

ANNUAL REPORT 2005

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FUND'S INFORMATION

Management Company
Arif Habib Investment Management Limited
2 / I, R.Y. 16, Old Queens Road, Karachi-74000, Pakistan.

Board of Directors of the Management Company

Mr. Arif Habib	Chairman
Mr. John W. Kirkham	Vice Chairman
Mr. Nasim Beg	Chief Executive
Mr. Asadullah Khawaja	Director
Mr. Sirajuddin Cassim	Director
Mr. Salim Chamdia	Director
Mr. Mohammad Yousuf	Director
Mr. Samad A. Habib	Director

Company Secretary & CFO of the Management Company
Syed Ajaz Ahmed

Audit Committee

Mr. Sirajuddin Cassim	Chairman
Mr. Asadullah Khawaja	Member
Mr. Salim Chamdia	Member
Mr. Samad A. Habib	Member

Trustee

Central Depository Company of Pakistan Limited (CDC)
8th Floor, Stock Exchange Building,
Stock Exchange Road,
Karachi.

Bankers to the Fund

- Bank AL Habib Limited
- Standard Chartered Bank
- Union Bank Limited

Auditors

Taseer Hadi Khalid & Co.
Chartered Accountants
First Floor, Shiekh Sultan Trust Building No. 2,
Beaumont Road,
P.O. Box 8517, Karachi.

Legal Advisor

Kabraji & Talibuddin
64-A/1, Gulshan-e-Faisal,
Bath Island, Karachi-75530

Registrar

Gangjees Registrar Services (Pvt.) Limited
Room No. 516, 5th Floor, Clifton Centre,
Kehkashan Clifton, Karachi.

Distributors

- Arif Habib Investment Management Limited
- Arif Habib Securities Limited
- Bank AL Habib Limited
- Standard Chartered Bank
- Taurus Securities Limited
- Union Bank Limited

MISSION STATEMENT

Pakistan Income Fund's mission is to provide investors the facility to benefit from an investment portfolio of debt securities and money market transactions, which optimises return with an emphasis on minimising risk.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Directors of Arif Habib Investment Management Limited (AHIML), the Management Company of Pakistan Income Fund (PIF), present the Annual Report on the affairs of PIF along with the Audited Accounts, Report of the Trustee and Auditors' Report to the Unit Holders for the Financial Year ended 30 June 2005.

Financial Highlights

	Financial Year 2004-05	Financial Year 2003-04	Increase %
Net Income (Rupees in Million)	315.81	284.42	11.04
Net Assets (Rupees in Million)	3,706.55	3,400.53	9.00
NAV per Unit (Rupees)	54.85	50.03*	9.63

* Cum-NAV Rs. 54.53 less Rs. 4.5 bonus dividend = Rs.50.03

Income of the Fund

The net income for the financial year 2004-05 was Rs. 315.81 million which comprised mainly of income from Carry Over Transactions (COT) of Rs.260.78 million, income from holding and dealing in listed equity securities of Rs. 64.70 million and income from Term Finance Certificates (TFCs) of Rs.48.56 million earned during the year.

As explained in note 3.2 to the financial statements, the investment in government securities has been marked to market whereas the Non-Banking Finance Companies Rules (Establishment and Regulation) Rules 2003 (NBFC Rules) require the unlisted securities to be reported at cost. The valuation was done for avoiding distortion in calculation of NAV as the units are being offered for sale on continuous basis.

Further as explained in note 3.2 to the financial statements, the Term Finance Certificates are being valued at prices quoted on stock exchanges. The management feels that the prices quoted on stock exchanges are not representative to the actual prices prevailing in the market. Therefore to avoid gross misquotes, the valuation of some TFCs has been adjusted.

Investing Activities

During the year, the management team mainly focused on enhancing returns and improving asset quality of the Fund. The PIF has reduced its average investments in Carry Over Transactions to 53%, whereas due to phasing out of COT, PIF is aggressively investing in Term Finance Certificates where the exposure has increased to 1,109 million from 315 million. Investment in government securities & reverse repurchase transactions were 11% of the fund size with an average life of less than one year.

Fund's Performance

The fund has earned a total return of 9.63% during the period, where it has maintained an average duration of 9 months. There are few factors which materially affect PIF returns and the choice of asset classes to invest the funds.

Rising Interest Rate Scenario

Rising interest rate trend was witnessed since beginning of this financial year. The 6 month T-Bill yield inched up to 8% by the end of this year from a 2% level. Although the sky rocketing interest rates provided opportunities to reinvest the funds at attractive rates, but these also gave valuation knocks to the existing Fixed Income portfolio.

Other Asset Classes for PIF after COT phase out

Transition of equity financing mode of COT to the newly developed margin financing is apparently depriving fixed income mutual funds from their core asset class. PIF is steering its funds to TFCs and government securities which clearly have a high liquidity and credit quality.

Units in Issue

During the year, units worth Rs.3,645.67 million were issued and units with a value of Rs.3,635.64 million were redeemed. As on 30 June 2005, 67,575,442 units with a value of Rs.3,706.55 million were in issue reflecting an increase of 8.36% in number of units and 9% in their value as compared to 30 June 2004.

As on 30 June 2005, the NAV of the Fund was Rs.54.85 per unit, an increase of Rs.4.82 per unit compared with the ex-dividend NAV of Rs.50.03 per unit on 01 July 2004.

Income Distribution

The Management Company has declared a bonus of Rs.4.80 per unit for the year ended 30 June 2005. This was equivalent to 9.6 % of the par value of the units of Rs.50 each.

Corporate Governance

The Fund being listed on the Karachi Stock Exchange, the Management Company is committed to observe the Code of Corporate Governance prescribed for listed companies. The financial statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund. Proper books of account of the Fund have been maintained. Appropriate accounting policies have been consistently applied in preparation of financial statements and account estimates are based on reasonable and prudent judgment. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements. The system of internal control is sound in design and has been effectively implemented and monitored. There is no significant doubt upon the Fund's ability to continue as going concern. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations. Key financial data is summarized in note 22 of the financial statements. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company. The detailed pattern of unit holding, as required by the Code of Corporate Governance is enclosed.

Statement showing attendance of Board meetings of the Management Company is as under:

Attendance of Board Meetings
From 01 July 2004 to 30 June 2005

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr. Arif Habib	Chairman	7	7	-
2.	Mr. John W. Kirkham	Vice Chairman	7	2	5
3.	Mr. Nasim Beg	Chief Executive	7	7	-
4.	Mr. Asadullah Khawaja	Director	7	6	1
5.	Mr. Sirajuddin Cassim	Director	7	3	4
6.	Mr. Salim Chamdia	Director	3	3	-
7.	Mr. Mohammad Yousuf	Director	7	6	1
8.	Mr. Samad A. Habib	Director	7	6	1

In February 2005, election of the directors was held and the number of directors increased from seven to eight. All the previous directors were re-elected unopposed. In addition, Mr. Salim Chandia was newly appointed as a member of the board. The trades in the Units of the Fund carried out by the Directors, CEO, Company Secretary & CFO, and their spouses and minor children, of the Management Company are as under:

Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
SyedAjazAhmed	Company Secretary & CFO	56,024	60,166

Pattern of Holding

The pattern of unit holders presents a spirited blend of investors. The individuals held 31.55% units, 24.72% units held by retirement funds, 12.06% held by the financial Institutions, Listed Companies held 11.75% units, 11.12% held by other corporate sector entities and 8.80% held by non-profit organizations. Detailed pattern is also annexed.

Future Outlook

In anticipation of relatively low inflationary environment it's likely that overall interest rates will decline moderately. With Carry Over Transactions (COT) to be replaced with Margin Financing, the management has decided to replace this asset class with good quality Corporate bonds (TFCs) and short maturity Pakistan Investment Bonds (PIBs) / Treasury bills. This will significantly improve the credit quality of PIF's portfolio. In the current scenario, the Fund is expected to maintain its return in high single digit range.

Acknowledgement

The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan, the Trustees of the Fund and the managements of the Karachi, Lahore and Islamabad stock exchanges for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

For and on behalf of the Board

30 July 2005
Karachi

Nasim Beg
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS)
AS AT 30 JUNE 2005

	Units Held
Associated Companies	
Arif Habib Investment Management Limited	4,968
Arif Habib Securities Limited	7,374
Century Insurance Company Limited	85,546
Directors and CEO	
Chief Executive	
Mr. Nasim Beg	70
Public Limited Companies	7,938,746
Banks and Financial Institutions	8,054,112
Individuals	21,316,603
Retirement Funds	16,705,395
Other Corporate Sector entities	7,514,648
Non-Profit Organizations	5,947,980
TOTAL	67,575,442

REPORT OF THE TRUSTEE
PAKISTAN INCOME FUND (PIF)

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

Pakistan Income Fund, an open-end fund was established under a trust deed executed between Arif Habib Investment Management Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on October 23, 2001. The Scheme was authorized by the Securities and Exchange Commission of Pakistan on February 28, 2002.

In our opinion, Arif Habib Investment Management Limited, the Asset Management Company of Pakistan Income Fund has in all material respects except for the under mentioned notes managed Pakistan Income Fund during the year ended June 30, 2005 in accordance with the provisions of the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

For the purpose of information, the attention of the unit holders is being drawn towards point 'c' and 'd' of the Auditors' Report to the Unit Holders wherein they have specified valuation methods of certain investment which are in non-compliance of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Date : July 30, 2005
Karachi

Mohammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2005

This statement is being presented by the Board of Directors of Arif Habib Investment Management Limited (Company), the Management Company of the Pakistan Income Fund (Fund) to comply with the Code of Corporate Governance contained in Regulation No. 37, of listing regulations of Karachi Stock Exchange for the purpose of establishing a 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 encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes seven non-executive directors, and one director representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy has occurred in the Board during the year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the board of directors and employees of the company.
6. The Board has developed mission statement and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board. There is no other executive director of the company besides the Chief Executive Officer (CEO).
8. 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 meeting. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged an orientation course for its new director during the year to apprise him of his duties and responsibilities.
10. The roles and responsibilities of the Chairman and Chief Executive have been approved by the Board of Directors.
11. 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.
12. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.

13. The financial statements of the Fund were duly endorsed by CEO and CFO of the Company before approval of the Board.
14. The Company has complied with all the significant corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises four members, all of whom are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. There exists an effective internal audit function within the Company.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund 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.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

30 July 2005
Karachi

Arif Habib
Chairman

AUDITORS' REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE 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 Investment Management Limited, the Management Company of Pakistan Income Fund to comply with the Listing Regulation No.37 of the Karachi Stock Exchange where the Fund is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2005.

Dated : 30 July 2005
Karachi

Taseer Hadi Khalid & Co.
Chartered Accountants

AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the annexed Statement of Assets and Liabilities of Pakistan Income Fund as at 30 June 2005 and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds together with the notes forming part thereof (here-in-after referred to as the "financial statements"), 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 Management Company (Arif Habib Investment Management Limited) to establish and maintain a system of internal control and prepare and present the above said statements in conformity with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

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 management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides 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 Management Company in respect of Pakistan Income Fund as required by the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;
- b) in our opinion, the statement of assets and liabilities, income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds have been drawn up in conformity with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
- c) as more fully explained in note 3.2 to the financial statements, investments made by the Fund in government securities are marked to market using an average market rate (mid rate) calculated on the basis of quotation obtained from brokers. However, as per the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, securities which are not quoted on the stock exchange are required to be carried at cost. Had these securities not been revalued, the carrying value of the investments would have been lower by Rs. 2.11 million and the unit holders' funds would have been lower by the same amount. In addition, the Net Asset Value (NAV) of the Fund during the year was overstated / understated and consequently the number of units issued / redeemed during the year as well as the element of accrued income / (loss) and capital gains / (losses) included in the price of units issued less those in units redeemed recorded by the Fund were also incorrectly determined. These effects have not been quantified, as it was not practical to do so;
- d) as more fully explained in note 3.2 to the financial statements, the investment of the Fund in Term Finance Certificates (TFCs) was not marked to market on the basis of the rates quoted on the stock exchange as per the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Instead, the investment of the Fund in TFCs was valued on the basis of the rates obtained from stock exchange website which are adjusted for the purpose of marking to market the investment of the Fund in TFCs on the basis that the effect of partial redemption of the principal amount of these certificates has not been incorporated in these rates. Had the Term Finance Certificates been valued at last sale price quoted on the stock exchange, the carrying value of the investment and the net income for the year would have been higher by Rs. 35.71 million. In addition, as the Net Asset Value (NAV) of the Fund was not

determined strictly in accordance with NBFC Rules, it would have been different and consequently the number of units issued / redeemed as well as the element of accrued income / (loss) and capital gains / (losses) included in units issued less those in units redeemed recorded by the Fund were also affected. These effects have not been quantified, as it was not practical to do so;

- e) except for the effects of the matters stated in paragraph 'c' and 'd' above, in our opinion and to the best of our information and according to the explanations given to us, the statement of assets and liabilities, income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds, together with the notes forming part thereof, give the information required by the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rule, 2003 and approved accounting standards as applicable in Pakistan, in the manner so required and respectively give a true and fair view of the state of the Fund's affairs as at 30 June 2005 and of the transactions of the Fund for the year then ended.

The financial statements for the year ended 30 June 2004 were audited by another firm of Chartered accountants who vide their report dated 4 September 2004 issued qualified opinion thereon.

Date: 30 July 2005
Karachi

Taseer Hadi Khalid & Co.
Chartered Accountants

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2005**

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
Assets			
Bank balances	4	141,036	225,175
Receivable against sale of investments		20	20
Receivable against reverse repurchase transactions		295,666	-
Receivable against Carry Over Transactions		169,304	2,632,592
Investments	5	3,058,368	547,200
Profit receivable	6	29,381	15,318
Advances, deposits, prepayments and other receivables	7	41,946	21,715
Preliminary expenses and floatation costs	8	833	1,333
Total assets		3,736,554	3,443,353
Liabilities			
Payable against purchase of investments		823	822
Payable on redemption of units		16,662	22,631
Payable to Arif Habib Investment Management Limited - Management Company	9	5,096	5,912
Payable to Central Depository Company of Pakistan Limited - Trustee	10	451	753
Accrued expenses and other liabilities	11	6,970	12,707
Total liabilities		30,002	42,825
Contingencies and commitments	14		
Net assets		3,706,552	3,400,528
Unit holders' funds (as per statement attached)		3,706,552	3,400,528
Number of Units			
Number of units in issue before bonus units		67,575,442	62,359,966
Number of units in issue after bonus units		74,056,204	67,968,998
(Rupees)			
Net Asset Value per unit before bonus issue		54.85	54.53
Net Asset Value per unit after bonus issue		50.05	50.03

The annexed notes 1 to 24 form an integral part of these financial statements.

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 (Rupees in '000)	2004
Income			
Income from holding and dealing in listed equity securities	13	64,696	591
Loss on Corporate and Government Bonds		(10,835)	(8,121)
Income from Term Finance Certificates		48,561	26,382
Mark-up on Government Bonds		7,542	9,935
Income on reverse repurchase transactions		12,783	32
Income from Carry Over Transactions		260,776	250,990
Other income		6,671	6,767
Total income		390,194	286,576
Expenses			
Remuneration of Arif Habib Investment Management Limited - Management Company		48,093	40,648
Remuneration of Central Depository Company of Pakistan Limited - Trustee		4,622	4,800
Annual fee - Securities and Exchange Commission of Pakistan		3,206	2,710
Expense on repurchase transactions		623	461
Brokerage		33,682	24,726
Brokerage - net relating to transactions with Arif Habib Securities Limited (connected person)		4,006	2,603
Settlement and bank charges		7,739	3,371
Fees and subscription		324	124
Legal and Professional Charges		293	100
Auditors' remuneration	15	586	494
Amortisation of preliminary expenses and floatation costs	8	500	500
Total expenses		103,674	80,537
Net income from operating activities		286,520	206,039
Element of income and capital gains included in prices of units issued less those in units repurchased		29,290	78,384
Net income for the period		315,810	284,423

The annexed notes 1 to 24 form an integral part of these financial statements.

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	2005 (Rupees in '000)	2004
Undistributed income brought forward	10,984	7,954
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased - amount representing unrealised capital gains / (losses)	581	(773)
Net income for the year	315,810	284,423
Final distribution @ Rs. 4.8 per unit (2004: Rs. 4.5 per unit) - transfer to reserve for issue of bonus units (Units issued in July 2005 (2004: July 2004))	(324,362)	(280,620)
	(7,971)	3,030
Undistributed income carried forward	3,013	10,984

The annexed notes 1 to 24 form an integral part of these financial statements.

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 (Rupees in '000)	2004
Net assets at the beginning of the year		3,400,528	1,499,901
Issue of 69,567,160 units (2004: 86,550,963 units)		3,645,673	4,538,523
Redemption of 69,960,716 units (2004: 53,755,831 units)		(3,635,648)	(2,823,439)
		10,025	1,715,084
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units repurchased:			
- amount representing accrued income and realised capital gains - transferred to the Income Statement		(29,290)	(78,384)
- amount representing unrealised capital (gains) / losses - transferred directly to the Distribution Statement		(581)	773
Diminution in respect of Term Finance Certificates transferred to the Income Statement on redemption / disposal	5.6	(1,729)	(8,534)
Net unrealised appreciation / (diminution) during the year in market value of securities classified as 'Available for sale'	5.10	11,208	(11,962)
Reserve for issue of 6,480,762 (2004: 5,609,032) bonus units		324,362	280,620
Net income for the year available for distribution		(7,971)	3,030
Net assets as at the end of the year		<u>3,706,552</u>	<u>3,400,528</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 (Rupees in '000)	2004
CASH FLOW FROM OPERATING ACTIVITIES			
Net income		315,810	284,423
Adjustments			
Unrealised appreciation in fair value of investments classified as 'held for trading'		(18,595)	(6,071)
Element of (income) and capital (gains) included in prices of units issued less those in units repurchased		(29,290)	(78,384)
Amortisation of preliminary expenses and floatation costs		500	500
Expense on repurchase transactions		623	461
		<u>269,048</u>	<u>200,929</u>
(Increase) / decrease in assets			
Receivable against sale of investments		-	44,977
Receivable against reverse repurchase transactions		(295,666)	80,000
Receivable against Carry Over Transactions		2,463,288	(1,564,118)
Investments		(2,483,094)	(370,653)
Profit receivable		(14,063)	(8,123)
Advances, deposits, prepayments and other receivables		(15,843)	23,926
		<u>(345,378)</u>	<u>(1,793,991)</u>
Increase / (decrease) in liabilities			
Payable against purchase of investments		1	802
Payable to Arif Habib Investment Management Limited - Management Company		(816)	2,844
Payable to Central Depository Company of Pakistan Limited - Trustee		(302)	457
Accrued expenses and other liabilities		(11,706)	(20,368)
		<u>(12,823)</u>	<u>(16,265)</u>
Taxes paid		(4,388)	(635)
Interest paid		(623)	(461)
Cash outflow from operating activities		<u>(94,164)</u>	<u>(1,610,423)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Net receipts from sale and repurchase of units		10,025	1,715,084
Net (decrease) / increase in cash and cash equivalents during the year		(84,139)	104,661
Opening cash and cash equivalents		225,175	120,514
Cash and cash equivalents as at 30 June	4	<u>141,036</u>	<u>225,175</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Fund (PIF) was established under a Trust Deed executed between Arif Habib Investment Management Limited (AHIML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23 October 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 28 February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) [repealed by Non-Banking Finance Companies (Establishment And Regulation) Rules, 2003 (NBFC Rules)].

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP.

PIF is an open-ended mutual fund and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

The policy of the Fund is to invest in a mix of Carry Over Transactions (COT), investment-grade debt securities, government securities, money market instruments and short-term reverse repurchase transactions.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Trust Deed, NBFC Rules and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance 1984. Wherever the requirements of the Trust Deed, NBFC Rules or directives issued by SECP differ with the requirements of these standards, the requirements of the Trust Deed, NBFC Rules and the said directives take precedence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain financial assets have been included at fair value in accordance with the recognition criteria specified in the relevant IAS applicable to these assets and the requirements of NBFC Rules.

3.2 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+3' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sale the asset.

The management determines the appropriate classification of its investments in accordance with the requirements of International Accounting Standard (IAS) 39; 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis. Investments are categorised as follows:

Available for sale

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in market prices, are classified as 'Available for sale'. Subsequent to initial measurement, 'available for sale' investments are re-measured to fair value. Net gains and losses arising on changes in fair values of these investments are taken to equity as part of Unit Holders' Funds. However, any premium or discount on acquisition is amortised and taken to the Income Statement over the life of the investment using the effective interest rate method. When securities are disposed off or impaired, the related fair value adjustments previously taken to equity are transferred to the Income Statement.

Held for trading

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'Held for trading'. These investments are marked to market and are carried on the Statement of Assets and Liabilities at fair value. Net gains and losses arising on changes in fair values of these investments are taken to the Income Statement.

Investments in de-listed securities are carried at cost less impairment in value, if any.

Basis of valuation of government securities

The Fund values its investment in government securities using the average of the mid-rates obtained from reputable brokerage houses, while Rule 2(xxxiv) of NBFC Rules require securities which are not quoted on the stock exchange to be carried at the investment price. However, the management believes that the policy adopted by the Fund is fair to all investors and protects their interests. Had the Government securities been valued at investment price, the carrying value of the investments would have been lower by Rs. 2.11 million. Further, the Net Asset Value (NAV) of the Fund during the year would have been different and consequently the number of units issued / redeemed during the year as well as the element of income and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was not practical to do so.

Basis of valuation of Term Finance Certificates

The Fund values its investment in listed Term Finance Certificates (TFCs) on the basis of rates obtained from stock exchange website which are adjusted for the purpose of marking to market the investment of the Fund in TFCs on the basis that the effect of partial redemption of the principal amount of these certificates has not been incorporated in these rates, while Rule 2(xxxiv) of NBFC Rules require securities which are quoted on the stock exchange should be valued at its last sale price on such exchange on the date on which it is valued. However, the management believes that the policy adopted by the Fund is fair to all investors and protects their interests. Had the TFCs been valued at last sale price quoted on stock exchange, the carrying value of the investments would have been higher by Rs.35.71 million. Further, the Net Asset Value (NAV) of the Fund during the year would have been different and consequently the number of units issued / redeemed during the year as well as the element of income and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was not practical to do so.

3.3 Derivatives

These are initially recognised at cost and are subsequently remeasured at their fair value. The fair value of futures contracts is calculated as being the net difference between the contract price and the closing

price reported on the primary exchange of the futures contract. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the Statement of Assets and Liabilities. The resultant gains and losses are included in the Income Statement.

Derivative financial instruments entered into by the Fund do not meet the hedging criteria as defined by International Accounting Standard - 39, Recognition and Measurement of Financial Instruments (IAS -39), consequently hedge accounting is not used by the Fund.

3.4 Securities under repurchase / resale agreements

Securities purchased under an agreement to resell (reverse repo) are included as receivable at the fair value of the consideration given. Securities sold, subject to a repurchase agreement (repo) are retained in the Statement of Assets and Liabilities as investments and the counterparty liability is included as payable. All these transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income / (expense) in the Income Statement and is recognised over the term of the transactions.

3.5 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that day. The offer price represents the Net Asset Value per unit as of the close of the previous business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable on units for which the distributors receive redemption applications during business hours on that day. The redemption price represents the Net Asset Value per unit as of the close of the previous business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.6 Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased' is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in equity is recorded in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to Unit holders.

3.7 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.8 Net Asset Value per Unit

The Net Asset Value per unit disclosed in the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

3.9 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders. Accordingly, no tax liability has been recorded for the current year. The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits. However, the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.10 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from 1 March 2002.

3.11 Offsetting of financial instruments

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

3.12 Financial assets and financial liabilities

Financial assets carried on the Statement of Assets and Liabilities include bank balances, receivable against sale of investments, receivable against reverse repurchase transactions, receivable against Carry Over Transactions, investments, profit receivable and advances, deposits, prepayments and other receivables.

Financial liabilities carried on the Statement of Assets and Liabilities include payable against purchase of investments, payable on redemption of units, payable to Arif Habib Investment Management Limited – Management Company, payable to Central Depository Company of Pakistan Limited – Trustee and accrued expenses and other liabilities.

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Transaction costs are included in the initial measurement of all financial assets and liabilities except for transaction costs that may be incurred on disposal. All the financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to Income Statement.

3.13 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Dividend income is recognised when the right to receive the dividend is established.
- Unrealised capital gains / (losses) arising on mark to market of investment classified as 'held for trading' are included in the Income Statement in the year in which they arise as described in note 3.2 to these financial statements.
- Income on debt securities is recognised on an accrual basis using the effective interest rate method.
- Income on reverse repurchase transactions, Carry Over Transactions and bank deposits is recognised on a time proportionate basis.
- Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the Income Statement as discussed in note 3.3 to these financial statements.

3.14 Transactions with connected persons

Transactions between the Fund and its "connected persons", as defined in the NBFC Rules, are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method".

Transactions with connected persons have been disclosed in note 17 to these financial statements.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances including term deposits.

4. BANK BALANCES

2005 2004
(Rupees in '000)

In current accounts	5,835	1,362
In deposit accounts	135,201	223,813
	<u>141,036</u>	<u>225,175</u>

5. INVESTMENTS

In marketable securities - 'held for trading'	5.1	1,108,599	315,204
In government securities - 'available for sale'	5.7	1,949,769	231,996
		<u>3,058,368</u>	<u>547,200</u>

5.1 Investment in marketable securities - 'held for trading'

Term Finance Certificates	5.2	1,108,599	315,204
Shares of Listed Companies	5.4	-	-
		<u>1,108,599</u>	<u>315,204</u>

5.2 Term Finance Certificates

Name of the investee company	Profit Mark-up Rate (%)	Number of certificates					Market value as at 30 June 2005	% of Net Assets
		As at 01 July 2004	Purchases during the year	Sales during the year	Redemptions during the year	As at 30 June 2005		
							(Rupees in '000)	
Askari Commercial Bank Limited	7.87	-	32,000	2,000	-	30,000	153,000	4.13
BankAL Habib Limited	7.51	-	10,747	-	-	10,747	53,724	1.45
BankAl-Falah Limited - I	10	-	8,388	-	-	8,388	49,280	1.33
BankAl-Falah Limited - II	10.76	-	24,117	-	-	24,117	120,562	3.25
Chanda Oil & Gas Securitisation Co. Limited	9.08	-	20,000	-	-	20,000	100,000	2.70
Dewan Salman Fibre Limited - II	16	4,619	-	-	4,619	-	-	-
Engro Chemical Pakistan Limited - I	13	580	-	-	580	-	-	-
First Dawood Investment Bank Limited - II	12.25	-	3,054	-	-	3,054	16,797	0.45
First Oil and Gas Securitisation Co. Limited	11.5	19,686	314	-	-	20,000	54,672	1.48
Ittehad Chemicals Limited	11.5	952	2,000	-	-	2,952	15,338	0.41
Maple Leaf Cement Factory Limited - I	15.25	3,872	-	-	-	3,872	10,551	0.28
Muslim Commercial Bank Limited	11.75	3,461	-	-	-	3,461	20,301	0.55
Naimat Basal Oil & Gas Securitisation Co. Limited	11.18	-	24,000	-	-	24,000	118,800	3.21
Orix Leasing Pakistan Limited	14	580	-	-	580	-	-	-
Pakistan PTA Limited - I	7.3	3,747	-	-	3,747	-	-	-
Pakistan Services Limited	11.25	7,000	-	-	-	7,000	36,371	0.98
Prime Commercial Bank Limited	8.27	-	15,990	-	-	15,990	79,950	2.16
Crescent Standard Bank Limited (previously Paramount Leasing Limited - II)	11.5	7,060	-	-	7,060	-	-	-
Reliance Weaving Mills Limited - I	15.25	644	-	-	-	644	2,024	0.05
Shakarganj Mills Limited - I	15.25	2,300	-	-	2,300	-	-	-
Soneri Bank Limited	8.28	-	11,977	-	-	11,977	59,885	1.62
Sui Southern Gas Company Limited - II	13	141	-	-	-	141	391	0.01
Telecard Limited	12.85	-	20,000	-	-	20,000	100,000	2.70
Trust Leasing Corporation Limited	11	5,000	-	-	-	5,000	25,322	0.68
Union Leasing Limited - I	14.5	1,000	-	-	1,000	-	-	-
Union Bank Limited - I	11	6,260	8,740	-	-	15,000	86,173	2.32
Union Bank Limited - II	6.1	-	1,092	-	-	1,092	5,458	0.15
		66,902	182,419	2,000	19,886	227,435	1,108,599	

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

5.4 Shares of Listed Companies and Certificates of Mutual Fund

Name of the investee company	Number of certificates/shares -----					Market value as at 30 June 2005
	As at 01 July 2004	Purchases during the year	Bonus	Sales during the year	As at 30 June 2005	
Mutual Fund						(Rupees in '000)
PICIC Growth Fund	-	3,054,000	511,000	3,565,000	-	-
Chemicals						
ICI Pakistan Limited	-	15,500	-	15,500	-	-
Investment Banks/Investment Companies/ Securities Companies						
Pakistan Industrial Credit & Investment Corporation	-	1,246,000	117,000	1,363,000	-	-
Textile Composite						
Nishat Mills Limited	-	1,112,500	-	1,112,500	-	-
Synthetic & Rayon						
Dewan Salman Fibre Limited	-	541,000	-	541,000	-	-
Commercial Banks						
Askari Commercial Bank Limited	-	1,368,000	-	1,368,000	-	-
Bank of Punjab	-	346,500	-	346,500	-	-
Faysal Bank Limited	-	215,500	-	215,500	-	-
Muslim Commercial Bank Limited	-	385,500	-	385,500	-	-
National Bank of Pakistan	-	740,000	-	740,000	-	-
PICIC Commercial Bank Limited	-	1,201,500	101,500	1,303,000	-	-
Union Bank Limited	-	2,023,500	-	2,023,500	-	-
Cement						
D.G Khan Cement Company Limited	-	2,192,500	-	2,192,500	-	-
Lucky Cement Limited	-	166,000	-	166,000	-	-
Maple Leaf Cement Factory Limited	-	44,500	-	44,500	-	-
Fertilizer						
Engro Chemical Pakistan Limited	-	917,000	-	917,000	-	-
Fauji Fertilizer Company Limited	-	1,581,000	-	1,581,000	-	-
Fauji Fertilizer Bin Qasim Limited	-	534,500	-	534,500	-	-
Oil & Gas Marketing Companies						
Pakistan State Oil Company Limited	-	270,000	-	270,000	-	-
Sui Northern Gas Pipelines Limited	-	1,008,000	-	1,008,000	-	-
Sui Southern Gas Company Limited	-	2,482,000	-	2,482,000	-	-
Oil & Gas Exploration Companies						
Pakistan Oilfields Limited	-	1,939,900	-	1,939,900	-	-
Oil & Gas Development Corporation Limited	-	3,325,000	-	3,325,000	-	-
Pakistan Petroleum Limited	-	12,070,500	-	12,070,500	-	-
Technology & Communication						
Pakistan Telecommunication Company Limited "A"	-	10,153,000	-	10,153,000	-	-
WorldCall Communications Limited	-	4,292,500	-	4,292,500	-	-
Power Generation & Distribution						
Hub Power Company Limited	-	739,500	-	739,500	-	-
	-	53,965,400	729,500	54,694,900	-	-

		2005	2004
		(Rupees in '000)	
5.5	Net unrealised appreciation in fair value of investments classified as - 'held for trading'		
	Fair value of investments	1,108,599	315,204
	Less: Cost of investments	(1,083,208)	(304,298)
		<u>25,391</u>	<u>10,906</u>
	Net unrealised appreciation in fair value of investments at the beginning of the year	8,017	3,070
	Less: Realised on disposal during the year	(2,381)	(1,124)
		<u>(5,636)</u>	<u>(1,946)</u>
		19,755	8,960
	Less: Unrealised appreciation held in equity as at the year end in respect of investments reclassified from the 'available for sale' category to 'held for trading' category	56 (1,160)	(2,889)
		<u>18,595</u>	<u>6,071</u>

5.6 The management had reclassified all Term Finance Certificates from the 'Available for sale' category 'Held for trading' category with effect from 31 March 2003. Consequently, the unrealised appreciation (diminution) on the revaluation of these Term Finance Certificates at the time of transfer amounted to Rs. 15.949 million was retained in equity till the sale or redemption of the relevant Term Finance Certificate at which time the unrealised appreciation / (diminution) retained in equity was to be transferred to the Income Statement. During the current period, an amount of Rs. 1.729 million (30 June 2004: Rs. 8.534 million) was transferred from equity to the Income Statement at the time of redemption / of certain Term Finance Certificates.

All fair value changes subsequent to reclassification of these Term Finance Certificates into the 'held for trading' category have been taken to the Income Statement in accordance with the requirements of International Accounting Standard No. 39.

		2005	2004
		(Rupees in '000)	
5.7	Investment in government securities - 'available for sale'		
	Pakistan Investment Bonds	5.8 322,353	231,996
	Treasury Bills	5.9 1,627,416	-
		<u>1,949,769</u>	<u>231,996</u>

5.8 Pakistan Investment Bonds

Issue date	Face Value (Rupees in million)	Tenor (years)	Coupon Rate (%)	Quantity				Balance as at 30 June 2005	
				As at 1 July 2004	Purchases during the year	Sales during the year	Maturities during the year	As at 30 June 2005	Fair Value

(Rupees in '000)

Pakistan Investment Bonds

30 December 2000	50	10	14	1	-	1	-	-	-	-
18 April 2001	25	10	14	1	-	1	-	-	-	-
30 October 2001	50	10	13	2	-	2	-	-	-	-
18 June 2002	50	10	11	-	1	1	-	-	-	-
18 June 2002	50	3	9	-	2	-	2	-	-	-
21 August 2002	50	10	11	-	1	1	-	-	-	-
20 July 2002	25	3	9	-	1	-	-	1	25,008	0.67
26 March 2003	100	3	7	-	3	-	-	3	297,345	8.02
				4	8	6	2	4	322,353	

5.9 Treasury Bills

Issue date	Face Value (Rupees in million)	Tenor	Discount Rate (%)	Quantity				Balance as at 30 June 2005	
				As at 1 July 2004	Purchases during the year	Sales during the year	Maturities during the year	As at 30 June 2005	Fair Value

(Rupees in '000)

Treasury Bills

17 March 2005	200	3 months	4.75	-	1	-	1	-	-	-
14 April 2005	90	3 months	6.25	-	1	-	-	1	89,854	2.42
14 April 2005	50	3 months	7.85	-	10	-	-	10	499,192	13.47
9 June 2005	50	3 months	7.40	-	1	-	-	1	49,367	1.33
9 June 2005	100	6 months	7.89	-	4	-	-	4	386,600	10.43
9 June 2005	100	1 Year	8.06	-	3	-	-	3	278,536	7.51
23 June 2005	50	1 Year	8.32	-	7	-	-	7	323,867	8.74
				-	27	-	1	26	1,627,416	

5.10 Net unrealised appreciation / (diminution) in fair value of securities -
'available for sale'

2005 2004
(Rupees in '000)

Fair value of Government securities classified as 'available for sale'

1,949,769 231,996

Less: Cost of Government securities classified as 'available for sale'

(1,950,523) (243,958)

(754) (11,962)

Add: Net unrealised diminution in the value of securities at the beginning of the year

11,962 -

11,208 (11,962)

6.	PROFIT RECEIVABLE		2005	2004
			(Rupees in '000)	
	Income accrued on Carry Over Transactions		430	5,845
	Income accrued on Term Finance Certificates		20,604	5,915
	Income accrued on Pakistan Investment Bonds		6,479	2,865
	Profit on bank deposits		484	572
	Transaction cost receivable	6.1	1,384	121
			<u>29,381</u>	<u>15,318</u>
6.1	Transaction costs were introduced with effect from 10 April 2003 and are levied at the rate of 0.1 percent of the offer price on all issues of units including units converted into the Fund. These charges are recorded as the income of the Fund. In the case of conversion of units within the various plans offered by the Fund, the transaction costs are borne by the Management Company.			
7.	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
	Receivable on Carry Over Transactions		23,474	18,979
	Tax deducted at source		5,924	1,536
	Prepaid brokerage on reverse repurchase transactions		2	-
	Receivable from Pakistan Stock Market Fund		11,446	-
	Deposit with National Clearing Company of Pakistan Limited		1,000	1,000
	Deposit with Central Depository Company of Pakistan Limited		100	200
			<u>41,946</u>	<u>21,715</u>
8.	PRELIMINARY EXPENSES AND FLOATATION COSTS			
	Opening balance		1,333	1,833
	Less: Amortisation during the year	8.1	(500)	(500)
	Balance as at 30 June		<u>833</u>	<u>1,333</u>
8.1	Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 1 March 2002.			
9.	PAYABLE TO ARIF HABIB INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY			
	Management fee	9.1	4,569	4,063
	Sales load		527	1,849
			<u>5,096</u>	<u>5,912</u>

9.1 Under the provisions of NBFC Rules, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.5 percent per annum for the current year.

10.	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	2005	2004
		(Rupees in '000)	
	Trustee fee	390	408
	CDS charges	61	345
		451	753

10.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily NAV of the Fund. The Trustee fee was revised with effect from 1 March 2005.

11.	ACCRUED EXPENSES AND OTHER LIABILITIES		
	Auditors' remuneration	290	494
	Brokerage	456	258
	Fee payable to Securities & Exchange Commission of Paksitan	3,206	3,056
	Payable to Pakistan Stock Market Fund	-	716
	Others	3,018	8,183
		6,970	12,707

12. **PAYABLE TO SECURITIES AND EXCHANGE COMMISSION
OF PAKISTAN - ANNUAL FEE**

Under the provisions of NBFC Rules, a Unit Trust Scheme is required to pay as annual fee to SECP, an amount equal to one-tenth of one percent of the average annual net assets of the Scheme.

13. **INCOME FROM HOLDING AND DEALING
IN LISTED EQUITY SECURITIES**

	Dividend income	51,858	-
	Capital gain on sale of listed equity securities	12,838	591
		64,696	591

14. **CONTINGENCIES AND COMMITMENTS**

During the year the Fund has entered into certain Carry Over Transactions with the counter parties in which the Fund earned COT premium amounting to Rs. 24.04 million in excess of the limits specified by one of the Stock Exchanges. The management is of the view that the Fund is entitled to the full benefit of the rates at which the transactions were carried out as these were mutually agreed rates between the transacting parties.

	2005 (Rupees' 000)	2004
Carry Over Transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions has not been settled as at 30 June	-	4,701,187
Forward purchase transactions of government securities entered into by the Fund in respect of which the purchase transactions has not been settled as at 30 June	-	128,500
15. AUDITORS' REMUNERATION		
Audit fee	150	130
Other certifications and services	385	328
Out of pocket expenses	51	36
	<u>586</u>	<u>494</u>
16. EARNINGS PER UNIT		
Earnings per unit (EPU) has not been disclosed as in the opinion of the Management determination of weighted average units for calculating EPU is not practicable. Up to previous year EPU was calculated based on the number of units outstanding at the year end.		
17. TRANSACTIONS WITH CONNECTED PERSONS		
Connected persons include Arif Habib Investment Management Limited being the Management Company and Arif Habib Securities Limited being a company under common management.		
The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.		
Arif Habib Investment Management Limited - Management Company		
Remuneration	48,093	40,648
Salesload	17,593	14,241
Transaction costs	2,131	1,294
Investment in the Fund 2,004,162 units (2004: nil units)	103,983	-
Redemption from the Fund 2,001,509 units (2004: nil units)	105,236	-
Arif Habib Securities Limited - Brokerage House		
Brokerage - net	4,006	2,603
Investment in the Fund 4,534,186 units (2004: nil units)	233,647	-
Redemption from the Fund 4,533,578 units (2004: 494,142 units)	233,661	26,205
Pakistan Premier Fund Limited - managed by Arif Habib Investment Management Limited		
Purchase of marketable securities	-	45,746

2005
(Rupees' 000)

2004

MetroBank Pakistan Sovereign Fund - managed by
Arif Habib Investment Management Limited

Purchase of government securities	-	361,231
Sale of government securities	-	303,375
Directors		
Investment in the Fund 510,260 units (2004: 272,699 units)	<u>27,053</u>	<u>14,437</u>
Redemption from the Fund 546,867 units (2004: 337,245 units)	<u>28,879</u>	<u>17,871</u>

- 17.1 The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as ultimate counter-parties are not connected persons.
- 17.2 All the above transactions with connected persons have been carried out at prices determined in accordance with the method as disclosed in note 3.14 to these financial statements, except for the arrangement discussed below.

During the current year, as a result of certain risk management measures, the limit prescribed by NBFC Rules relating to the maximum transactions to be carried out through a connected broker was breached. The management is of the opinion that this limit has been imposed by NBFC Rules to ensure that brokerage expense in relation to the transactions entered into through a connected broker does not exceed 10 percent of the total brokerage expense of the Fund. Therefore, the management company has, as a gesture of goodwill, reimbursed Rs. 1 million to the Fund representing the amount of brokerage in excess of the 10 percent limit. This amount is not payable by the Fund at any later date.

Had the above arrangement not been made, the net income and cash flow for the year, equity and the total assets of the Fund as at 30 June 2005 would have been lower by Rs. 1 million.

18. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION

18.1 The Fund's MROR sensitivity related to financial assets and financial liabilities as at 30 June 2005 can be determined from the following:

	Effective rate of mark-up/return (%)	Exposed to MROR risk			Total	
		Upto three months	More than three months and upto one year	More than one year		Not exposed to MROR risk
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial Assets						
Bank balances	1.25 to 1.75	135,201	-	-	5,835	141,036
Receivable against sale of investments	-	20	-	-	-	20
Receivable against reverse repurchase transactions	3.25 to 8.50	295,666	-	-	-	295,666
Receivable against Carry Over Transactions	7.22 to 24	169,304	-	-	-	169,304
Investments	4.47 to 14.92	3,058,368	-	-	-	3,058,368
Profit receivable	-	-	-	-	29,381	29,381
Advances, deposits, prepayments and other receivables	-	-	-	-	12,546	12,546
		3,658,559	-	-	47,762	3,706,321
Financial Liabilities						
Payable against purchase of investments		-	-	-	823	823
Payable on redemption of units		-	-	-	16,662	16,662
Payable to Arif Habib Investment Management Limited - Management Company		-	-	-	5,096	5,096
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	451	451
Accrued expenses and other liabilities		-	-	-	3,952	3,952
		-	-	-	26,984	26,984
On-balance sheet gap		3,658,559	-	-	20,778	3,679,337

19. MATURITIES OF ASSETS AND LIABILITIES

	----- 30 June 2005 -----			
	Total	Upto three months	More than three months and upto one year	More than one year
	----- (Rupees in ' 000) -----			
Assets				
Bank balances	141,036	141,036	-	-
Receivable against sale of investments	20	20	-	-
Receivable against reverse repurchase transactions	295,666	295,666	-	-
Receivable against Carry Over Transactions	169,304	169,304	-	-
Investments	3,058,368	3,058,368	-	-
Profit receivable	29,381	15,263	14,118	-
Advances, deposits, prepayments and other receivables	41,946	-	-	41,946
Preliminary expenses and floatation costs	833	125	375	333
	<u>3,736,554</u>	<u>3,679,782</u>	<u>14,493</u>	<u>42,279</u>
Liabilities				
Payable against purchase of investments	823	823	-	-
Payable on redemption of units	16,662	16,662	-	-
Payable to Arif Habib Investment Management Limited - Management Company	5,096	5,096	-	-
Payable to Central Depository Company of Pakistan Limited – Trustee	451	451	-	-
Accrued expenses and other liabilities	6,970	6,970	-	-
	<u>30,002</u>	<u>30,002</u>	<u>-</u>	<u>-</u>
Net Assets	<u><u>3,706,552</u></u>	<u><u>3,649,780</u></u>	<u><u>14,493</u></u>	<u><u>42,279</u></u>

20. RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, government securities, spread transactions, Carry Over Transactions and investments in other money market instruments. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

20.1 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. There is a possibility of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the clearing system etc.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

20.2 Credit Risk

Credit Risk Management

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse repurchase transactions or other arrangements to fulfill their obligations. The risk is generally limited to principal amounts and accrued interest thereon, if any.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits, obtaining adequate collaterals and by following strict credit evaluation criteria laid down by the management. The Fund does not expect to incur material credit losses on its financial assets.

Concentration of Credit Risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counter parties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Financial assets subject to credit risk amount to Rs. 1,574 million. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counter parties thereby mitigating any significant concentration of credit risk.

20.3 Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising Funds to meet its obligations and commitments. The Management Company manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

20.4 Market Rate Of Return (MROR) Risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund manages its investment portfolio in order to reduce the risk of loss in market value of investments as a result of changes in market interest rates. In case the management expects economic uncertainty the portfolio will be restructured so as to comprise of short-term debt securities, money market instruments, short maturity repurchase transactions and Carry Over Transactions.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments categorised as 'Held for trading' is based on the closing market prices ruling at the day-end, while the fair value of investments categorised as 'Available for sale' is based on the inter bank mid prices ruling at the day end. The management is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

22. PERFORMANCE TABLE	2005	2004	2003	2002 *
Net assets (Rs. '000)	3,706,552	3,400,528	1,499,901	309,667
Net income (Rs. '000)	315,810	284,423	154,299	10,679
Net Assets Value per unit before bonus units (Rs.)	54.85	54.53	56.73	51.94
Net Assets Value per unit after bonus units (Rs.)	50.05	50.03	50.73	50.19
Dividend distribution (%) **	9.60	9.00	12.00	3.50
Highest offer price per unit (Rs.)	55.60	55.28	57.51	54.27
Lowest offer price per unit (Rs.)	50.62	51.47	52.57	52.49
Highest repurchase price per unit (Rs.)	54.85	54.53	56.73	51.83
Lowest repurchase price per unit (Rs.)	49.94	50.78	50.20	50.13

* First year of operations from the period 1 March 2002 to 30 June 2002.

** Stock dividend

23. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 30 July 2005 by the Board of Directors of the Management Company.

24. GENERAL

24.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purpose of comparison.

24.2 Figures have been rounded off to the nearest thousand Rupees.

For Arif Habib Investment Management Limited
(Management Company)

Chief Executive

Director

For Central Depository Company of Pakistan Limited
(Trustee)

Chief Executive