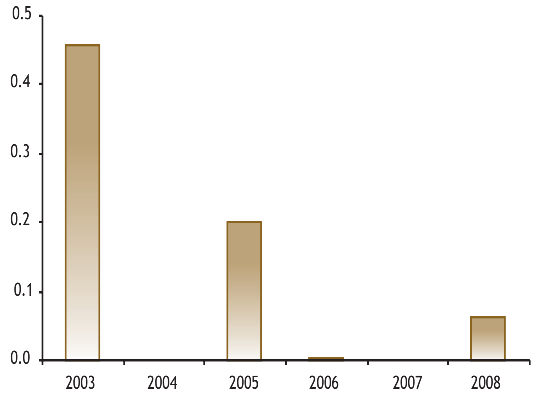
Profit after tax



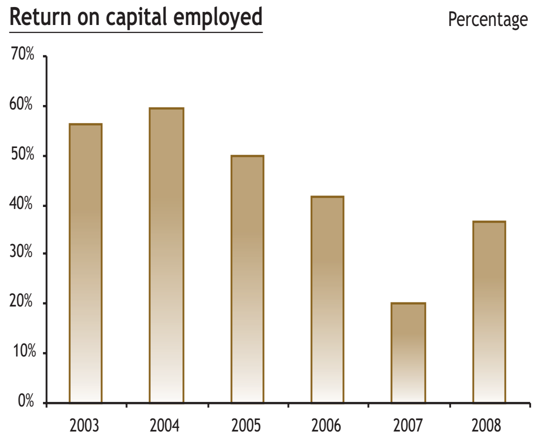
Return on equity



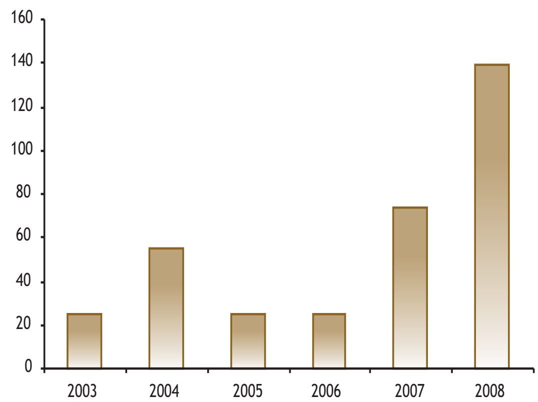
Debt:Equity ratio



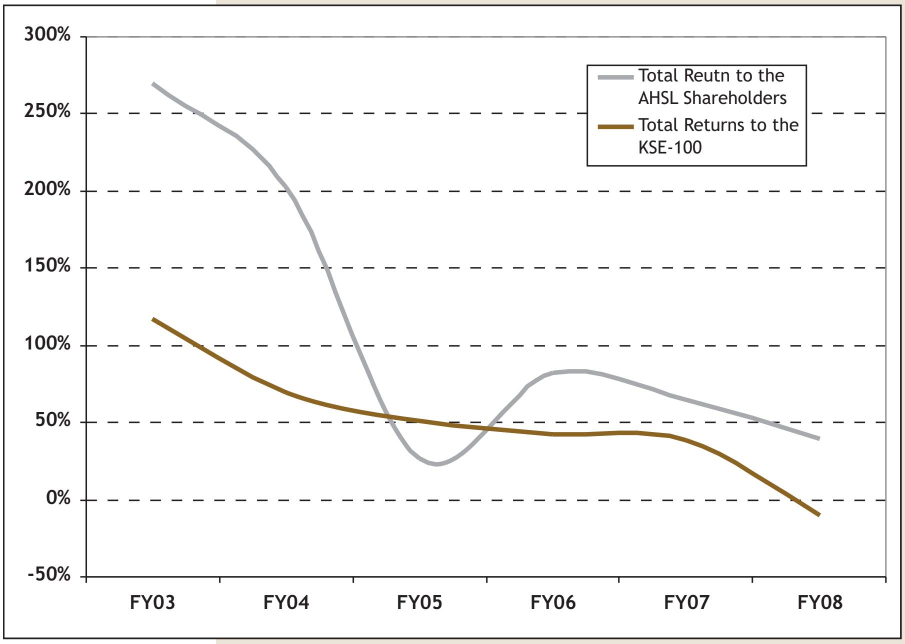
Return on capital employed



Interest cover ratio



TOTAL RETURN* TO THE AHSL SHAREHOLDER VS
KSE TOTAL RETURN PERCENT PER ANNUM



*[Price appreciation (decline) + Dividend during the period]/ Price at the beginning of the period

Summary of Cash Flow Statement

year ended June 30

Rupees in million

	2003	2004	2005	2006	2007	2008
Net cashflows from operating activities	762.9	1,511.5	1,950.3	1,673.1	3,318.2	2,803.2
Net cashflows from investing activities	(51.1)	164.1	(810.4)	(972.4)	(2,146.0)	(3,968.7)
Net cashflows from financing activities	(25.0)	(60.0)	(200.0)	(180.0)	(202.5)	-
Net change in cash and cash equivalents	686.8	1,615.6	939.9	520.8	969.7	(1,165.5)
Cash and cash equivalents at beginning of the year	690.6	1,377.5	2,993.0	3,932.9	4,453.7	5,423.4
Cash and cash equivalents at end of the year	1,377.5	2,993.0	3,932.9	4,453.7	5,423.4	4,257.9

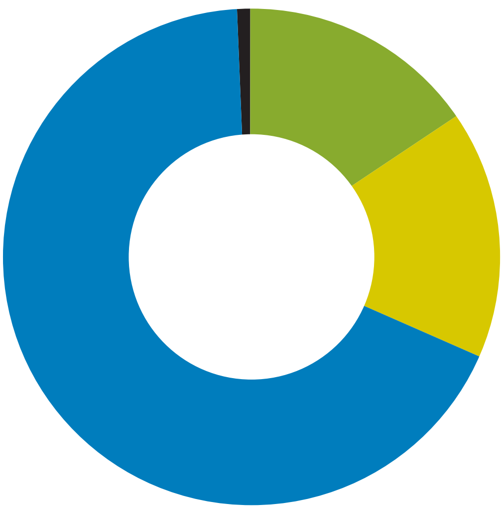
The company's net revenues have grown by an average of 41 percent over the last three years. Net earnings grew by 41 percent on average during the period under review. The company's total assets posted a cumulative average growth rate of 55 percent during this period. Shareholder's equity has grown at an average rate of 51 percent during the last three years.

Statement of Value Added and its Distribution

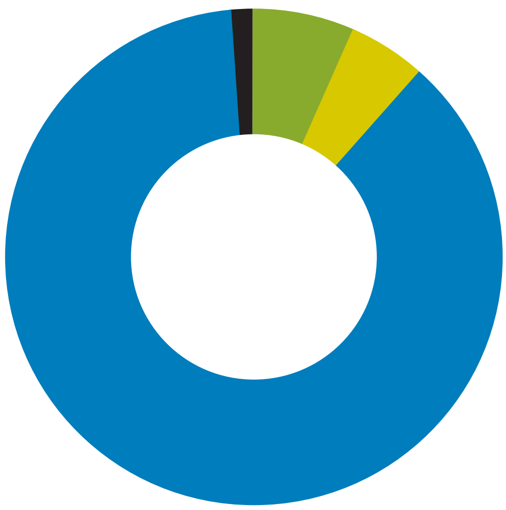
	Rupees in million	
	2007	2008
Value Added		
Operating revenue	360.59	523.14
Profit on sale of securities - net	2,163.78	4,618.09
Gain on remeasurement of investments - net	1,533.69	4,836.63
Other income	4.78	27.45
	4,062.85	10,005.30

Distribution		
Employees as remuneration	4.2	1.7
Government as taxes	1,543.4	252.5
Shareholders as dividends	1,560.0	202.5
Retained within business	6,737.2	3,479.8
Financial charges to providers of finance	71.4	54.4

2007



2008



On behalf of the Company the Chairman & Chief Executive Mr. Arif Habib receiving the Corporate Excellence Award of the Management Association of Pakistan presented by Mr. Hussain Dawood.

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the Annual Report for the financial year ended on 30 June 2008, together with the audited financial statements and auditors' report thereon. Consistent with the standard set seven years ago following the Company's listing, the Board has considered and approved the Company's audited financial results within one month of the close of its financial year.

Top Companies Award

I am pleased to report that during the year under review your Company was again declared as one of the Top 25 Companies by the Karachi Stock Exchange for the years 2006 and 2007. Your Company has the honour of being selected for this award for each of the seven years since its listing in 2001. The criteria for selection of Top 25 Companies consists of earning good return on equity, distribution of high dividends to the shareholders, adhering to good corporate governance and sound discharge of corporate social responsibility.

Corporate Excellence Award

During the period under review your Company has also won the Corporate Excellence Award from Management Association of Pakistan. This is a recognition of the Company's good corporate governance record.

Credit Rating

I am pleased to report that your Company has been assigned the credit rating of 'AA' from JCR VIS Credit Rating Company. 'AA' rating denotes a very high credit quality and very low expectations of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

Market Review

During the year under review, the stock market declined by 10.77 percent. This negative performance was witnessed after six consecutive years of positive performance in a row. The KSE market capitalization declined to Rs. 3.777 trillion on 30 June from Rs. 4.019 trillion at the beginning of the financial year and the closing index level was 12,289 points compared to 13,772 points at the beginning of the year.

The negative performance of the market is mainly attributable to macro-economic imbalances witnessed in the economy, particularly in the areas of fiscal and external current account where deficits surged beyond prudent limits. This was in large part due to a-steep rise in oil and commodities prices which were not passed on to the consumers in time. The government consequently allowed subsidies over and above those budgeted. Additionally, the external current account suffered due to decline in foreign direct investments, withdrawl of foreign portfolio investment and no bond issue in international market by the government during the period under review. Slow-down in privatization and disinvestment of government entities due to "election year" and weak international debt markets were also contributors to the balance of payment deficit.

Financial Results and Appropriations

By the grace of Allah, your Company has benefited fully from its diversification policy and reduced exposure in secondary market portfolio. During the financial year, the Company has earned an after tax profit of Rs. 8,297,170,965 as compared to Rs. 3,682,334,925 of previous year, a 123.9 percent year-on-year increase. The equity of the Company has reached to Rs. 24.30 billion on 30 June 2008 as compared to Rs. 18.07 billion last year.

Having already distributed specie dividend of Arif Habib Bank Limited @ 10% early in the year, the Board has now proposed to declare a cash dividend @ 15 percent and issue bonus shares @ 25 percent.

The Summary of Financial Results and Appropriation is as Follows:-

(Rupees)

	2008	2007
Profit before taxation	9,840,575,752	3,934,880,345
Provision for taxation	1,543,404,787	252,545,420
Net profit after taxation	8,297,170,965	3,682,334,925
Un-appropriated profit brought forward	5,241,070,168	4,491,235,243
Profit available for appropriation	13,538,241,133	8,173,570,168
Appropriations:		
Interim dividend 2008: Nil (2007: @75% i.e. Rs. 7.50 per share)	-	202,500,000
Interim issue of specie distribution 2008: @10% (2007: Nil)	1,110,000,000	-
Interim issue of Bonus shares 2008: Nil (2007: @ 322%)	-	2,730,000,000
	1,110,000,000	2,932,500,000
Un-appropriated profit carried forward	12,428,241,133	5,241,070,168
Earning per share - basic & diluted	27.66	12.27

Performance of Subsidiaries and Associates

Your Company's subsidiaries and associates continued to do well during the year under review as briefly explained in the following paragraphs:

Arif Habib Limited (AHL) – a seventy five percent owned subsidiary listed at the Karachi Stock Exchange.

AHL is a member of Karachi, Lahore and Islamabad Stock Exchanges and National Commodity Exchange Limited. It provides services of securities brokerage and corporate finance/advisory. AHL continued to grow satisfactorily and recorded an EPS of Rs. 19.14 as against Rs. 14.11 previous year. It has declared a cash dividend of 25 percent and bonus shares of 25 percent. AHL has been selected for Top 25 Companies Award by the KSE for the year 2007.

Arif Habib Investment Management Limited (AHIML) – an AM-2 rated asset management company. (Sixty two percent owned subsidiary of Arif Habib Securities Limited).

AHIML has earned a net profit of Rs. 249.043 million as compared to Rs. 215.424 million in previous year. It has distributed a cash dividend of 75 percent and bonus shares of 130.77 percent during the year under review. AHIML is under process of listing at Karachi Stock Exchange. The existing shareholders of AHIML had in July 2008 offered 7.5 million shares at a price of Rs. 125/- per share. The offer was over subscribed despite difficult market conditions.

Arif Habib Bank Limited (AHBL) — 'A' rated scheduled commercial bank 59.40 percent owned subsidiary of Arif Habib Securities Limited.

Listed at the Karachi Stock Exchange. The bank has 14 branches and has plans to expand the network to 33 branches all over Pakistan by the end of 2008. The bank is growing at a satisfactory pace with total assets reaching to over Rs. 25 billion. It has earned a net profit of Rs. 212.674 million during first half of 2008.

Other subsidiaries namely Arif Habib DMCC, Pakistan Private Equity Management Limited and S.K.M. Lanka (Pvt.) Limited are in the process of developing business.

Pak Arab Fertilizers Limited (PAFL) — a 30 percent owned associate of Arif Habib Securities Limited.

PAFL has recorded a profit after tax of Rs. 2,357.457 million for the half year ended on 30 June 2008 as compared to Rs. 883.686 million in the corresponding period last year. PAFL has started sale of carbon credits produced by its CDM (clean development mechanism) project contributing to the revenues of the company.

Fatima Fertilizers Limited — a subsidiary of Pak Arab Fertilizers and associate of Arif Habib Securities Limited.

The construction of the project is on target and is expected to start production by mid 2009. It will have a production capacity of 1.4 million tons of Urea, CAN, NP and NPK. Initially, it will produce 1.1 million tons of fertilizers and could go upto 1.4 million tons upon availability of incremental natural gas. Total cost of the project is estimated at USD 850 million - equivalent PKR 60.75 billion.

Aisha Steel Mills Limited (ASML) — a joint venture of Metal One (subsidiary of Mitsubishi, Japan) Universal Metal Corporation, Japan and Arif Habib Securities Limited. The construction of the project has commenced and is expected to be completed by the end of year 2009.

Rozgar Microfinance Bank Limited — a nineteen percent owned associate of the company is a district level microfinance bank in Karachi. Currently it has 15 service centers and 4 branches covering nearly all towns of the city. The bank has so far disbursed Rs. 160 million to over 8,000 borrowers as small business loans, micro leases, house repair financing and student loans. The bank has registered a loss of Rs. 17.625 million for the financial year ended on 31 December 2007 and Rs. 6.608 million for the half year ended 30 June 2008.

Al Abbas Cement Limited — a 10 percent owned associate of Arif Habib Securities Limited. It has recorded a loss of Rs. 180 million as per management accounts for the year ended on 30 June 2008. The project is now achieving a daily production of 2800 tons per day and has started making profit from current operations.

Future Outlook

Pakistan is faced with macro-economic imbalances due to fiscal and external current account deficits. The main factors are international oil price hike and delay in passing on the prices to consumers. The stock market has suffered a decline of 11.68 percent in its KSE-100 index since 1 July 2008 to date.

The company's portfolio of investments is well diversified. Major subsidiaries and associates in sectors like securities brokerage, asset management, commercial banking, fertilizers and cement are expected to produce good returns in the future for the company. Secondary market portfolio, which constitutes about 20 percent of total assets of the company, is also in fundamentally strong companies at below their fair values which has suffered some decline. However, returns from subsidiaries and associates are expected to far exceed the modest knock in secondary market portfolio.

The government has taken a number of measures to correct the macro economic imbalances. This would help restore investors confidence in Pakistan economy and create profitable opportunities for secondary market investments.

In view of above, the future of the company look promising.

Corporate Governance

Arif Habib Securities Limited is listed at the Karachi, Lahore and Islamabad Stock Exchanges. The company's Board and management are committed to observe the Code of Corporate Governance prescribed for listed companies and are familiar to their responsibilities and monitor the operations and performance to enhance the accuracy, comprehensiveness and transparency of financial and non-financial information.

The Board would like to state that proper books of accounts of the Company have been maintained and appropriate accounting policies have been adopted and consistently applied. Preparation of accounts and accounting estimates are based on reasonable and prudent judgment. International Accounting Standards, as applicable in Pakistan, are followed. The system of internal controls is sound in design and has been effectively implemented. The financial statements of the company present fairly its state of affairs, the result of its operations, cash flows and change in equity. No material payment has remained outstanding on account of any taxes, duties, levies or charges. The company has no outstanding obligations under gratuity or pension fund except provident fund which is maintained in separate bank account alongwith profit.

In compliance with the Code the Board hereby reaffirm that there is no doubt whatsoever about the company's ability to continue as a going concern and that there has been no material departure from the best practices of corporate governance as detailed in the listing regulations and transfer pricing.

A statement showing the company's shares bought and sold by its Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their minor family members is annexed as Annexure-I (Page 26). A statement showing attendance at Board meetings is annexed as Annexure-II (Page 27). The pattern of shareholding as required by the Companies Ordinance, 1984 is annexed as Annexure-III (Page 119). The key operating and financial data has been given in summarized form under the caption "Financial Highlights" (Page 11) and graphic presentation of the important statistics is presented on (Page 12).

Auditors

The retiring auditors M/s. Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, have offered themselves for reappointment. The Board recommends their re-appointment alongwith M/s KPMG Taseer Hadi & Company Chartered Accountants as joint auditors for the financial year 2008-09. Approval to this effect will be sought from the shareholders at the forthcoming annual general meeting.

Acknowledgement

We are grateful to the company's stakeholders for their continuing confidence and patronage. We record our appreciation and thanks to the Ministry of Finance, the Securities & Exchange Commission of Pakistan, the State Bank of Pakistan, Central Depository Company of Pakistan and the managements of Karachi, Lahore, and Islamabad Stock Exchanges for their support and guidance. We acknowledge and appreciate the hard work put in by the employees of the company during the year.

For and on behalf of the Board

Karachi
30 July 2008

Arif Habib
Chairman & Chief Executive Officer

Report of the Audit Committee on Adherence to the Best Practices of Code of Corporate Governance

The audit committee has concluded its annual review of the conduct and operations of the Company during 2008, and reports that:

- The Company has adhered in full, without any material departure, with both mandatory and voluntary provisions of the listing regulation of Karachi, Lahore and Islamabad Stock Exchanges of Pakistan, Company's statement of ethics and values and the international best practices of Governance throughout the year.

- Compliance has been confirmed from the members of the Board, the Management and employees of the company individually. Equitable treatment of shareholders has also been endured.

- The Company has issued a "Statement of Compliance with the Best Practices of Code of Corporate Governance" which has also been reviewed and certified by the auditors of the company.

- Appropriate accounting policies have been consistently applied. Applicable accounting standards were followed in preparation of financial statements of the Company and consolidated financial statements on a going concern assumption basis, for the financial year ended June 30, 2008, which present fairly the state of affairs, results of operations, profits, cash flows and changes in equities of the Company and it's subsidiaries for the year under review.

- The Chief Executive Officer and the Chief Financial Officer have reviewed the financial statements of the Company, consolidated financial statements and the Directors' Report. They acknowledge their responsibility for true and fair presentation of the financial statements, compliance with regulations and applicable accounting standards and establishment and maintenance of internal controls and system of the Company.

- Accounting estimates are based on reasonable and prudent judgment. Proper and adequate accounting records have been maintained by the Company in accordance with Companies Ordinance, 1984.

- The financial statements comply with the requirements of the Fourth Scheduled to the Companies Ordinance, 1984 and applicable "International Accounting Standards (IAS/IFRS)" notified by SECP.

- All direct and indirect trading and holdings of the Company's shares by Directors & executives or their spouse were notified in writing to the Company Secretary along with the price, number of shares, form of share certificate and nature of transaction which were notified by the Company Secretary to the Board with in the stipulated time. All such holdings have been disclosed in the pattern of Shareholdings.

- **INTERNAL AUDIT**

    - The internal control framework has been effectively implemented through an independent in-house Internal Audit function established by the Board.

    - The Company's system of internal control is sound in design and has been continually evaluated or effectiveness and adequacy.

- The Audit Committee has ensured the achievements of operational, compliance and financial reporting objectives, safeguarding of the assets of the Company and the shareholders wealth through effective financial operational and compliance controls and risk management at all levels with in the Company.

- The Head of Internal Audit has direct access to the Chairman of the Audit Committee and the Committee has ensured staffing of personnel with sufficient internal audit acumen.

- Coordination between the External and Internal Auditors was facilitated to ensure efficiency and contribution to the Company's objectives, including a reliable financial reporting system and compliance with laws and regulations.

- **EXTERNAL AUDITORS**

  - The statutory Auditors of the Company, M/S Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, have completed their audit assignments of the "Company's Financial Statements", the "Consolidated Financial Statements " and the "Statement of Compliance with the Best Practices of Code of Corporate Governance" for the financial year ended June 30, 2008 and shall retire on the conclusion of the 14th Annual General Meetings

  - The Audit Committee has reviewed and discussed Audit observation and Draft Audit Management Letter with the External Auditors. Final Management Letter is required to be submitted within 30 days of the date of Auditors' Report on financial statements under the listing regulations and shall thereof accordingly be discussed in the next Audit Committee Meeting.

  - The Audit Firm has been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP) and the firm is fully complaint with the International Federation of Accountants (IFAC) Guidelines on Code of Ethics, as adopted by the ICAP. The Auditors attended the general meetings of the Company during the year and have confirmed attendance of the Annual General Meeting scheduled for September 27, 2008 and have indicated their willingness to continue as Auditors.

  - Being eligible for re-appointment as Auditors of the Company, the Audit Committee recommends their reappointment for the financial year ending June 30, 2009.

  - Furthermore, keeping in view the volume and magnitude of the Company's books of accounts and its financial statements it is recommended that another firm of audit be appointed as a joint auditors. It would further add value to the examination of Company's books of accounts.

Karachi
30 July 2008

(Alternate) Chairman Audit Committee

Statement showing shares bought and sold by Directors, CEO, CFO

Company Secretary and the Minor Family Members
From July 1, 2007 to June 30, 2008
(Annexure I)

S.No.	Name	Designation	Shares bought	Shares Sold	Remarks
1	Mr. Arif Habib	Chairman & Chief Executive	-	9,000,000	-
2	Mr. Asadullah Khawaja	Director	-	-	-
3	Mr. Kamaluddin Khan	Director	100	-	-
4	Mr. Kashif A. Habib	Director	-	-	-
5	Mr. Muhammad Akmal Jameel	Director	7000	17000	-
6	Mr. Nasim Beg	Director	344000	33300	-
7	Mr. Sirajuddin Cassim	Director	-	-	-
8	Syed Ajaz Ahmed	Director	-	-	-
9	Mr. Haroon Usman	Co; Secretary	-	-	-
10	Mr. Tahir Iqbal	C.F.O.	-	-	-
11	Minor Family Members	-	-	-	-

Statement showing attendance at Board Meetings

from July 1, 2007 to June 30, 2008
(Annexure II)

S.No.	Name	Designation	Attended	Leaves Granted	Remarks
1	Mr. Arif Habib	Chairman & Chief Executive	6	1	-
2	Mr. Asadullah Khawaja	Director	6	1	-
3	Mr. Kamaluddin Khan	Director	5	-	Elected on 29-09-07
4	Mr. Kashif A. Habib	Director	3	4	-
5	Mr. Muhammad Akmal Jameel	Director	7	-	-
6	Mr. Nasim Beg	Director	6	1	-
7	Mr. Sirajuddin Cassim	Director	1	6	-
8	Syed Ajaz Ahmed	Director	6	1	-

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of the Stock Exchanges for the purpose of establishing framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company elects its directors every three years. Eight directors were elected by the shareholders in the Annual General Meeting held on 29 September 2007.

2. The Company encourages representation of independent non executive directors and directors representing minority interests on its Board of Directors. At present the Board includes two independent non-executive and five non-executive directors and no directors representing minority shareholders.

3. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

4. All the directors have given declaration that they were aware of their duties and powers under the relevant laws and the Companys' Memorandum and Articles of Association and the listing regulations of the Stock Exchange of Pakistan.

5. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

6. No casual vacancy occurred on the Board during the financial year 2007-08.

7. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by the directors and employees of the Company.

8. The Board has developed a vision/mission statement, and overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.

9. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

10. The meetings of the Board were presided over by the Chairman and in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

11. The Company conducted in-house orientation courses for its directors during the year to apprise them of their duties and responsibilities and to keep them informed of the enforcement of new laws, rules and regulations and amendments thereof.

12. All material information as required under the relevant rules has been provided to the stock exchanges and to the Securities & Exchange Commission of Pakistan within the prescribed time limit.

13. All quarterly, half yearly and annual financial statements presented to the Board for approval within one month of the closing duly signed by the CEO and the CFO.

14. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment as determined by the CEO.

15. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

16. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

17. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

18. The Company has complied with all the corporate and financial reporting requirements and other material principles contained in the Code.

19. The Board has formed an audit committee. It comprises four members, all of them are non-executive directors including the chairman of the committee.

20. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

21. The Board has set-up an effective internal audit function with employees who are considered experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.

22. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

23. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

Karachi
30 July 2008

ARIF HABIB
Chairman & Chief Executive

Russell Bedford

Rahman Sarfaraz Rahim Iqbal Rafiq
CHARTERED ACCOUNTANTS

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Arif Habib Securities Limited,** to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of the audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended **June 30, 2008.**

Rahman S R I Rafiq

Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants

Karachi
Date: 30 July 2008

FINANCIAL STATEMENTS

Rahman Sarfaraz Rahim Iqbal Rafiq
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Arif Habib Securities Limited** as at **June 30, 2008,** and the related profit & loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements ofthe Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit. The financial statements of the Company as of June 30, 2007, were audited by another auditor whose report dated July 30, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require, that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that-

(a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion-

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with a_counting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit & loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at **June 30, 2008,** and of the **Profit,** its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Rahman SRIRafiq

Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants

Karachi
Date: 30 July 2008

BALANCE SHEET
as at June 30, 2008

(Rupees)

	Note	2008	2007
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
SHARE CAPITAL	4	3,000,000,000	3,000,000,000
REVENUE RESERVES	5	21,296,111,535	15,074,588,378
		24,296,111,535	18,074,588,378
DEFERRED TAXATION	6	2,916,235,559	1,833,794,116
CURRENT LIABILITIES			
Trade and other payables	7	4,092,745	122,339,161
Interest and mark-up accrued on short term borrowings		2,256,351	380,115
Short term borrowings	8	1,541,696,789	-
Provision for taxation	9	51,140,420	18,122,191
		1,599,186,305	140,841,467
CONTINGENCIES AND COMMITMENTS	10	-	-
		28,811,533,400	20,049,223,961

The annexed notes 1 to 35 form an integral part of these financial statements.

(Rupees)

	Note	2008	2007
ASSETS			
NON-CURRENT ASSETS			
PROPERTY AND EQUIPMENT	11	28,298,232	5,399,800
LONG TERM INVESTMENTS	12	22,877,767,999	14,508,840,738
LONG TERM DEPOSITS	13	44,590	53,000
CURRENT ASSETS			
Trade debts	14	3,510,576	48,510,576
Receivable against securities transactions - considered good		1,985,320	-
Loans and advances	15	15,000,000	16,169
Prepayments		-	6,982
Advance tax		62,760,468	30,837,305
Other receivables	16	24,558,606	32,124,948
Short term investments	17	5,774,324,156	5,134,859,682
Cash and bank balances	18	23,283,454	288,574,762
		5,905,422,579	5,534,930,424
		28,811,533,400	20,049,223,961

CHAIRMAN & C.E.O

DIRECTOR

PROFIT AND LOSS ACCOUNT

For the year ended June 30, 2008

(Rupees)

	Note	2008	2007
Operating revenue	19	**523,141,850**	360,594,399
Profit on sale of securities-net	20	**4,618,084,994**	2,163,782,675
Gain on remeasurement of investments-net	21	**4,836,626,205**	1,533,688,265
		9,977,853,049	4,058,065,339
Operating and administrative expenses	22	**(80,848,351)**	(53,052,180)
Finance cost	23	**(71,412,061)**	(54,391,923)
		(152,260,412)	(107,444,103)
		9,825,592,637	3,950,621,236
Other expenses	24	**(12,457,500)**	(20,520,739)
Other income	25	**27,440,616**	4,779,848
		14,983,116	(15,740,891)
PROFIT BEFORE TAXATION		**9,840,575,751**	3,934,880,345
Provision for taxation	26	**(1,543,404,787)**	(252,545,420)
PROFIT AFTER TAXATION		**8,297,170,964**	3,682,334,925
Earnings per share-basic and diluted	27	**27.66**	12.27

The annexed notes 1 to 35 form an integral part of these financial statements.

CHAIRMAN & C.E.O

DIRECTOR

CASH FLOW STATEMENT

For the year ended June 30, 2008

(Rupees)

	Note	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	29	**2,927,548,363**	3,404,528,764
Income tax paid		**(54,818,232)**	(24,088,041)
Finance cost paid		**(69,535,825)**	(62,261,429)
Net cash generated from operating activities		**2,803,194,306**	3,318,179,294
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(107,825)**	(283,201)
Proceeds from transfer of property & equipment		**-**	2,447,028
Dividend received		**533,412,080**	428,748,880
Interest received		**10,107,913**	40,766
Long term investments		**(4,512,153,188)**	(2,827,120,888)
Long term loans		**-**	(350,000,000)
Recovery of long term loan		**-**	600,000,000
Long term deposits		**8,410**	208,000
Net cash used in investing activities		**(3,968,732,610)**	(2,145,959,415)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**-**	(202,500,000)
Net cash used in financing activities		**-**	(202,500,000)
Net (decrease) / increase in cash and cash equivalents		**(1,165,538,303)**	969,719,879
Cash and cash equivalents at beginning of the year		**5,423,434,444**	4,453,714,565
Cash and cash equivalents at end of the year	30	**4,257,896,141**	5,423,434,444

The annexed notes 1 to 35 form an integral part of these financial statements.

CHAIRMAN & C.E.O

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2008

(Rupees)

	Share Capital	Revenue Reserve: General Reserve	Revenue Reserve: Surplus/ (deficit) on remeasurement of investments	Revenue Reserve: Unappropriated Profit	Revenue Reserve: Sub Total	Total
Balance as at June 30, 2006	270,000,000	4,000,000,000	1,929,406,463	4,491,235,243	10,420,641,706	10,690,641,706
Net profit for the year ended June 30, 2007	-	-	-	3,682,334,925	3,682,334,925	3,682,334,925
Surplus on remeasurement of investments to fair value - net of tax	-	-	3,904,111,747	-	3,904,111,747	3,904,111,747
Interim dividend @ 75% i.e.Rs.7.50 per share	-	-	-	(202,500,000)	(202,500,000)	(202,500,000)
Interim issue of bonus shares @ 322%	2,730,000,000	-	-	(2,730,000,000)	(2,730,000,000)	-
Balance as at June 30, 2007	3,000,000,000	4,000,000,000	5,833,518,210	5,241,070,168	15,074,588,378	18,074,588,378
Net profit for the year ended June 30, 2008	-	-	-	8,297,170,964	8,297,170,964	8,297,170,964
Deficit on remeasurement of investments to fair value - net of tax	-	-	(965,647,807)	-	(965,647,807)	(965,647,807)
Interim specie distribution	-	-	-	(1,110,000,000)	(1,110,000,000)	(1,110,000,000)
Balance as at June 30, 2008	3,000,000,000	4,000,000,000	4,867,870,403	12,428,241,132	21,296,111,535	24,296,111,535

The annexed notes 1 to 35 form an integral part of these financial statements.

CHAIRMAN & C.E.O

DIRECTOR

1 STATUS AND NATURE OF BUSINESS

1.1 Arif Habib Securities Limited ("the Company") was incorporated in Pakistan on November 14, 1994 as a public limited company under the Companies Ordinance, 1984 and its shares are quoted on the Karachi, Lahore and Islamabad Stock Exchanges of Pakistan. The registered office of the Company is situated at 60-63, KSE Building, Karachi, Pakistan. The Company is domiciled in the province of Sindh. The principal activity of the Company is business of investments in listed and unlisted securities.

The initial entity rating of the Company rated by JCR-VIS credit rating company, is 'AA / A 1' (Double A / A-One) with a Stable outlook. During the period Company has surrendered its IFS license as a Non-Banking Finance Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 which was acquired on January 22, 2007 and now effective from 19 February 2008 the Company is no more a Non-Banking Finance Company.

1.2 The Company is the parent company of Arif Habib Bank Limited a commercial bank with 59.40% shareholding, Arif Habib Limited a brokerage house with 75% shareholding, Arif Habib Investment Management Limited an asset management company with 62.40% shareholding, Arif Habib DMCC a UAE incorporated member company of Dubai Gold & Commodities Exchange with 100% shareholding, S.K.M Lanka Holdings (Pvt.) Limited a Srilankan incorporated brokerage house at Colombo Stock Exchange with 75% shareholding, Pakistan Private Equity Management Limited a Venture Capital Company with 85% shareholding and Real Estate Modaraba Management Company Limited a real estate projects management company with 99.99% shareholding.

Additionally it has long term investments in Pakarab Fertilizers Limited with 30% shareholding, Aisha Steel Mills Limited with 25% shareholding, Al-Abbas Cement Industries Limited with 10% shareholding, Fatima Fertilizer Company Limited with 12.59% shareholding, Rozgar Microfinance Bank Limited with 19.01% shareholding, Takaful Pakistan Limited with 10% shareholding, Sweetwater Dairies Pakistan (Pvt.) Limited with 16.49% shareholding and Sunbiz (Pvt.) Limited with 4.65% shareholding.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Statement of compliance

These 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 Standard Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 New accounting standards, amendments and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1 July 2008 are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in the certain cases:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.

- Revised IAS 23 - Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). Amendments relating to mandatory capitalization of borrowing costs relating to qualifying assets.

- IAS 29 - Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 July 2008).

- IAS 32 (amendment) - Financial Instruments: Presentation and consequential amendment to IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). IAS 32 amended classification of Puttable Financial Instruments.

- IFRS 2 (amendment) - Share-based payments (effective for annual periods beginning on or after 1 January 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.

- IFRS 3 (amendment) - Business Combinations and consequential amendments to IAS 27-Consolidated and separate financial statements. IAS 28-Investment in associates and IAS 31-Interest in Joint Ventures (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009)

- IFRS 7 - Financial instruments: Disclosures (effective for annual periods beginning on or after 1 July 2008). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.

- IFRS 8 - Operating segments (effective for annual periods beginning on or after 1 January 2009).

- IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).

- IFRIC 14 - The limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 1 January 2008).

- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009).

- IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

2.3 Basis of measurement

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below and for certain investments which are measured at their fair values (refer note 12 and 17).

2.4 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements of the Company are presented in Pak Rupees, which is the Company's functional and presentation currency. Figures are rounded off to the nearest rupee.

2.5 Use of 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 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 recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in respective policy notes.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

3.1 Staff retirement benefits

Defined contributory plan

The Company operates a recognized provident fund for all its eligible permanent employees for which the Company's contributions are charged to profit and loss account. Equal monthly contributions at the rate of 12.50% of basic salary are made both by the Company and the employees.

3.2 Taxation

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax rebates, tax credits and exemptions available, if any.

Deferred

Deferred tax is calculated using the balance sheet liability method in respect of all taxable temporary differences at the balance sheet date, between the tax base of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that the deductible temporary differences will reverse in the future and sufficient taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or subsequently enacted at the balance sheet date.

3.3 Property and equipment and capital work in progress

Property and equipment are stated at cost less accumulated depreciation except capital work in progress, which is stated at cost. Cost comprises acquisition and other directly attributable costs.

Depreciation is provided by applying reducing balance method and charged on quarterly basis to profit and loss account to write off the depreciable amount of each asset over its estimated useful life at the rates specified in note 11. Further, where written down value of a fixed asset falls below Rs.10,000 or any addition is made upto Rs.10,000, the same is charged directly to Profit & Loss Account.

Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Normal repairs and maintenance are charged to profit and loss account as and when incurred. Gains and losses on disposal of fixed assets, if any, are included in profit and loss account currently.

The Company reviews the useful lives and residual value of property and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge.

3.4 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognized as expense in the profit and loss account except on certain investment as referred to in note 3.5.1 and 3.5.3.

3.5 Investments

The management determines the appropriate classification of its investments in accordance with the requirements of International Accounting Standard 39; 'Financial Instruments: Recognition and Measurement', International Accounting Standard 27; 'Consolidated & Separate Financial Statements' and International Accounting Standard 28; 'Investments in Associates' at the time of purchase and re-evaluates this classification on a regular basis. Investments are categorized as follows:

3.5.1 Investments in subsidiaries and associates

The Company considers its subsidiary company to be such enterprise in which the Company have control and/or ownership of more than half or fifty percent, of the voting power. The Company considers its associate to be such in which the Company have ownership of not less than twenty percent but not more than fifty percent, of the voting power and/or has significant influence through shared directorship, but not control.

Investments in subsidiaries and associates are accounted for inaccordance with International Accounting Standard 39; 'Financial Instruments: Recognition and Measurement'. Accordingly, investments initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with investment. After initial recognition, investments are remeasured at fair value prevailing on the balance sheet date. Where active market of the quoted investment exists, fair value is determined through Karachi Stock Exchange daily quotation and where active market of unquoted investments does not exists, fair value is determined by using valuation techniques. These estimates are subjective in nature and involve some uncertainties and matters of judgment (e.g. valuation, interest rate etc.) and therefore, cannot be determined with precision. The investments in equity instruments that do not have a market/quoted price in an active market and whose fair value cannot be reliably measured are measured at cost.

The resultant effect of such remeasurement to fair value is taken to equity in case of a subsidiary and through profit and loss account in case of an associated company.

3.5.2 Investments at fair value through profit or loss

Investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking, are classified as investments at fair value through profit or loss and designated as such upon initial recognition. These are stated at fair values with any resulting gains or losses recognized in the profit and loss account. The fair value of such investments representing listed securities are determined on the basis of prevailing market prices at the Karachi Stock Exchange and on market based redemption/repurchase prices, whichever is applicable, in case of other securities.

3.5.3 Investments available for sale

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair values. Realized and unrealized gains or losses arising from changes in fair values are directly taken to equity until disposal at which time these are recycled to profit and loss account.

Management determine fair value of quoted investments by using quotations from active market of Karachi Stock Exchange and conditions and information about the financial instruments. The investments for which a quoted market price is not available, are measured at cost, unless fair value cannot be reliably measured. These estimates are subjective in nature and involve some uncertainties and matters of judgement (e.g. valuation, interest rate etc.) and therefore, cannot be determined with precision.

3.6 Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, that is the date on which the company commits to purchase / sell an asset. Regular way purchases or sales of financial assets are the contract for which requires delivery of assets within the time frame generally established by regulation or convention in the market.

3.7 Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount/cost less an allowance for any uncollectible amounts. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

3.8 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

3.9 Sale and repurchase agreements

Securities purchased under agreements to resell ('reverse repose') are shown as receivable against continuous funding system. Securities sold subject to a linked repurchase agreement ('repose') are retained in the financial statements as trading or investment securities and the counter party liability is included in borrowings under repurchase agreements. The difference between sale and repurchase price is treated as income/expense from continuous funding system.

3.10 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made the amount of obligation.

3.11 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value and amortized cost respectively. The company derecognises the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments. Financial instruments carried on the balance sheet include investments, trade & other receivables, cash and bank balances, deposits, borrowings, trade & other payables, accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

3.12 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to offset the recognized amounts and the Company intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

3.13 Foreign currencies

Transactions in foreign currency are accounted for at the exchange rates prevailing on the date of transactions. All monetary assets and liabilities denominated in foreign currencies at the year end are translated at exchange rates prevailing at the balance sheet date.

3.14 Borrowing costs

Borrowing cost incurred on short term borrowings is recognized as an expense in the period in which this is incurred.

3.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, cash with banks on current, saving and deposit accounts, short term running finance and other short term highly liquid investments that readily convertible to known amounts of cash and which are subject to insignificant risk of change in value i.e. investments at fair value through profit or loss and receivables against sale of securities.

3.16 Dividend and reserve appropriation

Dividend is recognized as a liability in the period in which it is declared.

3.17 Related party transactions

The Company account for all transactions at arm's length prices using Comparable Uncontrolled Price Method.

3.18 Revenue recognition

(i) Profit / (loss) on sale of securities

Profit or loss on sale of securities are recorded on the date of transaction and included in the profit and loss account in the period in which they arise.

(ii) Dividend / Return on securities

Dividend income is recognized when the right to receive payment is established. Whereas, return on securities other than shares is recognized on accrual basis.

(iii) Underwriting commission

Underwriting commission is recognized when the agreement is executed.

(iv) **Interest / Mark-up income**

Mark-up income is recognized on a time proportion basis by reference to the principal outstanding that takes into account the effective yield.

(v) **Income on Continuing Funding System (CFS)**

Income on CFS is recognized on time proportion basis by reference to the principal outstanding that takes into account the effective yield.

(vi) **Surplus / (deficit) on remeasurement of investments**

Surplus / (deficit) on remeausrement of investments at balance sheet date arising from marking to market of investments classified as 'financial assets at fair value through profit or loss and investments in associates' are included in profit and loss account in the period in which they arise.

4 SHARE CAPITAL

Numbers 2008	Numbers 2007		(Rupees) 2008	(Rupees) 2007
300,000,000	300,000,000	Ordinary shares of Rs.10/- each	**3,000,000,000**	3,000,000,000

Issued , Subscribed and Paid up Capital

Numbers 2008	Numbers 2007		(Rupees) 2008	(Rupees) 2007
5,000,000	5,000,000	Ordinary shares of Rs. 10/- each issued for consideration paid in cash	**50,000,000**	50,000,000
297,000,000	297,000,000	Ordinary shares of Rs.10/- each issued as fully paid bonus shares	**2,970,000,000**	2,970,000,000
			3,020,000,000	3,020,000,000
(2,000,000)	(2,000,000)	Ordinary shares of Rs.10/- each buy-backed at Rs.360/- per share 4.1	**(20,000,000)**	(20,000,000)
300,000,000	300,000,000		**3,000,000,000**	3,000,000,000

4.1 During financial year 2005-2006, the company acquired two million shares of Rs.10/- each from its shareholders through tender notice at a price of Rs.360/- per share pursuant to section 95-A of the Companies Ordinance, 1984 and Companies (Buy-back of shares) Rules, 1999. The acquisition resulted in reduction in capital by Rs.20 million and in unappropriated profit by Rs.700 million in the relevant year.

(Rupees)

		Note	2008	2007
5	**REVENUE RESERVES**			
	General reserve		**4,000,000,000**	4,000,000,000
	Surplus/(deficit) on remeasurement of following investments to fair value - net of tax:			
	- investment in subsidiaries		**4,919,838,403**	5,824,238,210
	- investment in non-associated available for sale		**(51,968,000)**	9,280,000
			4,867,870,403	5,833,518,210
	Unappropriated profit		**12,428,241,132**	5,241,070,168
			21,296,111,535	15,074,588,378

6 DEFERRED TAXATION

The balance of deferred tax is in respect of the following major temporary differences:

	Note	2008	2007
- Remeasurement at fair value of investments in subsidiaries		**606,059,899**	1,011,110,210
- Remeasurement at fair value of investments in associates		**2,310,175,660**	822,683,906
		2,916,235,559	1,833,794,116

The aggregate amount of deferred tax directly credited to the equity amounting to Rs.275.676 million (2007:Rs.703.563 million) and routed through profit and loss account amounting to Rs.1,487.491 million (2007:Rs.234.064 million). The aggregate amount of deferred tax reversed due to listing of subsidiary company amounting to Rs.680.726 million (2007:Rs.143.620 million).

7 TRADE AND OTHER PAYABLES

	Note	2008	2007
Creditors	7.1	**159,527**	10,000,000
Payable against securities transactions		**-**	101,580,601
Accrued liabilities		**3,622,730**	10,063,618
Other liabilities		**310,488**	694,942
		4,092,745	122,339,161

7.1 Maximum balance due to related parties with reference to month end balance was Rs.90.170 million (2007:Rs.1,539.224 million).

8 SHORT TERM BORROWINGS - SECURED

	Note	2008	2007
From banking companies other than related parties			
- Short term running finance	8.1	**1,541,696,789**	-
From banking companies - related parties			
- Short term running finance	8.2	**-**	-
		1,541,696,789	-

8.1 Short term running finance facilities are available from various commercial banks under mark-up arrangements amounting to Rs.4,800.00 million (2007: Rs.5,150.00 million) which represents the aggregate of sale prices of all mark-up agreements between the Company and the banks. These facilities have various maturity dates upto July 31, 2009. These arrangements are secured against pledge of marketable securities with 30% margin (2007:30% margin). The rates of mark-up range from one month KIBOR+1% to 2.50% per annum to 6 months' KIBOR+2% per annum (2007: one month KIBOR+1% to 2.50% per annum to 6 months' KIBOR+2% per annum) calculated on a daily product basis payable quarterly. The carrying amount of securities pledged as collateral for outstanding liability is Rs.2,206.00 million (2007:Nil). The aggregate amount of these facilities which have not availed of at the date of the balance sheet is amounting to Rs.3,258.303 million (2007: Rs.5,150.00 million).

8.2 Short term running finance facility is available from subsidiary banking company Arif Habib Bank Limited under mark-up arrangement amounting to Rs.1,200.00 million (2007: Nil) which represents the aggregate of sale price of mark-up agreement between the Company and the bank. This facility have maturity date upto July 31, 2009. This arrangement is secured against pledge of marketable securities with 30% margin. The rate of mark-up is one month KIBOR+1% per annum calculated on a daily product basis payable quarterly. The amount of this facility which have not availed of at the date of the balance sheet is amounting to Rs.1,200.00 million (2007: Nil).

9 PROVISION FOR TAXATION - INCOME TAX

(Rupees)

	Note	2008	2007
Opening balance		18,122,191	22,112,500
Provided during the year		55,913,298	18,481,205
Adjusted during the year		(22,895,069)	(22,471,514)
Closing balance		51,140,420	18,122,191

The income tax assessments of the company have been finalized upto and including the tax year 2007.

10 CONTINGENCIES

The Company is contesting alongwith other defendants, four suits filed by M/s. Diamond Industries Limited and Mr. Iftikhar Shafi (The Plaintiffs), in the year 2002-2003 and by M/s. Shafi Chemicals Industries Limited and Mr. Nisar Elahi (The Plaintiffs), for damages jointly against Mr. Saleem Chamdia, Mr.Arif Habib, Mr.Aqil Karim Dedhi, Mr. A. Ghaffar Usman Moosani, Mr. Shahid Ghaffar, the Karachi Stock Exchange (Guarantee) Limited (KSE), the Securities and Exchange Commission of Pakistan (SECP), the Central Depository Company of Pakistan (CDC), M/s.Saleem Chamdia Securities (Private) Limited, M/s.Arif Habib Securities Limited, M/s.Moosani Securities Limited and M/s.Aqeel Karim Dedhi Securities Limited.

The suits are for recovery of damages amounting to Rs.10,989,948,199/-, Rs.5,606,611,760/-, Rs.1,701,035,843/- and Rs.428,440,971/- respectively against the decision of the Karachi Stock Exchange in respect of Risk Management System of its Clearing House during the year 2000. The Chairman and Chief Executive of the Company was the Chairman of the Board of Directors of KSE for the year 2000, the Company has been made party to the suits by the plaintiff. All the suits at present are pending before the honorable Sindh High Court, Karachi. While individual liability of respective individuals and undertakings is not quantifiable.

The legal advisor of the Company is of the opinion that there are reasonable grounds for a favorable decision and that the suits are likely to be dismissed as these are not based on factual or legal basis and no financial liability is expected to accrue as a consequence of the said suits against the Company. The Company has hence not made any provision in this respect in these financial statements.

COMMITMENTS

There were no significant commitments at the balance sheet date (2007:Rs.Nil)

11 PROPERTY AND EQUIPMENT

	Vehicles	Office equipments	Computer & allied	Capital work in progress (note 11.3)	Total
COST					
Balance as at July 01, 2006	7,640,340	316,375	4,761,205	-	12,717,920
Additions during the year	-	-	283,201	-	283,201
Transfers / adjustments	(1,335,000)	-	(2,461,811)	-	(3,796,811)
Balance as at June 30, 2007	6,305,340	316,375	2,582,595	-	9,204,310
Balance as at July 01, 2007	**6,305,340**	**316,375**	**2,582,595**	**-**	**9,204,310**
Additions during the year	-	-	107,825	24,000,000	24,107,825
Transfers / adjustments	-	-	(309,950)	-	(309,950)
Balance as at June 30, 2008	**6,305,340**	**316,375**	**2,380,470**	**24,000,000**	**33,002,185**
DEPRECIATION					
Balance as at July 01, 2006	1,524,437	84,121	2,093,704	-	3,702,262
Charge for the year	922,146	32,928	496,957	-	1,452,031
Transfers / adjustments	(190,404)	-	(1,159,379)	-	(1,349,783)
Balance as at June 30, 2007	2,256,179	117,049	1,431,282	-	3,804,510
Balance as at July 01, 2007	**2,256,179**	**117,049**	**1,431,282**	**-**	**3,804,510**
Charge for the year	751,094	28,259	430,040	-	1,209,393
Transfers / adjustments	-	-	(309,950)	-	(309,950)
Balance as at June 30, 2008	**3,007,273**	**145,308**	**1,551,372**	**-**	**4,703,953**
Written down value as at June 30, 2007	4,049,161	199,326	1,151,313	-	5,399,800
Written down value as at June 30, 2008	**3,298,067**	**171,067**	**829,098**	**24,000,000**	**28,298,232**
Rate of depreciation in %	20	15	33	-	0

11.1 Computer and allied equipments having aggregate cost of Rs.0.310 million (2007:Nil), accumulated depreciation of Rs.0.243 million (2007:Nil) and written down value of Rs.0.067 million (2007:Nil) have been fully charged to profit and loss account due to falls of their written down value below Rs.10,000 as per Company's accounting policy (refer note 3.3).

11.2 Computer & allied equipments and vehicle having aggregate cost of Rs.Nil and Rs.Nil respectively (2007:Rs.2.235 million and Rs.1.335 million respectively) and written down value of Rs.Nil and Rs.Nil respectively (2007:Rs.1.305 million and Rs.1.145 million respectively) have been transferred at the book value being their fair value to subsidiary company AHL.

11.3 CAPITAL WORK IN PROGRESS

(Rupees)

	Note	2008	2007
Civil works	11.2.1	**24,000,000**	-

11.2.1 This represents civil works carried out at the allocated portion of Company's office in the Arif Habib Centre. It is expected that the building shall be completed by December 31, 2008.

(Rupees)

		Note	2008	2007
12	**LONG TERM INVESTMENTS**			
	Investments in related parties:			
	Investments in subsidiaries	12.1	12,013,985,429	9,729,184,738
	Investments in associates	12.2	10,612,750,570	4,477,376,000
			22,626,735,999	14,206,560,738
	Other investments:			
	Investments available for sale	12.3	251,032,000	302,280,000
			22,877,767,999	14,508,840,738
12.1	**Investments in subsidiaries**			
	Arif Habib Bank Ltd. (AHBL) - at fair value	12.1.1	5,127,462,131	5,346,680,840
	Arif Habib Ltd. (AHL) - at fair value	12.1.2	4,445,820,000	3,058,500,000
	Arif Habib Investments Management Ltd. (AHIML) - at fair value	12.1.3	2,340,000,625	1,289,808,000
	Arif Habib DMCC (AHD) - at cost	12.1.4	33,847,941	29,945,898
	Pakistan Private Equity Management Ltd. (PPEML) - at cost	12.1.5	17,000,000	4,250,000
	SKM Lanka Holdings (Pvt.) Ltd. (SKML) - at cost	12.1.6	47,354,782	-
	Real Estate Modaraba Management Company Ltd. (REMCO) - at cost	12.1.17	2,499,950	-
			12,013,985,429	9,729,184,738
12.2	**Investments in associates**			
	Pakarab Fertilizers Ltd. (PFL) - at fair value	12.2.1	9,000,000,000	4,458,366,000
	Fatima Fertilizer Company Ltd. (FFCL) - at fair value	12.2.2	1,125,000,000	-
	Aisha Steel Mills Ltd. (ASML) - at cost	12.2.3	448,000,570	-
	Sweetwater Dairies Pakistan (Pvt.) Ltd. (SDPL)- at cost	12.2.4	20,740,000	-
	Rozgar Microfinance Bank Ltd. (RMBL) - at cost	12.2.5	19,010,000	19,010,000
			10,612,750,570	4,477,376,000
12.3	**Investments available for sale**			
	Al-Abbas Cement Industries Ltd. (AACIL) - at fair value	12.3.1	220,032,000	281,280,000
	Takaful Pakistan Ltd. (TPL) - at cost	12.3.2	30,000,000	20,000,000
	Sun Biz (Pvt.) Ltd. (SBL) - at cost	12.3.3	1,000,000	1,000,000
			251,032,000	302,280,000

12.1.1 Investment in subsidiary (quoted) represents 267,334,042 (2007:267,334,042) fully paid ordinary shares of Rs.10 each representing 59.40% (2007:89.11%) of AHBL share capital as at 30 June 2008, having cost of Rs.3,684.508 million (2007:Rs.2,753.440 million). Fair (market) value per share as at 30 June 2008 was Rs.19.18 per share (2007:Fair value Rs.20 per share), whereas book value based on net assets as per reviewed financial statements as at 30 June 2008 was Rs.14.338 per share (2007:Rs.6.946 per share). During the year Company subscribed 149,748,500 right shares of Rs.2,994.965 million. Out of it 30 million shares have been distributed to the shareholders being specie distribution. During the year the regulators approved the listing of the subsidiary through offer for sale to the general public by its existing shareholders. Accordingly, the Company has offered 119,748,500 shares to the public.

12.1.2 Investment in subsidiary (quoted) represents 18 million (2007:15 million) fully paid ordinary shares of Rs.10 each representing 75% (2007:75%) of AHL share capital as at 30 June 2008, having cost of Rs.2,671.676 million (2007:Rs.75.00 million). Fair (market) value per share as at 30 June 2008 was Rs.246.98 per share (2007:Rs.203.90 per share), whereas book value based on net assets as per audited financial statements as at 30 June 2008 was Rs.43.913 per share (2007:Rs.24.894 per share). During the year Company subscribed 1.500 million right shares of Rs.150.00 million and received 1.500 million fully paid ordinary shares as bonus. During the year Company derecognised (in its absolute form) and then recognised as initial 11,260,000 shares and 14,260,000 shares respectively having cost of Rs.659.875 million and Rs.3,256.551 million respectively.

12.1.3 Investment in subsidiary (unquoted) represents 18,720,005 (2007:8,112,000) fully paid ordinary shares of Rs.10 each representing 62.40% (2007:62.40%) of AHIML share capital as at 30 June 2008, having cost of Rs.31.200 million (2007:Rs.31.200 million). Fair value per share as at 30 June 2008 was Rs.125 per share (2007:Rs42.994 per share), whereas book value based on net assets as per audited financial statements as at 30 June 2008 was Rs.23.616 per share (2007:Rs.23.283 per share). During the year Company received 10,608,005 fully paid ordinary shares as bonus.

12.1.4 Investment in subsidiary (unquoted) represents 1,300 (2007:1,300) fully paid ordinary shares of Rs.18,649 each (eqivalent UAE Dirham 1,000 each) representing 100% (2007:100%) of AHD share capital as at 30 June 2008. Book value based on net assets as per reviewed financial statements as at 30 June 2008 was Rs.27,413 per share (2007:Rs.20,053 per share).The equivalent amount of investment of foreign currency amounted to UAE Dirhams 1.815 million (2007:UAE Dirhams 1.815 million). The subsidiary is expected to start its commercial operations at the Dubai Gold and Commodities Exchange within next twelve months besides consultancy which have already been started.

12.1.5 Investment in subsidiary (unquoted) represents 1.700 million (2007:0.425 million) fully paid ordinary shares of Rs.10 each representing 85% (2007:85%) of PPEML share capital as at 30 June 2008. Book value based on net assets as per audited financial statements as at 30 June 2008 was Rs.4.043 per share (2007:Rs.(1.765) per share). During the year Company subscribed 1.275 million right shares of Rs.12.750 million.

12.1.6 Investment in subsidiary (unquoted) represents 7.50 million fully paid ordinary shares of Rs.6.314 each (eqivalent US$ 0.092 each) representing 75% of SKML share capital as at 30 June 2008. Book value based on net assets as per audited financial statements as at 30 June 2008 was Rs.14.871 per share. The equivalent amount of investment of foreign currency amounted to US$ 0.691 million. The subsidiary is expected to start its commercial operations at the Colombo Stock Exchange within next twelve months besides consultancy which have already been started.

12.1.17 Investment in subsidiary (unquoted) represents 249,995 fully paid ordinary shares of Rs.10 each representing 99.99% of REMCO share capital as at 30 June 2008. Book value based on net assets as per audited financial statements as at 30 June 2008 was Rs.5.415 per share. The subsidiary is expected to start its commercial operations within next twelve months.

12.2.1 Investment in associate (unquoted) represents 90.00 million (2007:22,291,830) fully paid ordinary shares of Rs.10 each representing 30% (2007:30%) of PFL share capital as at 30 June 2008, having cost of Rs.1,324.332 million (2007:Rs.1,324.332 million). Fair value per share as at 30 June 2008 was Rs.100 per share (2007:Rs.49.537 per share), whereas book value based on net assets as per unaudited financial statements as at 30 June 2008 was Rs.32.310 per share (2007:Rs.28.773 per share). During the year Company received 67,708,170 fully paid ordinary shares as bonus.

12.2.2 Investment in associate (unquoted) represents 112.500 million fully paid ordinary shares of Rs.10 each representing 12.59% of FFCL share capital as at 30 June 2008, having cost of Rs.Nil. Fair value per share as at 30 June 2008 was Rs.10 per share, whereas book value based on net assets as per unaudited financial statements as at 30 June 2008 was Rs.12.304 per share. During the year Company received 112.500 million fully paid ordinary shares of FFCL being specie distribution from its parent company PFL.

12.2.3 Investment in associate (unquoted) represents 44.800 million fully paid ordinary shares of Rs.10 each representing 25% of ASML share capital as at 30 June 2008. Book value based on net assets as per unaudited financial statements as at 30 June 2008 was Rs.9.467 per share. It is expected that plant eraction shall be completed by the end of year 2009.

12.2.4 Investment in associate (unquoted) represents 0.274 million fully paid ordinary shares of Rs.100 each representing 16.49% of SDPL share capital as at 30 June 2008. Book value based on net assets as per unaudited financial statements as at 30 June 2008 was Rs.100 per share. Presently SDPL has completed its proof of concept phase and soon will starts milk production on commercial scale.

12.2.5 Investment in associate (unquoted) represents 1.901 million (2007:1.901 million) fully paid ordinary shares of Rs.10 each representing 19.01% (2007:19.01%) of RMFBL share capital as at 30 June 2008. Book value based on net assets as per unaudited financial statements as at 30 June 2008 was Rs.6.448 per share (2007:Rs.8.171 per share).

12.3.1 Investment in AACIL (quoted) represents 19.200 million (2007:19.200 million) fully paid ordinary shares of Rs.10 each representing 10% (2007:10%) of AACIL share capital as at 30 June 2008, having cost of Rs.220.032 million after impairment (2007:Rs.272.00 million). During the year impairment of Rs.51.968 million have been recognised in equity. Fair (market) value per share as at 30 June 2008 was Rs.11.46 per share (2007:Rs.14.65 per share), whereas book value based on net assets as per unaudited financial statements as at 30 June 2008 was Rs. 8.35 per share (2007:Rs. 8.91 per share as per audited financial statements).

12.3.2 Investment in TPL (unquoted) represents 3.00 million (2007:2.00 million) fully paid ordinary shares of Rs.10 each representing 10% (2007:10%) of TPL share capital as at 30 June 2008. Book value based on net assets as per unaudited financial statements as at 30 June 2008 was Rs.7.826 per share (2007:Rs.8.641 per share). During the year Company subscribed 1.00 million right shares of Rs.10.00 million. During the year Company's representative has resigned from the Board of Takaful Pakistan Limited. Consequently, TPL is no more an associated company of AHSL. Accordingly, Company has changed its classification from investments in associates to available for sale.

12.3.3 Investment in SBL (unquoted) represents 0.010 million (2007:0.010 million) fully paid ordinary shares of Rs.100 each representing 4.65% (2007:4.65%) of SBL share capital as at 30 June 2008.

12.4 Investments in above mentioned unquoted equity instruments are also measured at fair values except where specifically mentioned at cost, determined in accordance with guidelines prescribed by "IAS 39 Financial Instruments Recognition and measurement". The investments in other unquoted equity instruments that do not have a market/quoted price in an active market and whose fair value cannot be reliably measured due to non availability of market specific inputs and other related factors are measured at cost. However, the carrying amounts of these investments approximate their fair value. These all are Company's strategic investments and do not have any intention to dispose off in near future.

12.5 Valuation techniques and key assumptions used for the remeasurement of following unquoted investments at fair values are as under (if changing any such assumptions to a reasonably possible alternative, would not result in the significantly different fair values):

Name of Investment		Key assumptons used: Long term growth rate	Long term return on equity	Weighted average cost of capital	Projection period (years)	Valuation techniques	Other assumptions used
Pakarab Fertilizers Ltd.	**2008**	4.00%	20.00%	15.86%	8	DCF	Market based operational assumptions
	2007	5.00%	16.50%	13.73%	10	DCF	Market based operational assumptions
Arif Habib Bank Ltd.	**2008**	-	-	-	-	Daily published quotation of Karachi Stock Exchange	-
	2007	7.50%	16.50%	16.50%	5	DCF & Price to Book Value	Market based operational assumptions
Arif Habib Investment Management Ltd.	**2008**	-	-	-	-	Public offering rate approved by the Regulators for listing of company at the Karachi Stock Exchange	-
	2007	10.00%	15.00%	15.00%	5	DCF	Market based operational assumptions
Fatima Fertilizer Company Ltd.	**2008**	-	-	-	-	At face value due to free of cost being specie distribution from PFL	-
	2007	-	-	-	-	-	-

(Rupees)

	Note	**2008**	2007
13 LONG TERM DEPOSITS			
Deposit with Central Depository Company of Pakistan Limited		**4,090**	12,500
Deposits with cellular phone companies		**40,500**	40,500
		44,590	53,000
14 TRADE DEBTS			
Considered good - unsecured		**3,510,575**	48,510,575
Considered doubtful - unsecured		**12,930,524**	12,954,524
	14.1	**16,441,099**	61,465,099
Provision for doubtful debts			
- Opening balance		**(12,954,523)**	(10,252,797)
- Provided		**-**	(6,771,900)
- Reversal upon receipt		**24,000**	4,070,174
- Closing balance	14.1	**(12,930,523)**	(12,954,523)
		3,510,576	48,510,576

14.1 This includes Rs.Nil (2007:Nil) due from directors, chief executive, and executives of the Company and any of them severally or jointly with any other person and/or any other related parties.

14.2 Maximum balance due from related parties with reference to month end balance was Rs.1,145.167 million (2007: Rs.34.511 million).

15 LOANS AND ADVANCES

(Rupees)

	Note	2008	2007
Loans and advances, considered good, to:			
Staff - non executive		-	16,169
Related party			
- Memon Health and Education Foundation	15.1	15,000,000	-
		15,000,000	16,169

15.1 This represents payment made for issuance of zero rated term finance certificates to Memon Health and Education Foundation a Non-Profit Organization. The issuance formalities of term finance certificates and other terms and conditions to be finalized. The CEO of the Company is one of the trustees of the Foundation.

16 OTHER RECEIVABLES

	Note	2008	2007
Considered good:			
Accrued dividend income		5,183,190	22,931,675
Profit accrued on bank deposit accounts		-	249,932
From related parties			
- Profit accrued on bank deposit account	16.1	7,551,751	-
- Receivable from PPEML	16.2	10,523,665	8,493,341
Other		1,300,000	450,000
		24,558,606	32,124,948

16.1 This represents quarterly profit credited subsequent to balance sheet date by Arif Habib Bank Limited (AHBL) on deposit account for the last quarter ended June 30, 2008.

16.2 This includes Rs.1.273 million (2007:Nil) mark-up accrued at the rate of twelve and half percent per annum on the outstanding balance effective from 1 July 2007, which had been given for meeting expenses to the newly incorporated subsidiary Pakistan Private Equity Management Limited (PPEML). The subsidiary has became operational and it is expected that amount shall be recovered within next twelve months. Mark-up have been charged in compliance of Section 208 (amended by finance bill 2007) of the Companies Ordinance, 1984. Previously (before amendment), it was not applicable on the Company under its Sub-section (4)(d).

16.3 Maximum balance due from related parties with reference to month end balance was Rs.18.275 million (2007:Rs.8.493 million).

(Rupees)

	Note	2008	2007
17 SHORT TERM INVESTMENTS			
Other investments			
Investments at fair value through profit or loss			
Investments in quoted equity securities		5,095,491,709	4,442,060,777
Investments in open-ended mutual funds		36,690,801	58,154,676
Investments in closed-end mutual funds		594,076,528	582,179,017
Investments in quoted term finance certificates		48,065,118	52,465,212
	17.2	5,774,324,156	5,134,859,682

17.1 Fair value of these investments are determined using market price and redemption / repurchase price, whichever is applicable. The quoted equity securities includes investments pledged with banking companies having an aggregate value of Rs.2,206.00 million (2007:Nil).

17.2 Reconciliation of gain/(loss) on remeasurement of investments to fair value	Note	2008	2007
Cost of investments		5,605,619,573	4,136,147,304
Opening balance		998,712,378	356,697,313
Reversal / provided		(830,007,795)	642,015,065
Closing balance		168,704,583	998,712,378
		5,774,324,156	5,134,859,682
18 CASH AND BANK BALANCES			
With banks on:			
- Current accounts			
- Local currency		19,806,409	286,145,690
- Foreign currency		3,169,129	2,289,356
		22,975,538	288,435,046
- Deposit accounts in local currency	18.1	297,916	139,716
		23,273,454	288,574,762
Cash in hand		10,000	-
		23,283,454	288,574,762

18.1 At June 30, 2008 the rates of profit on deposit accounts range from 0.5% to 9% per annum (2007:0.5% to 6.50% per annum).

18.2 Maximum balance maintained with related party bank (AHBL) with reference to month end balance was Rs.993.364 million (2007: Rs.271.478 million).

(Rupees)

	Note	2008	2007
19 OPERATING REVENUE			
Consultancy/advisory fees & commission		**2,574,550**	1,660,637
Dividend income	19.1	**515,663,595**	353,396,712
Return on term finance certificates		**4,903,345**	5,537,050
Income from CFS		**360**	-
		523,141,850	360,594,399

19.1 This includes dividend received from subsidiary companies amounting to Rs.210.840 million (2007:Rs.50.00 million).

19.2 Revenues are not subject to trade or any other types of discounts (2007: Nil).

20 PROFIT ON SALE OF SECURITIES - NET

During the year Company realized capital gain on sale of securities amounting to Rs. 4,618.085 million (2007:Rs.2,163.783 million) which include amount Rs.2,119.919 million (2007:Rs.475.000 million) removed from equity and recognized in profit and loss account.

	Note	2008	2007
21 GAIN ON REMEASUREMENT OF INVESTMENTS-NET			
Gain on remeasurement of investments in associates	12.2.1 &12.2.2	**5,666,634,000**	891,673,200
(Loss)/Gain on remeasurement of investments to fair value through profit or loss	17.2	**(830,007,795)**	642,015,065
		4,836,626,205	1,533,688,265
22 OPERATING AND ADMINISTRATIVE EXPENSES			
Salaries and benefits	22.1	**4,220,454**	1,732,211
Printing and stationery	22.2	**4,231,429**	1,327,648
Communication		**673,207**	276,752
Rent, rates and taxes		**2,298,463**	50,861
Power		**53,500**	17,900
Legal and professional charges		**1,918,359**	1,200,978
C.D.C charges		**4,129,947**	2,919,594
Entertainment		**201,561**	126,559
Travel and conveyance		**2,501,807**	2,382,282
Depreciation	11	**1,209,393**	1,452,030
Repair and maintenance		**151,833**	443,760
Share transfer expenses		**40,000**	89,400
Insurance		**40,105**	254,430
Fees and subscription		**9,650,396**	18,622,285
Advertisement and business promotion		**5,782,880**	9,653,200
Meeting expenses		**480,000**	23,000
Commission and advisory fee	22.3	**42,986,458**	12,186,677
E.O.B.I. contribution		**15,778**	2,100
General expenses		**262,781**	290,513
		80,848,351	53,052,180

22.1 This includes Company's contribution to defined contribution provident fund plan amounting to Rs.0.054 million (2007:Rs.0.129 million).

22.2 This includes Rs.2.244 million paid for printing and publishing of Offer for Sale document being off error for Public Offering of shares of subsidiary, AHBL (2007:Rs.0.598 million paid for printing and publishing of Offer for Sale document being off error for Public Offering of shares of subsidiary, AHL).

22.3 This includes Rs. 35.486 million paid to underwriters, advisor and brokers being off error for Public Offering of shares of subsidiary, AHBL (2007: Rs.9.424 million paid to underwriters and brokers being off error for Public Offering of shares of subsidiary, AHL).

23 FINANCE COST

(Rupees)

	Note	2008	2007
Mark-up on short term borrowings			
- From non-related party banking companies		68,788,351	52,056,913
- From related party banking company (AHBL)	8.2	2,028,000	-
		70,816,351	52,056,913
Bank charges		595,710	2,335,010
		71,412,061	54,391,923

24 OTHER EXPENSES

	Note	2008	2007
Auditors' remuneration	24.1	527,500	325,000
Donations and corporate social responsibility	24.2	11,930,000	13,297,305
Loss on foreign currency translation		-	126,534
Provision for doubtful trade debts	14	-	6,771,900
		12,457,500	20,520,739

24.1 Auditors' remuneration

	Note	2008	2007
Audit fee		200,000	150,000
Certification including half yearly review reporting		287,500	150,000
Out of pocket		40,000	25,000
		527,500	325,000

24.2 None of the directors or their spouses had any interest in donees' fund except the CEO & Director Mr. Arif Habib has an interest being a trustee in one of the donees' institution, Fatmid Foundation situated at 393, Britto Road, Garden East, Karachi.

(Rupees)

		Note	2008	2007
25	**OTHER INCOME**			
	Income from financial assets:			
	Profit on bank deposit accounts		15,853	40,766
	Gain on foreign currency translation with banks		667,735	-
	Profit on investment in Pre-IPO of Mutual Funds		-	668,908
	Income from related parties (subsidiaries):			
	Profit on bank deposit account maintained with AHBL		17,399,879	-
	Gain on foreign currency translation on foreign equity investments		8,059,609	-
	Mark-up charged on outstanding receivable from PPEML		1,273,540	-
	Income from non-financial assets:			
	Reversal of doubtful trade debts		24,000	4,070,174
			27,440,616	4,779,848
26	**PROVISION FOR TAXATION**			
	Current year		51,140,420	18,122,191
	Prior year's		4,772,878	359,014
	Deferred		1,487,491,489	234,064,215
			1,543,404,787	252,545,420
26.1	**Reconciliation of tax charge for the year**			
	Profit before taxation		9,840,575,751	3,934,880,345
			%	%
	Applicable tax rate		35.00	35.00
	Add: Tax effect of amounts that are not deductible for tax purpose		-	0.18
	Less: Tax effect of amounts that are deductible for tax purpose		(14.48)	(20.34)
	Tax effect of amounts taxed at lower rates		(4.72)	(8.08)
	Tax effect of rebates and tax credit		(0.12)	(0.34)
	Average effective tax rate charged on income		15.68	6.42
27	**EARNINGS PER SHARE - BASIC AND DILUTED**			
	Net profit after taxation		8,297,170,964	3,682,334,925
			(Number of Shares)	
	Weighted average number of ordinary shares in issue during the year		300,000,000	300,000,000
			(Rupees)	
	Basic and diluted earnings per share		27.66	12.27

There is no dilutive effect on the basic earnings per share of the Company as the Company has no such commitments.

28 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

28.1 The Chief Executive Mr. Arif Habib who is also the majority shareholder of the Company, presently draws no remuneration for holding the office.

28.2 For the purpose of disclosure those employees are considered as executives whose basic salary exceeds five hundred thousand rupees in a financial year.

28.3 The aggregate amounts charged in these financial statements in respect of remuneration including benefits applicable to the directors and executives of the Company are given below:

	Directors		Executives	
	2008	2007	**2008**	2007
Managerial remuneration	-	-	1,603,124	-
Contribution to provident fund	-	-	46,876	-
Bonus	-	-	250,000	-
Total	-	-	1,900,000	-
Number of person(s)	-	-	1	-

28.4 The above were provided with medical facilities under insurance coverage; the executive was also provided with vehicle in accordance with the Company's policy.

In addition, 6 (2007: 2) directors were paid aggregate fee of Rs.0.480 million (2007: Rs.0.023 million).

(Rupees)

29 CASH GENERATED FROM OPERATIONS

	Note	2008	2007
Profit before taxation		9,840,575,751	3,934,880,345
Adjustments for:			
Depreciation		1,209,393	1,452,031
Dividend income		(515,663,595)	(353,396,712)
Interest income		(17,415,732)	(40,766)
Gain/(loss) on foreign currency translation		(8,727,344)	126,534
Provision for doubtful debts		-	6,771,900
Reversal of doubtful debts		(24,000)	(4,070,174)
Gain on speice distribution		(696,527,249)	-
Gain on remeasurement of investment in associates		(5,666,634,000)	(891,673,200)
Finance cost		71,412,061	54,391,923
		(6,832,370,466)	(1,186,438,464)
Operating profit before working capital changes		3,008,205,285	2,748,441,881
Effect on cash flows due to changes in working capital:			
(Increase) / decrease in current assets			
Trade debts		45,000,000	(14,327,799)
Loans and advances		(14,983,831)	612,755,622
Prepayments		6,982	195,954
Other receivables		7,566,342	(1,784,292)
Increase / (decrease) in current liabilities			
Trade and other payables		(118,246,416)	59,247,398
		(80,656,922)	656,086,883
Cash generated from operations		2,927,548,363	3,404,528,764

(Rupees)

30 CASH AND CASH EQUIVALENTS

	Note	2008	2007
Cash and bank balances		23,283,454	288,574,762
Investments - at fair value through profit or loss		5,774,324,156	5,134,859,682
Receivable against securities transactions		1,985,320	-
Short term borrowings		(1,541,696,789)	-
		4,257,896,141	5,423,434,444

31 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

31.1 Financial assets and liabilities

	Interest/mark-up bearing		Non-interest/mark-up bearing			
	Effective yield / Interest rates	Maturity upto one year	Maturity upto one year	Maturity after one year	Sub-total	2008 Total
Financial assets						
Investments						
- Local currency		-	5,774,324,156	22,796,565,276	28,570,889,432	28,570,889,432
- Foreign currency		-	-	81,202,723	81,202,723	81,202,723
Loans and advances		-	15,000,000	-	15,000,000	15,000,000
Trade debts		-	3,510,576	-	3,510,576	3,510,576
Deposits		-	-	44,590	44,590	44,590
Accrued income on investments, receivables and bank deposits		-	14,008,481	-	14,008,481	14,008,481
Receivable against securities transactions		-	1,985,320	-	1,985,320	1,985,320
Other receivables	12.50%	9,250,125	1,300,000	-	1,300,000	10,550,125
Cash and bank balances						
- Local currency	0.5% - 9%	297,916	19,816,409	-	19,816,409	20,114,325
- Foreign currency		-	3,169,129	-	3,169,129	3,169,129
		9,548,041	5,833,114,070	22,877,812,589	28,710,926,659	28,720,474,700
Financial liabilities						
Recognized						
Short term borrowings	11.25% to 14%	1,541,696,789	-	-	-	1,541,696,789
Trade and other payables		-	4,092,745	-	4,092,745	4,092,745
Interest and mark-up accrued		-	2,256,351	-	2,256,351	2,256,351
		1,541,696,789	6,349,096	-	6,349,096	1,548,045,885
On balance sheet gap - 2008		(1,532,148,748)	5,826,764,974	22,877,812,589	28,704,577,563	27,172,428,815

31.2 Financial assets and liabilities

	Interest/mark-up bearing		Non-interest/mark-up bearing			
	Effective yield / Interest rates	Maturity upto one year	Maturity upto one year	Maturity after one year	Sub-total	2007 Total
Financial assets						
Investments						
- Local currency		-	5,134,859,682	14,478,894,840	19,613,754,522	19,613,754,522
- Foreign currency		-	-	29,945,898	29,945,898	29,945,898
Loans and advances		-	16,169	-	16,169	16,169
Trade debts		-	48,510,576	-	48,510,576	48,510,576
Deposits		-	53,000	-	53,000	53,000
Accrued income on investments, receivables and bank deposits		-	23,181,607	-	23,181,607	23,181,607
Other receivables		-	8,943,341	-	8,943,341	8,943,341
Cash and bank balances		-				
- Local currency	0.5% - 6.5%	139,716	286,145,690	-	286,145,690	286,285,406
- Foreign currency		-	2,289,356	-	2,289,356	2,289,356
		139,716	5,503,999,421	14,508,840,738	20,012,840,159	20,012,979,875
Financial liabilities						
Recognized						
Trade and other payables		-	122,339,161	-	122,339,161	122,339,161
Interest and mark-up accrued		-	380,115	-	380,115	380,115
		-	122,719,276	-	122,719,276	122,719,276
On balance sheet gap - 2007		139,716	5,381,280,146	14,508,840,738	19,890,120,884	19,890,260,600

31.3 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: capital risk, credit risk, liquidity risk and market risk (including foreign exchange or currency risk, interest/mark-up rate risk and price risk). The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance. Overall, risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in following manner:

Risk management is carried out by the Executive Committee (the Committee) of the Board of Directors (the Board) under policies approved by the Board. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameteres of these policies.

a) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Additionally, to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

b) **Concentration of credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs. 28,720.475 million (2007: Rs. 20,012.980 million), the financial assets that are subject to credit risk amounted to Rs. 45.055 million (2007:Rs. 80.652 million). The Company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Company applies credit limits and deal with credit worthy parties and makes full provision against those balances considered doubtful of recovery besides obtaining securities and by dealing with variety of major banks and financial institutions.

c) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk. The Company's treasury aims at maintaining flexibility in funding by keeping regular committed credit lines.

On the balance sheet date Company has cash & bank balance and unutilized credit lines of Rs.23.284 million (2007:Rs.288.575 million) and Rs.4,458.303 million (Rs.5,150.00 million) respectively as sufficient available liquidity.

d) **Market Risk**

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange or currency risk, interest/mark-up rate risk and price risk. The market risks associated with the Company's business activities are discussed as under:

(i) **Foreign exchange risk management**

Financial assets and liabilities exposed to foreign exchange rate risk amounting to Rs.81.203 million (2007: Rs.29.946 million) and Rs.Nil (2007:Rs.Nil) respectively, at the year end.

Foreign currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. Currently, the Company's foreign exchange risk exposure is restricted to foreign currency long term equity investments and bank balances. As such the Company does not regularly deal or exposed to in foreign currency transactions except of equity investment opportunities as and when arive and maintainance of foreign currrency bank accounts which currently are denominated in US Dollar and UAE Dirham, the Company's expsoure emanating from any fluctuations in the Pak Rupee/US Dollar does not require to be hegded.

Sensitivity analysis

For the purpose of foreign exchange risk sensitvity analysis it is observed that in the second half of the financial year the local currency has been weakend against US$ and UAE Dirham by approximately 13.11% and 13.03% respectively. Subsequent to the balance sheet date and till the date of authorization of these financial statements a further decline of 8.90% and 9.92% respectively, have been observed. Since the above decline has already resulted in a gain on foreign currency translation of Rs. 8.060 million recognised during the year in profit and loss account, the Company is not significantly exposed to foreign currency risk as such there are no commitments or outstanding derivatives contracts in foreign currency at the reporting date.

The following table summarizes the financial assets as of June 30, 2008 and 2007 with foreign currency risk shows the estimated changes in values of the financial assets assuming changes in the underlying exchange rates applied immediatly and uniformly accross all currencies. The changes in value do not necessarily reflect the best or worst case scenarios and actual results may differ. Rupees are in millions.

	Fair value net assets	Estimated fair value assuming a hypothetical percentage increase (decrease) in the value of foreign currencies versus the Pak rupee					
	assets	-20%	-10%	-1%	1%	10%	20%
30 June 2008	**Rs. 81.203**	**64.723**	**72.813**	**80.094**	**81.713**	**88.994**	**97.084**
30 June 2007	Rs. 29.946	23.760	26.730	29.403	29.997	32.670	35.640

(ii) Interest / mark-up rate risk

Financial assets and liabilities include balances of Rs.9.548 million (2007:Rs.0.140 million) and Rs.1,542.697 million (2007:Nil) respectively, which are subject to interest rate risk. Applicable interest/mark-up rates for financial assets and liabilities have been indicated in respective notes.

Interest/ mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. Sensitivity to interest/mark-up rate risk arises from mismatches of financial assets and liabilities that mature or re-price in a given period. The Company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted. The short term borrowing arrangements has variable rate pricing that is dependent on the State Bank of Pakistan discount rate and the Karachi Inter Bank Offer Rate (KIBOR) as indicated in respective notes.

Sensitivity analysis

For the purpose of interest/mark-up rate risk sensitvity analysis it is observed that interest/mark-up rate in terms of KIBOR has substantially been increased during the year by approximately 2%. Subsequent to the balance sheet date and till the date of authorization of these financial statements a further increase of 1% has been observed.

The fair values of Company's interest/mark-up bearing other receivables and borrowings will fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those intruments.

The following table summarizes the estimated effects of hypothetical increases and decreases in interest rates on assets and liabilities that are subject to interest rate risk. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. The hypothetical changes in market rates do not reflect what could be deemed best or worst case scenarios. Variations in market interest rates could produce significant changes in the timing of repayments due to early repayments. For these reasons, actual results might differ from those reflected in the table. Rupees are in million.

		Estimated fair value after hypothetical change in interest rates (bp=basis points)			
June 30, 2008	Fair value	100 bp decrease	100 bp increase	200 bp increase	300 bp increase
Short term borrowings	Rs.1,542.697	Rs. 1,594.223	Rs. 1,489.659	Rs. 1,443.239	Rs. 1,399.936
Other receivables	Rs. 9.548	Rs. 9.87	Rs. 9.22	Rs. 8.932	Rs. 8.664
June 30, 2007	-	-	-	-	-

(iii) Price risk

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest/mark-up rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is exposed to equity price risk since there are investments in quoted securities valuing to Rs.17,907.639 million (2007: Rs.13,821.321 million) at the balance sheet date.

The Company's preferred strategy is to hold its strategic equity investments for very long periods of time. Thus, Company's management is not troubled by short-term equity price volatility with respect to its strategic investments provided that the underlying business, economic and management characteristics of the investee remain favorable. Company strives to maintain above average levels of shareholder capital to provide a margin of safety against short-term equity price volatility. The Company manages price risk by monitoring exposure on quoted securities and implementing the strict descipline in internal risk management and investment policies.

The carrying values of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the balance sheet dates. Market prices are subject to fluctuation and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

Sensitivity analysis

For the purpose of price risk sensitvity analysis it is observed that the benchmark KSE 100 Index has declined by 12.40% in the second half of the financial year. Subsequent to the balance sheet date and till the date of authorization of these financial statements a further decline of 11.68% in the KSE 100 Index has been observed.

The table which follows summarizes Company's equity price risk as of June 30, 2008 and 2007 and shows the effects of a hypothetical 30% increase and a 30% decrease in market prices as of those dates. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned concentrations existing in Company's equity investment portfolio. Rupees are in millions.

	Fair value	Hypothetical price change	Estimated fair value after hypothetical change in prices	Hypothetical percentage increase (decrease) in Shareholders' Equity
30 June 2008	**Rs. 17,907.639**	**30% increase**	**Rs. 23,279.931**	**22.122**
		30% decrease	**Rs. 12,535.347**	**(22.112)**
30 June 2007	Rs. 13,821.321	30% increase	Rs. 17,967.717	22.940
		30% decrease	Rs. 9,674.925	(22.940)

(iv) Other market risk

Management believes that unless a more sophesticated and comprehensive disclosure of sensitivity analysis has been given for each type of market risk to which the Company is exposed at the reporting date, the above mentioned sentivity analysis in absense of availability of a large economic data with high accuracy and the present effects of unprecedented country's political situation on economics, might remain unrepresentative to the financial statements readers for the risk inherent in the financial instruments.

31.4 Fair value of financial assets and liabilities

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

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

The carrying value of all the financial assets and liabilities reflected in the financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at each reporting date.

32 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of parties related to group companies (subsidiaries and associates), Directors and their close family members, major shareholders of the Company, key management personnel, and staff provident fund. Remuneration and benefits to executives of the Company are in accordance with the terms of the employment while contribution to the provident fund is in accordance with staff service rules. Transactions with related parties and balances outstanding at the year end are given below. Remuneration of Chief Executive, Directors and Executives is disclosed in note 28 to the financial statements.

(Rupees)

	Note	2008	2007
Transactions with subsidiaries			
- Services availed		26,403,000	19,574,595
- Mark-up charges on short term running finance facility		2,028,000	-
- Profit earned on bank deposit account		17,399,879	-
- Dividend income		210,840,000	50,000,000
- Subscription of right shares		3,157,715,000	2,753,340,500
- Initial/fresh equity investments		45,697,165	-
- Transfer of property and equipment		-	2,447,028
- Balance receivable at the year end - unsecured		10,523,665	8,493,341
- Balances receivable at the year end - secured		7,551,751	-
- Balance in current account maintained with bank at year end - secured		16,017,809	-
- Balance in deposit account maintained with bank at year end - secured		838	-
Transactions with associates			
- Initial/fresh equity investments		448,000,570	-
- Payment for capital work in progress		24,000,000	-
Transactions with other related parties			
- Payment to employees' provident fund		53,906	128,935
- Purchase of shares from related party		773,998,820	-
- Sale of shares from related party		762,874,970	-
- Payment to non-profit organization in which CEO of the Company is one of the Trustees:			
Memon Health & Education Foundation		15,000,000	-
Fatmid Foundation		40,000	12,305

33 NON-ADJUSTING POST BALANCE SHEET EVENTS

Financial statements for the year ended June 30, 2008 do not include the effect of the following post balance sheet events which will be accounted for in the financial statements for the year ending June 30, 2009.

33.1 The Board of Directors of AHSL in their meeting held on 30 July 2008 have proposed a final cash dividend @ 15% i.e. Rs.1.5 per ordinary share amounting to a total dividend of Rs.450 million and 25% bonus i.e. 1 fully paid ordinary shares of Rs.10 each for every 4 ordinary shares for the year ended 30 June 2008 for approval of the Members at the Annual General Meeting to be held on 27 September 2008.

33.2 Subsequent to balance sheet date the regulators has given approval to the listing process of Company's subsidiary Arif Habib Investment Management Limited through Offer for Sale to the general public by the existing shareholders. Total 7.500 million ordinary shares of the subsidiary have been offered to the general public at the rate of Rs.125/- per share. Out of this Company has offered 1,080,032 ordinary shares which represent 14.4% of the total Offering or 5.77% of the Company's shareholding. The remaining shares were offered by the other shareholders. After above offering Company's shareholding will be reduced to 58.80% from 62.40%.

Consequently, a total receipt of Rs.135.004 million shall be received by the Company subsequent to date of authorization of these financial statements. The cost of those ordinary shares were Rs.1.67/- per share resulting in capital gain of Rs.123.33/- per share or Rs.133.204 million in total which would be recognized in Profit and Loss account. The proportionate amount of estimated expenses incurred for above offering is amounting to Rs. 5.591 million. In addition, upon getting the listed status of the referred subsidiary the deferred tax provision of Rs.606.060 million being provided on surplus on remeasurment in these financial statements till June 30, 2008 shall be reversed and included in surplus on remeasurement of investments.

34 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue on 30 July 2008 by the Board of Directors of the Company.

35 GENERAL

35.1 Corresponding figures (if any) have been re-arranged and/or re-classified, wherever necessary, for the purposes of compliance, comparison and better presentation. Major changes made during the year were as follows:

			Amount (Rupees)		
Re-classified from	Re-classified to	Note	From	To	Reason
4,000,000 Ordinary shares of Rs.10/- each issued at par fully paid in cash	5,000,000 Ordinary shares of Rs.10/- each issued for consideration paid in cash	4	40,000,000	50,000,000	Compliance with 4th Schedule
1,000,000 Ordinary shares of Rs.10/- each issued at premium of Rs.30/- per fully paid in cash		4	10,000,000	-	Compliance with 4th Schedule
			50,000,000	50,000,000	
Deferred tax liability: Credit balances arising in respect of	Deferred taxation The balance of deferred tax is in respect of the following major temporary differences	6	1,833,794,116	1,833,794,116	Better presentation
Accrued expenses	Accrued liabilities	7	10,063,618	10,063,618	Better presentation
Investments in associates: Takaful Pakistan Limited	Investments available for sale: Takaful Pakistan Limited	12.3.2	20,000,000	20,000,000	Compliance with 4th Schedule

Re-classified from	Re-classified to	Note	Amount (Rupees) From	Amount (Rupees) To	Reason
Other	Profit accrued on bank deposit accounts	16	-	249,932	Better presentation
Other			699,932	450,000	Better presentation
			699,932	699,932	
Cash and bank balances:					
Operating expenses	Operating and administrative expenses	22	(66,674,485)	(53,052,180)	Better presentation
CDC & Clearing house charges	CDC charges	22	2,919,594	2,919,594	Clearing house charges were pertained to the year ended June 30, 2006 only
Other expenses	Other expenses	24	(6,898,434)	(20,520,739)	Better presentation

35.2 Figures have been rounded off to the nearest rupee, unless otherwise stated.

CHAIRMAN & C.E.O

DIRECTOR