

CONTENTS

| | |
|---|-----------|
| Fund Information | 2 |
| Mission Statement | 3 |
| Report of the Directors of the Management Company | 4 |
| Report of the Trustee | 10 |
| Statement of Compliance with The Code of Corporate Governance for the Year Ended June 30, 2006 | 11 |
| Review Report to the Unit Holders on Statement of Compliance with best Practices of the Code of Corporate Governance | 13 |
| Auditors' Report to the Unit Holders | 14 |
| Statement of Assets and Liabilities | 15 |
| Income Statement | 16 |
| Distribution Statement | 17 |
| Statement of Movement in Unit Holders' Funds for the Year Ended June 30, 2006 | 18 |
| Cash Flow Statement | 19 |
| Notes to the Financial Statements | 20 |

FUND INFORMATION

Management Company

Faysal Asset Management Limited

Board of Directors of the Management Company

Mr. Farook Bengali, Chairman
Mr. Salman Haider Sheikh, Chief Executive Officer
Mr. Hassan Mohamed Mahmood, Director
Mr. Mohammad Iqbal, Director
Mr. Shahid Waqar Mahmood, Director
Mr. Feroz Rizvi, Director
Mr. Iqbal Alimohamed, Director
Mr. Aqeel Karim Dhedhi, Director

CFO of the Management Company

Mr. Muhammad Shakeel Musani

Company Secretary of the Management Company

Mr. M. Siddique Memon

Audit Committee

Mr. Iqbal Alimohamed, Chairman
Mr. Mohammad Iqbal, Member
Mr. Shahid Waqar Mahmood, Member
Mr. Feroz Rizvi, Member

Trustee

Central Depository Company of Pakistan Limited
8th Floor, Karachi Stock Exchange Building,
Stock Exchange Road, Karachi-74000

Bankers to the Fund

Faysal Bank Limited
Muslim Commercial Bank Limited
Bank Alfalah Limited
Metropolitan Bank Limited

Auditors

Ford Rhodes Sidat Hyder & Co., Chartered Accountants

Legal Advisor

Bawany and Partners
404, 4th Floor
Beaumont Plaza
Beaumont Road
Karachi.

Registrars

Gangjees Registrar Services(Pvt) Limited
Room # 506, 5th Floor, Clifton Centre,
Kehkashan Clifton - Karachi.

Distributors

Faysal Asset Management Limited
Faysal Bank Limited
AKD Securities(Private) Limited
PICIC Commercial Bank Limited
Invest Capital & Securities(Private) Limited
My Bank Limited
Flow(Private) Limited
First International Investment Bank Limited

MISSION STATEMENT

FBGF endeavors to provide investors with an opportunity to earn income and long-term capital appreciation by investing in a large pool of funds representing equity / non equity investments in a broad range of sectors and financial instruments.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Directors of the Faysal Asset Management Limited, the Management Company of Faysal Balanced Growth Fund, are pleased to present the Third Annual Report on the operations of FBGF along with the audited accounts, Reports of the Trustee and Auditors to the Unit Holders for the financial year ended June 30, 2006.

SALE AND REDEMPTION OF UNITS

During the year, units worth Rupees 310.96 million were issued and units with a value of Rupees 915.56 million were redeemed. The heavy redemption pressure was faced due to the expiration of the two-year restriction on the seed capital.

UNIT HOLDERS

As of June 30, 2006, total units outstanding were reduced by 2.19% whereas the value of net assets reduced by 7.94% and stood at 15,259,614 units with a value of Rs. 1,621 million. (June 30, 2006: 15,600,587 units with a value of Rs. 1,761 million).

UNIT PRICES

Unit prices are being announced on a daily basis based on the NAV of the underlying portfolio. The highest and lowest offer/redemption prices during the year as well as the prices prevailing as of June 30, 2006 were as below:

| | Offer Prices | Redemption Prices |
|---------------------|--------------|-------------------|
| Highest | 147.41 | 144.38 |
| Lowest | 97.57 | 95.42 |
| As of June 30, 2006 | 108.65 | 106.26 |

INVESTMENT ACTIVITIES

FBGF had diversified exposure in several growth sectors including oil & gas sector, banking and telecommunication sector. In view of the rise in international oil prices and recent discoveries by the oil exploration companies, we remained invested in the oil & gas sector as our major investment. FBGF also maintained its holding in the telecommunication sector as the privatization of the largest telecommunication company in Pakistan, PTCL, was completed during this period. The banking sector exhibited major growth in earnings during this period and hence the fund increased its overall exposure in this sector.

PERFORMANCE

FBGF, by the grace of Almighty Allah, has performed well as the fund has appreciated by 26.15% during the full year of operations as compared to an appreciation of 14.7% in the previous year.

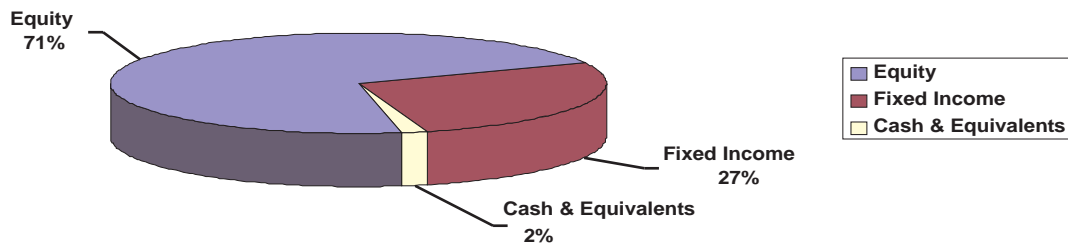
As of June 30th 2006, total net assets of the fund amounted to PKR 1,621 million and the NAV per unit was PKR 106.26. KSE 100 Index started the year at 7,464 level and ended on June 30th 2006 at 9,989 resulting in almost 34% annual gain. The highest level touched during the fiscal year was around 12,270. FBGF also exhibited growth along with the market and the NAV price touched its peak of Rs. 147.41. The board of directors of Faysal Asset Management Limited declared 20% interim dividend as bonus units from distributable profits of Faysal Balanced Growth Fund after its half-year results.

We saw a decline during the last quarter of the fiscal year in international equity markets including all major emerging markets with the rising international interest rate scenario. KSE 100 index during this quarter fell by almost 30%. The stock market also remained volatile due to the uncertainty of taxation issues in the federal budget.

ASSET ALLOCATION

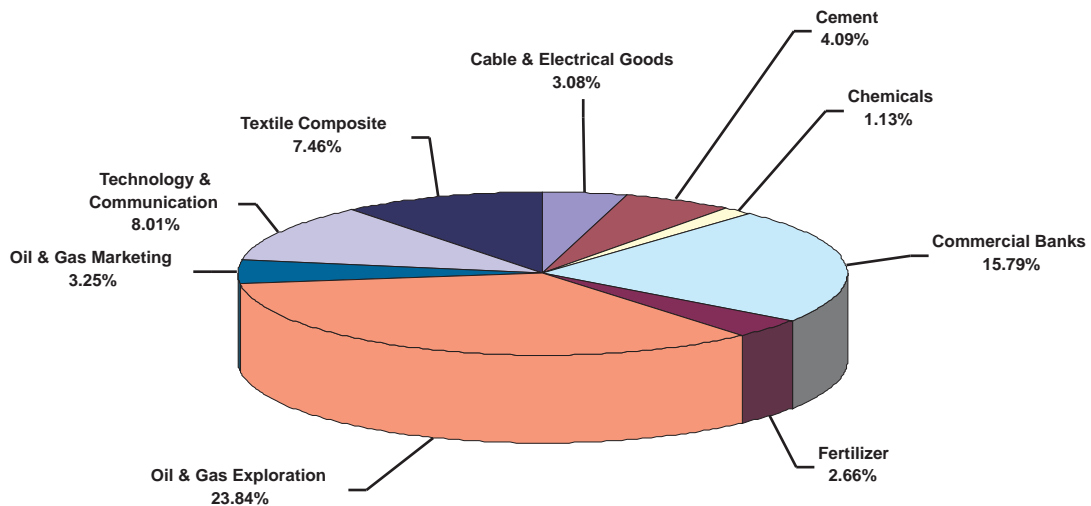
As of June 30th 2006, the fund was invested approximately 70.9% in equities compared to 56% at the end of last year. This level was reached due to the rise in the stock market during the last few days of the fiscal year. The fund was invested 27.16% in fixed income with the remaining 1.7% in cash deposits.

Portfolio Classification



The present allocation is based on the view that the equity valuations are under-priced in the long-term. The corporate fundamentals indicate strength while the market has faced a technical correction. The major exposure is in the Oil & Gas Exploration sector and the Banking sector.

Sector Wise Distribution



INCOME AND RETURN ON UNITS

During the year ended June 30th 2006 FBGF posted an overall yield to its investors of over 26%. The fund has posted a net profit of Rs. 405.9 million. This mainly includes a net capital gain of Rs 399.46 million.

INCOME DISTRIBUTION

The fund paid 20% interim dividend as bonus units to its unit holders.

MUTUAL FUND RATING

Upon completion of its two accounting years as of June 30th, 2006, JCR-VIS has started the review of the fund for assigning suitable rating.

MEETINGS OF THE DIRECTORS

Mr. Mohammad Khan Hoti and Mr. Ajaz Rahim resigned as directors w.e.f. January 26, 2006 and May 5, 2006 respectively. Mr. Muhammad Iqbal and Mr. Shahid Waqar Mahmood were co-opted by Board as director w.e.f. January 26, 2006 and May 5, 2006 respectively in place of Mr. Mohammad Khan Hoti and Mr. Ajaz Rahim. Mr. Ahsan Raza Durrani resigned as chief executive w.e.f. May 1, 2006 and Mr. Salman Haider Sheikh was appointed as chief executive w.e.f. May 1, 2006. All appointments of directors and chief executive officer were upon approval from SECP.

| S. No. | Name | Designation | Meetings | | |
|--------|----------------------------|--|----------|----------|---------------|
| | | | Total | Attended | Leave Granted |
| 1. | Mr. Farook Bengali | Chairman | 4 | 3 | 1 |
| 2. | Mr. Ahsan Raza Durrani | Chief Executive Officer | 4 | 4 | - |
| 3. | Mr. Hassan Mohamed Mahmood | Director | 4 | 4 | - |
| 4. | Mr. Mohammad Khan Hoti | Director (resigned on Jan 26, 2006) | 2 | 2 | - |
| 5. | Mr. Ajaz Rahim | Director | 4 | 4 | - |
| 6. | Mr. Feroz Rizvi | Director | 4 | 3 | 1 |
| 7. | Mr. Iqbal Alimohamed | Director | 4 | 3 | 1 |
| 8. | Mr. Ageel Karim Dhedhi | Director | 4 | 2 | 2 |
| 9. | Mr. Mohammad Iqbal | Director (co-opted w.e.f Jan 26, 2006) | 1 | 1 | - |

CORPORATE GOVERNANCE

1. The management company has implemented the requirements of the Code of Corporate Governance last year. A prescribed statement by the management along with the auditors' review report thereon for the year ended June 30, 2006 forms part of this annual report.
2. Statements under clause xix of the Code:
 - i. The financial statements, prepared by the Management presents fairly the state of affairs of the Fund and result of its operations, cash flows and movement in unitholder's fund.
 - ii. Proper books of accounts of the Fund have been maintained.
 - iii. Appropriate accounting policies have been applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
 - iv. International Accounting Standards have been followed in the preparation of financial statements without any material departure.
 - v. The system of internal control is sound in design and has been effectively implemented and monitored.
 - vi. There is no significant doubt upon Fund's ability to continue as going concern.
 - vii. There has been no material departure from the Best Practices of the Code of Corporate Governance, as detailed in the Listing Regulations.
 - viii. Outstanding statutory payments on account of taxes, if any, have fully disclosed in the accounts.
 - ix. The details of Board Meetings held and attended by the directors forms part of this Annual Report.
 - x. The prescribed pattern of shareholding is given as part of this Annual Report.

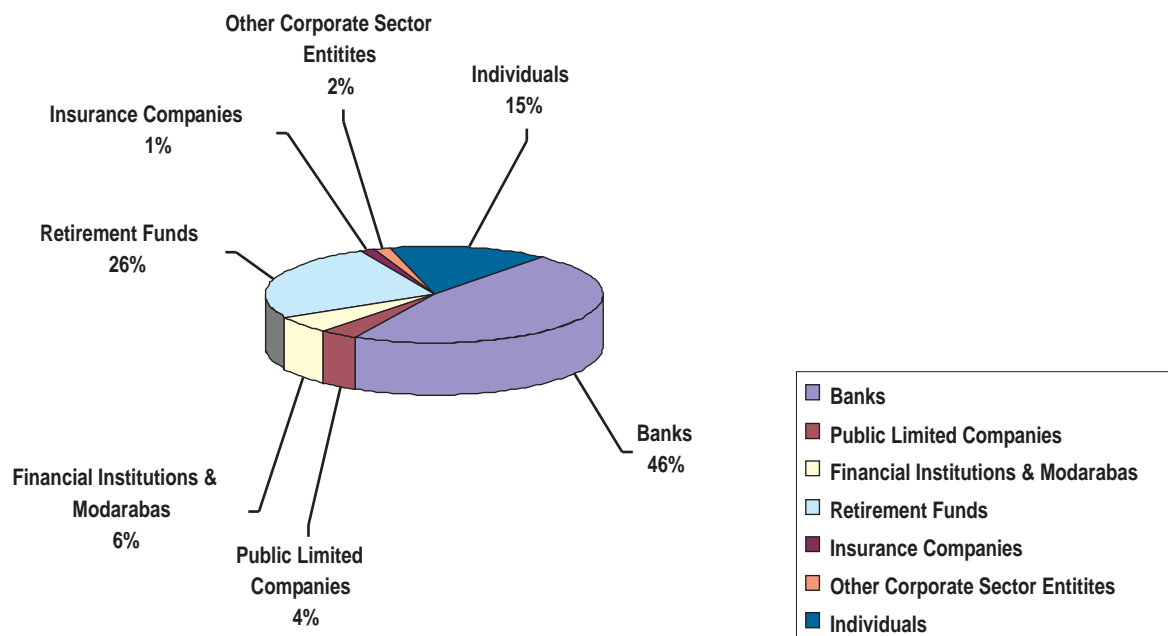
The sale and repurchase of units of the Fund carried out by the Directors, CEO, CFO, Company Secretary of the Management Company including their spouse and minor children are as under:

Trades By:

| | Investment ------(No. of Units)----- | Redemption ------(No. of Units)----- |
|--------------------------------------|---|---|
| Mr. Mohammad Iqbal (Director) | 1,515 | - |
| Mr. Mohammad Khan Hoti (Ex-Director) | - | 1,119 |
| Mr. Ajaz Rahim (Ex-Director) | 88 | - |
| Mr. Shahid Waqar Mahmood (Director) | 1,049 | - |
| Mr. Salman Haider Sheikh (CEO) | 182 | - |

PATTERN OF HOLDING

The pattern of unit holders presents a very well diversified blend of investors. Public Limited Companies hold 3.59% units, Banks hold 46.64%, Retirement Funds hold 25.56% Financial Institutions & Modarabas hold 5.96%, Individuals hold 15.35%, Insurance companies hold 1.34% and Other Corporate Sector Entities hold 1.56%. Detailed pattern is also annexed.

Classification of Unit Holders

FUTURE OUTLOOK

KSE 100 Index started the year at 7,464 level and ended on June 30th 2006 at 9,989 resulting in almost 34% annual gain. The highest level touched during the fiscal year was around 12,270. We witnessed a constant increase in the interest rates by the U.S. Federal Reserve, followed by other large economies. This resulted in the readjustments of equity portfolios by the emerging market fund managers across the globe. In Pakistan, we witnessed a sharp decline during the last quarter of the current fiscal year where KSE-100 index declined by almost 30% before rebounding. The annual gain of 34% was still among the best performing emerging markets across the globe.

In Pakistan, we witnessed rising fixed deposit rates along with the rising interest rate scenario. The rates of National Saving Certificates were also raised by approximately 1.5%. The central bank is closely monitoring the inflationary data for further tightening of money supply. This can result in even higher interest rates with further readjustment of equity portfolios. The CVT was increased in the FY 06/07 federal budget from 0.01% to 0.02% that resulted in negative investor sentiment. The delay on the privatization front of companies including NIT and PSO and the dark cloud over the privatization of Pakistan Steel Mill have also resulted in dampened investor confidence. We feel that the markets might be range bound in the near term.

The sector analysis indicates strong discoveries on the Oil & Gas front. These discoveries along with setting up of new refineries in the country will lead us towards better output in the future. Recent announcements of the construction of new dams and highways along with the infrastructure reconstruction needs in the country will lead to further growth in the consumption of cement. The government has shifted its focus towards the agriculture sector with a shift in current policies, which are positive for the fertilizer sector. The current production level of automobile sector has not been able to meet with the rising demand. The growth of all these sectors along with the increased foreign remittances will add to the positive growth of the banking sector. Keeping a cautionary view on the interest rate scenario, we are bullish on the markets in the upcoming year.

AUDITORS

The Audit Committee in its meeting held on July 15, 2006, recommended the appointment of Messers A.F. Ferguson & Co. - Chartered Accountants in place of Messers Ford Rhodes Sidat Hyder & Co. - Chartered Accountants, as auditors of FBGF for the Financial Year 2006-2007. Messers Ford Rhodes Sidat Hyder & Co. - Chartered Accountants resigned as auditors of FBGF under the Non-Banking Finance Companies Rules, 2003, after the completion of three succeeding years as auditors. The Board of Directors approved the appointment.

ACKNOWLEDGEMENT

The Board of Directors of the Management Company is thankful to unit holders for their confidence on the Management, the Securities and Exchange Commission of Pakistan and the management of Karachi Stock Exchange for their valuable support, assistance and guidance. The Board also thanks the employees of the Management Company and the Trustee for their dedication and hard work.

For and on behalf of the Board



Salman Haider Sheikh
Chief Executive Officer

Karachi: July15, 2006

AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the annexed statement of assets and liabilities of **FAYSAL BALANCED GROWTH FUND** as at June 30, 2006 and the related income statement, distribution statement, statement of movement in unit holders' funds and cash flow statement, 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 management company 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 a reasonable basis for our opinion and after due verification, we report that:

- (a) as more fully explained in note 4.1 and 7.4 to the financial statements, the Fund has valued its investment in Term Finance Certificates (TFCs) on the basis of discounted cash flow method as allowed by International Accounting Standard 39; "Recognition and Measurement". Had the Fund valued its investments in TFCs as marked to market on the basis of rates quoted on the stock exchange as per the requirements of the Non-Banking Finance Companies (Established and Regulation) Rules, 2003, the carrying value of investments and net income for the year would have been higher by Rs. 46,989,099/-. 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 sold / redeemed during the year as well as the element of loss and capital losses in the price of units sold less those in units redeemed as recorded by the Fund would also have been different. The effects of such differences on the aforementioned 'element' have not been quantified as the same is considered impracticable by the management;
- (b) in our opinion, proper books of account have been kept by the Management Company in respect of Faysal Balanced Growth Fund as required by the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003; and
- (c) except for the effects of the matter stated in (a) 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, statement of movement in unit holders' funds and cash flow statement, together with the notes forming part thereof, have been prepared in accordance with the relevant provisions of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan and present a true and fair view of the state of Fund's affairs as at June 30, 2006 and of the income, changes in unit holders' funds and cash flows for the year then ended.

Ferdinand Saeed Hyder

KARACHI: July 15, 2006

CHARTERED ACCOUNTANTS

**DETAIL OF PATTERN OF HOLDING (UNITS)
AS AT JUNE 30, 2006**

| Associated Companies | Number of Unit Holders | Units Held |
|-------------------------------------|-----------------------------------|-------------------|
| Faysal Bank Limited | 1 | 2,000,000 |
| Directors and CEO | | |
| Directors: | | |
| Muhammad Iqbal | 1 | 1,515 |
| Feroz Rizvi | 1 | 13,103 |
| Shahid W. Mahmood | 1 | 2,050 |
| Chief Executive Officer | | |
| Salman Haider Sheikh | 1 | 183 |
| Public Limited Companies | 8 | 547,324 |
| Banks | 13 | 5,117,190 |
| Financial Institution and modarabas | 8 | 909,279 |
| Retirement Funds | 58 | 3,900,727 |
| Insurance Companies | 5 | 204,797 |
| Other corporate sector entities | 7 | 237,673 |
| Individuals | 679 | 2,325,763 |
| Total | 783 | 15,259,604 |

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2006

This statement is being presented by the Board of Directors of Faysal Asset Management Limited (FAML the company), the management company of **Faysal Balanced Growth Fund** (the Fund) to comply with the Code of Corporate Governance contained in Regulation No.37 of Listing Regulations of Karachi Stock Exchange Regulation for the purpose of establishing a framework of good governance, whereby listed company is managed in compliance with the Best Practices of the Code of Corporate Governance.

FAML, the Management Company is not listed and hence, the Code is not applicable to it. However, the fund, being listed on Karachi Stock Exchange, comes under the ambit of the code. The fund being a unit trust scheme does not have its own Board. The Board of directors of the management company manages the affairs of the fund.

The management company has applied the principles contained in the code in the following manner:

1. The management company encourages representation of independent non-executive directors. At present the Board includes two independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as tax payers 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 the stock exchange.
4. Two casual vacancies occurred during the year in the Board due to the resignation of Mr. Muhammad Khan Hoti and Mr. Ajaz Rahim. The casual vacancies were duly filled by the co-option of Mr. Muhammad Iqbal and Mr. Shahid Waqar Mahmood by the Board with the approval of Securities and Exchange Commission of Pakistan.
5. The Management Company has prepared a "**Statement of Ethics and Business Practices**" which has been signed by all the directors and employees of the management company.
6. The Board has developed a vision/mission statement, overall corporate strategy 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 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 during the period. 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 to all concerned.
9. The Directors of the Faysal Asset Management Limited are professionally qualified persons with rich experience in financial sector and are well aware of their duties and responsibilities under Memorandum and Articles of FAML and NBFC Rules, 2003.
10. The directors' report for this period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
12. The Directors, CEO do not hold any interest in the units of the fund other than that disclosed in the pattern of the share holdings (units).

13. The Fund has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an audit committee. It comprises of four members, all of whom are non-executive directors including the chairman of the committee.
15. The meetings of the audit committee were held at least once every quarter prior to approval of the financial statements of the Fund as required by the Code.
16. The Management Company has outsourced its internal audit function to M. Yousuf Adil Saleem & Co., Chartered Accountants.
17. 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.
18. 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.
19. We confirm that all other material principles contained in the Code have been complied with and the Secretarial Compliance Certificate would be filled along with the annual return of the Company.



Karachi
July 15, 2006

Salman Haider Sheikh
Chief Executive Officer

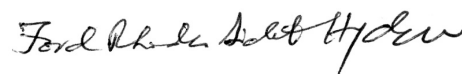
REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

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 Faysal Asset Management Limited (the Management Company) in respect of Faysal Balanced Growth Fund (the 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. 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 of Corporate Governance.

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, for the period ended June 30, 2006.



KARACHI: July 15, 2006

CHARTERED ACCOUNTANTS

REPORT OF THE TRUSTEE FAYSAL BALANCED GROWTH FUND

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

The Faysal Balanced Growth Fund, an open-end fund was established under a trust deed executed between Faysal Asset Management Limited as the Asset Management Company and Muslim Commercial Financial Services (Pvt) Limited as the Trustee on January 29, 2004. The Scheme was authorized by Securities and Exchange Commission of Pakistan (SECP) on February 18, 2004.

As per the Agreement of Change of Trustee dated June 1, 2005 and Deed of Change of Trustee dated June 4, 2005, Muslim Commercial Financial Services (Private) Limited retired as the Trustee and Central Depository Company of Pakistan Limited was appointed as the Trustee of Faysal Balanced Growth Fund.

In our opinion, Faysal Asset Management Limited, the Management Company of Faysal Balanced Growth Fund has in all material respects managed Faysal Balanced Growth Fund during the year ended June 30, 2006 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

For the purpose of information, the attention of the unit holders is drawn towards the Auditors' Report where in it is specified that Term Finance Certificates have been valued on the basis of discounted cash flow method as allowed by International Accounting Standard-39 instead of the closing rate quoted on stock exchange in accordance with Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Date: July 16, 2006
Karachi

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

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2006

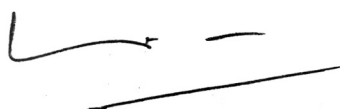
| | Note | 2006 Rupees | 2005 Rupees |
|--|------|----------------------|----------------------|
| Assets | | | |
| Bank balances | 5 | 27,579,973 | 232,210,681 |
| Receivables | 6 | 28,647,063 | 31,780,917 |
| Investments | 7 | 1,591,506,641 | 1,597,523,641 |
| Preliminary expenses and floatation costs | 8 | - | 1,954,796 |
| Total assets | | 1,647,733,677 | 1,863,470,035 |
| Liabilities | | | |
| Remuneration payable to the Management Company | 9 | 3,004,781 | 3,249,229 |
| Remuneration payable to the Trustee | 10 | 215,737 | 226,646 |
| Creditors, accrued and other liabilities | 11 | 23,039,559 | 98,639,517 |
| Total liabilities | | 26,260,077 | 102,115,392 |
| Net assets | | <u>1,621,473,600</u> | <u>1,761,354,643</u> |
| Unit holders' funds (as per statement attached) | | <u>1,621,473,600</u> | <u>1,761,354,643</u> |
| Number of units in issue | | <u>15,259,604</u> | <u>15,600,587</u> |
| Net asset value per unit | | <u>106.26</u> | <u>112.90</u> |

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

For Faysal Asset Management Limited
(Management Company)



Salman Haider Sheikh
Chief Executive Officer



Iqbal Alimohamed
Director



Mohammad Iqbal
Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

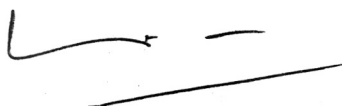
| | Note | 2006 Rupees | 2005 Rupees (Restated) |
|---|------|----------------|------------------------------|
| Income | | | |
| Net gain on sale of investments at fair value through profit or loss - held for trading | | 641,009,854 | 337,189,566 |
| Income from reverse repurchase transactions of listed securities | | 1,811,143 | 83,456,880 |
| Profit earned on term finance certificates | | 56,831,433 | 33,771,565 |
| Dividend income | | 40,182,620 | 37,425,900 |
| Return on bank balances | | 26,944,000 | 2,442,670 |
| Element of loss and capital losses in prices of units sold less those in units redeemed | | (58,823,689) | (33,915,953) |
| Other income | | 200,000 | - |
| | | 708,155,361 | 460,370,628 |
| Unrealized loss from holding and dealing in listed securities | 7.6 | (242,515,008) | (150,643,350) |
| | | 465,640,353 | 309,727,278 |
| Expenses | | | |
| Remuneration of the Management Company | 9 | 44,474,611 | 42,885,730 |
| Remuneration of the Trustee | 10 | 2,976,636 | 2,906,001 |
| Brokerage and settlement charges | | 7,474,982 | 31,218,761 |
| Bank charges | | 120,647 | 36,370 |
| Auditors' remuneration | 12 | 315,378 | 308,000 |
| SECP annual fee | 11.1 | 1,976,652 | 1,905,947 |
| Legal and professional charges | | 126,500 | - |
| Listing fee | | 323,504 | 33,000 |
| Amortization of preliminary expenses and floatation costs | | 1,954,796 | 499,999 |
| | | 59,743,706 | 79,793,808 |
| Net income for the year before taxation | | 405,896,647 | 229,933,470 |
| Provision for taxation - current | 13 | - | 3,279,651 |
| Net income for the year after taxation | | 405,896,647 | 233,213,121 |
| Earnings per unit at the close of the year | 4.14 | 26.60 | 14.95 |

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

For Faysal Asset Management Limited
(Management Company)



Salman Haider Sheikh
Chief Executive Officer



Iqbal Alimohamed
Director



Mohammad Iqbal
Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

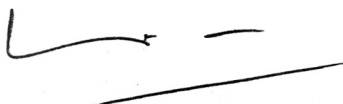
| | Rupees |
|--|---------------------|
| Balance of undistributed income as at July 1, 2004 | (31,917,211) |
| Net income for the year | 233,213,121 |
| Final distribution for the year June 30, 2005 @ Rs.12.5 per-unit transferred to reserve for issue of bonus units. Declared for distribution on July 12, 2005 | (195,007,337) |
| Balance of undistributed income as at June 30, 2005 as reported | 6,288,573 |
| Effect of change in accounting policy - note 4.2 | |
| - Final distribution for the year June 30, 2005 @ Rs.12.5 per-unit transferred to reserve for issue of bonus units. Declared for distribution on July 12, 2005 | 195,007,337 |
| Balance of undistributed income as at June 30, 2005 as restated | 201,295,910 |
| Net income for the year | 405,896,647 |
| Final distribution for the year June 30, 2005 @ Rs.12.5 per-unit transferred to reserve for issue of bonus units. Declared for distribution on July 12, 2005 | (195,007,337) |
| Interim distribution @ Rs.20 per-unit transferred to reserve for issue of bonus units. Declared for distribution on February 18, 2006 | (316,672,053) |
| Balance of undistributed income as at June 30, 2006 | 95,513,167 |

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

For Faysal Asset Management Limited
(Management Company)



Salman Haider Sheikh
Chief Executive Officer



Iqbal Alimohamed
Director



Mohammad Iqbal
Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

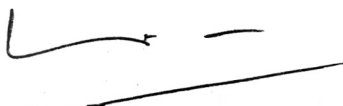
| | 2006 Rupees | 2005 Rupees (Restated) |
|--|----------------|------------------------------|
| Net assets at the beginning of the year | 1,761,354,643 | 1,998,296,419 |
| Amounts received on issue of 7,058,920 units (2005 : 594,969) | 310,957,610 | 66,041,475 |
| Amounts paid on redemption of 7,399,203 units (2005 : 5,296,518) | (915,558,989) | (570,112,325) |
| | (604,601,379) | (504,070,850) |
| Element of loss and capital losses in prices of units sold less those in units redeemed | 58,823,689 | 33,915,953 |
| Income for the year | 405,896,647 | 233,213,121 |
| Net assets as at the end of the year | 1,621,473,600 | 1,761,354,643 |
| Net assets as at the end of the year consist of: | | |
| Capital account | 1,525,960,433 | 1,560,058,733 |
| Undistributed income | 95,513,167 | 201,295,910 |
| | 1,621,473,600 | 1,761,354,643 |

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

For Faysal Asset Management Limited
(Management Company)



Salman Haider Sheikh
Chief Executive Officer



Iqbal Alimohamed
Director



Mohammad Iqbal
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

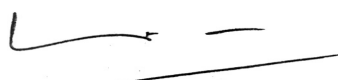
| | Note | 2006 Rupees | 2005 Rupees (Restated) |
|--|------|--------------------------|------------------------------|
| Cash flow from operating activities | | | |
| Net income | | 405,896,647 | 229,933,470 |
| Adjustments for: | | | |
| Net gain on sale of investments at fair value through profit or loss - held for trading | | (641,009,854) | (337,189,566) |
| Element of loss and capital losses included in prices of units sold less those in units redeemed | | 58,823,689 | 33,915,953 |
| Unrealized loss from holding and dealing in listed securities | | 242,515,008 | 150,643,350 |
| Amortization of preliminary expenses and floatation costs | | 1,954,796 | 499,999 |
| | | <u>68,180,286</u> | <u>77,803,206</u> |
| Decrease in assets | | | |
| Receivables (excluding advance taxation) | | 3,011,121 | 1,161,656,833 |
| Advance against purchase of Term Finance Certificates | | - | 47,500,000 |
| Advance against purchase of shares | | - | 100,000,000 |
| | | <u>3,011,121</u> | <u>1,309,156,833</u> |
| Increase / (decrease) in liabilities | | | |
| Remuneration paid to the Management Company | | (244,448) | (465,545) |
| Remuneration paid to the Trustee | | (10,909) | (20,636) |
| Creditors, accrued and other liabilities (excluding taxation) | | (75,599,959) | 2,490,591 |
| | | <u>(75,855,316)</u> | <u>2,004,410</u> |
| | | <u>(4,663,909)</u> | <u>1,388,964,449</u> |
| Proceeds from sale of investments | | 4,360,561,029 | 10,900,420,056 |
| Payments against purchase of investments | | (3,956,049,183) | (11,665,977,881) |
| Advance tax refund / (paid) | | 122,733 | (1,859,143) |
| Net cash inflow / (outflow) from operating activities | | <u>404,634,579</u> | <u>(767,416,968)</u> |
| Cash Flow from financing activities | | | |
| Amounts received on issue of units | | 310,957,610 | 66,041,475 |
| Payment against redemption of units | | (915,558,988) | (570,112,325) |
| Net cash outflow from financing activities | | <u>(604,601,378)</u> | <u>(504,070,850)</u> |
| Net (decrease) / increase in balance with banks during the year | | <u>(204,630,708)</u> | <u>117,476,631</u> |
| Balances with banks at the beginning of the year | | 232,210,681 | 114,734,050 |
| Balances with banks at the end of the year | 5 | <u><u>27,579,973</u></u> | <u><u>232,210,681</u></u> |

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

For Faysal Asset Management Limited
(Management Company)



Salman Haider Sheikh
Chief Executive Officer



Iqbal Alimohamed
Director



Mohammad Iqbal
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

1. LEGAL STATUS AND NATURE OF BUSINESS

Faysal Balanced Growth Fund (the Fund) has been established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and has been authorized as a unit trust scheme by the Securities and Exchange Commission of Pakistan (SECP) on February 18, 2004. It has been constituted under a Trust Deed, dated January 29, 2004, between Faysal Asset Management Limited, a company incorporated under the Companies Ordinance, 1984 and Muslim Commercial Financial Services (Private) Limited (MCFSL) as the Trustee, also incorporated under the Companies Ordinance, 1984 and a wholly owned subsidiary of Muslim Commercial Bank Limited till June 04, 2005 and thereafter between Faysal Asset Management Limited, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited (CDC) as the Trustee.

The Fund is an open ended balanced mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund. The units are listed on the Karachi Stock Exchange.

The principal activity of the Fund is to make investments in equity market and fixed income securities including money market instruments.

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 and the NBFC Rules. 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, the NBFC Rules, or directives issued by the SECP differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules and the said directives take precedence except for the valuation of term finance certificates as stated in Note 4.1 and 7.4 to the financial statements.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of held-for-trading investment securities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Investments and other financial assets

Financial assets written in the scope of IAS-39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Fund determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date the Fund commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or market convention such as 'T+3'.

Investments and financial assets of the Fund are categorized as follows:

The fair value of investments that are actively traded in organised financial market is determined by reference to quoted market bid prices at the close of business on the balance sheet. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss that are classified as held for trading or upon initial recognition they are designated by the entity as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in income.

Change in accounting policy for financial assets through profit or loss

Consequent to revision in International Accounting Standard (IAS) 39; "Financial Instruments Recognition and Measurement" the Fund has changed its accounting policy pertaining to transaction costs incurred on acquisition of investments. Now investments classified as held for trading which are measured at fair value through profit or loss, acquisition charges are charged to the profit and loss account when incurred. Previously such charges incurred on acquisition of all class of investments were included in the cost. This change in the accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the treatment specified in IAS 8; "Accounting Policies, Changes in Accounting Estimates and Errors". There is no financial impact of the above change in policy on net income and net assets of the Fund of either the current period or any of the prior periods. The effect of the change in policy to the line items appearing in the income statement is as follows:

| | 2006 Rupees | 2005 Rupees |
|--|------------------------|------------------------|
| Increase / (decrease) of profit and loss items due to change in IAS - 39 | | |
| Net (loss) / gain on sale of held-for-trading investments | 1,738,784 | 9,380,159 |
| Unrealized gain / (loss) on held-for-trading investments | 1,503,998 | 1,450,268 |
| Brokerage and settlement charges | 3,242,782 | 10,830,427 |
| Net effect | - | - |

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Fund has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognized or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Basis of valuation of Term Finance Certificates (TFCs)

Uptil May 11, 2005 the Fund's policy was to value listed TFCs at fair value determined by reference to Stock Exchange quoted market prices at the close of business on balance sheet date and unlisted TFCs at their investment price as required by the NBFC Rules. With effect from May 12, 2005, the management has changed the above accounting policy with respect to valuation of TFCs which are now valued on the basis of discounted cash flow method. The management has made this change as TFCs are neither actively traded on the Stock Exchange to reflect the prevailing interest rates adjustment in the money market nor their quoted prices are adjusted for the redemptions. In order to adopt a policy that is fair to all investors the management has determined the fair value of both listed and unlisted TFCs using the discounted cash flow method as it reflects fair measurement of such investment as allowed by IAS - 39. As the Fund has acquired TFCs during the year there is no financial impact of the above change on opening balance of retained earnings. The financial impact of the change in accounting policy for the current year has been disclosed in note 7.4.

4.2 Change in accounting policy for treatment of proposed dividend, bonus issue and other appropriations

During the year, the Institute of Chartered Accountants of Pakistan issued Circular No. 06/2006 with respect to treatment of proposed dividend, bonus issue and other appropriations. The aforesaid circular requires these declarations of dividends to holders of equity instrument including declaration of bonus issues and other appropriations except appropriations which are required by law after the balance sheet date, should not be recognized as liabilities or changes in reserves at the balance sheet date. Previously, the transfers were considered as adjusting events and were recorded at the balance sheet date. This change in the accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the treatment specified in International Accounting Standard - 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had these transfers been considered as non adjusting events, the unappropriated profit and reserves as at June 30, 2005 would have been higher and lower by Rs.195,007,337 respectively (June 30, 2004 Rs.Nil).

4.3 Securities under repurchase / resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repos) are not recognized in the statement of assets and liabilities. Amounts paid under these agreements are included in receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverse-repo agreement.

Transactions of sale under repurchase (repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of assets and liabilities and are measured in accordance with accounting policies for investment securities. The counterparty liabilities for amounts received under these transactions are recorded as liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the life of the repo agreement.

4.4 Derivatives

Derivative instruments held by the Fund generally comprise of futures contracts in the capital market. 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 balance sheet. The resultant gains and losses are included in the income currently.

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.

4.5 Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the income statement.

Impairment is determined as follows:

- a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
- (b) for assets carried at fair value, impairment is the difference between cost and fair value.
- (c) for assets carried at cost, impairment is present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

4.6 Provisions

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

4.7 Issue and redemption of units

Units issued are recorded at the offer price prevalent on the day the units are issued. The offer price represents the net asset value of units at the end of the day plus the allowable sales load. The sales load is payable to the Management Company as processing fee. Issue of units is recorded on acceptance of application from investor.

Units redeemed are recorded at the redemption price, prevalent on the day the units are redeemed. The redemption price represents the net asset value at the end of the day. Redemption of units is recorded on acceptance of application for redemption.

4.8 Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and short-term deposits with an original maturity of three months or less.

4.9 Revenue recognition

Gain or loss on sale of marketable and government securities is accounted for in the year in which it arises.

Dividend income is recorded when the right to receive payment is established.

Gains/(losses) arising on the revaluation of derivatives to the fair value are taken to the income statement as stated in note 4.3 to the financial statements.

Mark-up on government securities, term finance certificates, return on certificates of investment, profit on clean placements and return on bank balances are recognized on a time proportion basis.

4.10 Element of income and capital gains in prices of units sold less those in units redeemed

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

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

The net "element of income and capital gains in prices of units sold less those in units redeemed" during an accounting period is transferred to the income statement.

4.11 Taxation

The income of the Fund is exempt from taxation under clause 99 of the Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income of the year, as reduced by capital gains, whether realized or unrealized, is distributed amongst the unit holders. Accordingly, no provision for current and deferred taxation has been made in the financial statements as the Fund intends to avail the tax exemption every year.

4.12 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the statement of assets and liabilities when there is a legally enforceable right to set off the recognized amount and the Fund intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

4.13 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 outstanding at the period / year end.

4.14 Earnings per unit

Earnings per unit is calculated by dividing the net income for the period by the number of units outstanding as at the end of the period.

Earnings per unit (EPU) based on cumulative weighted average for the whole year has not been disclosed as in the opinion of the management determination of such EPU is not practicable.

4.15 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the Fund. These costs were initially decided by the Fund to be amortized over a period not exceeding sixty months. However in April the Fund decided to charge the remaining balance to the Income Statement as the Fund does not foresee any economic benefit from the deferment of these preliminary expenses and floatation costs. This has resulted in additional charge for the year amounting to Rs. 1,454,796 which is considered immaterial by the management.

| | | 2006 Rupees | 2005 Rupees |
|---|--|-----------------------------|-----------------------------|
| 5. BANK BALANCES | | | |
| Cash at bank - PLS Savings Account | 5.1 | 27,579,973 | 232,210,681 |
| | | <u> </u> | <u> </u> |
| 5.1 | These carry mark-up rates ranging from 2.25% to 9.00% per annum. | | |
| 6. RECEIVABLES - considered good | | | |
| Against sale of investments at fair value through profit or loss - held for trading | | 5,350,000 | 10,984,022 |
| Mark-up receivable on term finance certificates | | 8,825,005 | 14,540,076 |
| Dividend receivable | | 12,237,500 | 3,992,270 |
| Advance tax | 6.1 | 1,736,410 | 1,859,143 |
| Return receivable on bank balances | | 391,689 | 311,388 |
| Prepaid settlement charges | | 106,459 | 94,018 |
| | | <u> </u> | <u> </u> |
| | | <u>28,647,063</u> | <u>31,780,917</u> |

6.1 This represents tax withheld till September 30, 2004 under the newly inserted Section 233(A) of the Income Tax Ordinance, 2001 through Finance Act, 2004. This amount has been claimed as refundable in the return of income for the year ended June 30, 2005.

| 7. INVESTMENTS | Note | 2006 Rupees | 2005 Rupees |
|--|------|----------------------|----------------------|
| At fair value through profit or loss - held for trading | | | |
| Listed equity securities | 7.1 | 1,151,058,141 | 983,217,844 |
| Listed debt securities | 7.2 | 440,448,500 | 512,341,208 |
| | | <u>1,591,506,641</u> | <u>1,495,559,052</u> |
| Unlisted debt securities | 7.3 | - | 101,964,589 |
| | | <u>1,591,506,641</u> | <u>1,597,523,641</u> |

| | As at July 1, 2005 | Acquired during the year | Bonus / right shares received during the year | Disposed during the year | As at June 30, 2006 | Market value (Rupees) | % of net assets |
|--|--------------------------|--------------------------------|---|--------------------------------|---------------------------|-----------------------------|--------------------|
| | ← No. of holdings → | | | | | | |
| 7.1 Listed equity securities* | | | | | | | |
| * Ordinary share have a face value of Rs. 10/- each unless stated otherwise. | | | | | | | |
| Cement | | | | | | | |
| DG Khan Cement Limited | - | 3,239,575 | - | (2,744,700) | 494,875 | 44,538,750 | 2.75% |
| Fauji Cement Company Limited | 650,000 | - | - | (650,000) | - | - | 0.00% |
| Lucky Cement Limited | 468,000 | 600,000 | - | (1,068,000) | - | - | 0.00% |
| Maple Leaf Cement Limited | 300,000 | 2,708,050 | - | (2,158,050) | 850,000 | 21,760,000 | 1.34% |
| Insurance Companies | | | | | | | |
| Adamjee Insurance Company Limited | 1,000,000 | 39,300 | - | (1,039,300) | - | - | 0.00% |
| Commercial Banks | | | | | | | |
| National Bank of Pakistan | - | 3,331,000 | - | (2,526,600) | 804,400 | 173,348,200 | 10.69% |
| MCB Bank Limited | 400,000 | 2,373,400 | - | (2,573,400) | 200,000 | 42,060,000 | 2.59% |
| Union Bank Limited | 200,000 | - | - | (200,000) | - | - | 0.00% |
| Askari Commercial Bank Limited | 120,000 | 160,000 | - | (130,000) | 150,000 | 11,632,500 | 0.72% |
| Bank Alfalah Limited | 495,100 | 718,662 | 158,150 | (706,100) | 665,812 | 26,632,480 | 1.64% |
| NIB Bank Limited | 200,000 | 47,734 | - | (131,000) | 116,734 | 2,393,047 | 0.15% |
| PICIC Commercial Bank Limited | - | 60,500 | - | (60,500) | - | - | 0.00% |
| Oil & Gas Marketing Companies | | | | | | | |
| Attock Petroleum Limited | - | 5,000 | - | - | 5,000 | 1,615,000 | 0.10% |
| Pakistan State Oil Company Limited | 253,000 | 489,500 | - | (642,500) | 100,000 | 30,900,000 | 1.91% |
| Sui Northern Gas Pipelines Company Limited | 100,200 | - | - | (100,200) | - | - | 0.00% |
| Sui Southern Gas Company Limited | 300,000 | 500,000 | - | (100,000) | 700,000 | 20,230,000 | 1.25% |
| Chemicals | | | | | | | |
| ICI Pakistan Limited | 768,000 | 657,600 | - | (1,257,400) | 168,200 | 18,350,620 | 1.13% |
| Oil & Gas Exploration Companies | | | | | | | |
| Pakistan Oil Fields Limited | 95,200 | 1,294,600 | - | (939,800) | 450,000 | 150,660,000 | 9.29% |
| Oil and Gas Development Company Limited | 447,700 | 4,626,600 | - | (4,124,300) | 950,000 | 129,912,500 | 8.01% |
| Pakistan Petroleum Limited | 850,000 | 1,041,500 | - | (1,391,500) | 500,000 | 105,925,000 | 6.53% |
| Fertilizer | | | | | | | |
| Fauji Fertilizer Company Limited | - | 715,700 | - | (715,700) | - | - | 0.00% |
| Fauji Fertilizer Bin Qasim Limited | 500,000 | 2,473,500 | - | (1,500,000) | 1,473,500 | 43,099,875 | 2.66% |
| Engro Chemical Pakistan Limited | 349,500 | - | - | (349,500) | - | - | 0.00% |
| Synthetic and Rayon | | | | | | | |
| Dewan Salman Fibres Limited | 700,000 | 200,000 | - | - | 900,000 | 10,080,000 | 0.62% |

| | As at July 01, 2005 | Acquired during the year | Bonus / right shares received during the year | Disposed during the year | As at June 30, 2006 | Market value (Rupees) | % of net assets |
|--|---------------------------|--------------------------------|---|--------------------------------|---------------------------|-----------------------------|--------------------|
| | ← No. of holdings → | | | | | | |
| Sugar and Allied Industries | | | | | | | |
| Tandianwala Sugar Mills Limited | - | 50,000 | - | (50,000) | - | - | 0.00% |
| Technology and Communication | | | | | | | |
| Pakistan Telecommunication Company Limited | 1,905,000 | 3,550,000 | - | (2,255,000) | 3,200,000 | 129,920,000 | 8.01% |
| Telecard Limited | 1,593,500 | 106,500 | - | (1,700,000) | - | - | 0.00% |
| Callmate Telips Telecom Limited | 592,000 | - | - | (592,000) | - | - | 0.00% |
| Textile Spinning | | | | | | | |
| Dewan Farooq Spinning Mills Limited | 1,500,000 | - | - | (990,000) | 510,000 | 3,417,092 | 0.21% |
| Textile Composite | | | | | | | |
| Artistic Denim Mills Limited | - | 15,700 | - | (4,200) | 11,500 | 2,587,500 | 0.16% |
| Kohinoor Textile Mills Limited | 8,570 | - | - | (8,570) | - | - | 0.00% |
| Nagina Cotton Mills Limited | 71,000 | - | - | - | 71,000 | 1,455,500 | 0.09% |
| Azgard Nine Limited | 1,135,000 | - | - | (1,135,000) | - | - | 0.00% |
| Nishat Mills Limited | - | 1,534,200 | - | (418,200) | 1,116,000 | 116,956,800 | 7.21% |
| Nishat (Chunian) Limited | 84,400 | 9,000 | 9,340 | (102,740) | - | - | 0.00% |
| Refineries | | | | | | | |
| National Refinery Limited | 52,300 | - | - | (52,300) | - | - | 0.00% |
| Attack Refinery Limited | - | 50,000 | - | (50,000) | - | - | 0.00% |
| Modaraba | | | | | | | |
| First Habib Modaraba | 424,000 | - | - | - | 424,000 | 2,946,800 | 0.18% |
| Close-End Mutual Fund | | | | | | | |
| PICIC Growth Fund | - | 100,000 | - | (100,000) | - | - | 0.00% |
| Paper & Board | | | | | | | |
| Packages Limited | 12,220 | 1,200 | - | - | 13,420 | 2,809,477 | 0.17% |
| Cable & Electric Goods | | | | | | | |
| Pak Electron Limited | 362,710 | 54,406 | - | (417,116) | - | - | 0.00% |
| Investment Banks/Co/Securities | | | | | | | |
| First Dawood Investment Bank Limited | 5,000 | - | - | (5,000) | - | - | 0.00% |
| Jahangir Siddiqui Investment Bank Limited | - | 160,000 | - | (160,000) | - | - | 0.00% |
| Glass and Ceramics | | | | | | | |
| Tariq Glass Industries Limited | - | 13,000 | - | (1,000) | 12,000 | 540,000 | 0.03% |
| Miscellaneous | | | | | | | |
| Tri Pack Films Limited | - | 140,000 | - | - | 140,000 | 7,287,000 | 0.45% |
| | 15,942,400 | 31,066,227 | 167,490 | (33,149,676) | 14,026,441 | 1,101,058,141 | 67.89% |

* Preference shares have a face value of Rs.10/- each unless stated other wise

| | | | | | | | |
|---------------------------------|------------|------------|---------|--------------|------------|---------------|--------|
| Cable and Electric Goods | | | | | | | |
| Pak Electron Limited | 5,000,000 | - | - | - | 5,000,000 | 50,000,000 | 3.08% |
| | 5,000,000 | - | - | - | 5,000,000 | 50,000,000 | 3.08% |
| | 20,942,400 | 31,066,227 | 167,490 | (33,149,676) | 19,026,441 | 1,151,058,141 | 70.97% |

| | As at July 01, 2005 | Acquired during the period | Disposed during the period | As at June 30, 2006 | Fair value (Rupees) | % of net assets |
|---|------------------------|----------------------------------|----------------------------------|------------------------|------------------------|--------------------|
| | ← No. of holdings → | | | | | |
| 7.2 Listed debt securities | | | | | | |
| These TFCs have a face value of Rs. 5,000/- each. | | | | | | |
| Commercial Banks | | | | | | |
| United Bank Limited(1st issue) | 25,000 | - | - | 25,000 | 113,809,253 | 7.02% |
| United Bank Limited (2nd issue) | 5,000 | - | - | 5,000 | 23,185,400 | 1.43% |
| Investment Companies | | | | | | |
| Jahangir Siddiqui & Company Limited | 7,650 | - | - | 7,650 | 35,067,141 | 2.16% |
| Oil & Gas Exploration Companies | | | | | | |
| Chanda Oil and Gas Securitization Company | 28,000 | - | (8,000) | 20,000 | 91,224,004 | 5.62% |
| Naimat Basal Oil and Gas Securitization Company | 15,000 | - | - | 15,000 | 61,974,448 | 3.82% |
| Leasing Companies | | | | | | |
| Trust Leasing Company Limited | 4,500 | - | - | 4,500 | 15,209,055 | 0.94% |
| Technology and Communication | | | | | | |
| Tele Card Limited | 20,000 | - | - | 20,000 | 99,979,199 | 6.16% |
| Textile Composite | | | | | | |
| Azgard - Nine Limited | - | 10,000 | (10,000) | - | - | 0.00% |
| | 105,150 | 10,000 | (18,000) | 97,150 | 440,448,500 | 27.16% |

7.3 Unlisted debt securities

These TFCs have a face value of Rs. 5,000/- each.

Transport and Communication

| | | | | | | |
|---------------|-----|---|-------|---|---|-------|
| Spell Telecom | 102 | - | (102) | - | - | 0.00% |
| | 102 | - | (102) | - | - | 0.00% |

7.4 As stated in note 4.1 TFCs, both listed and unlisted, have been valued based on discounted cash flow method as allowed by IAS-39. However, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 require listed securities to be valued on the basis of the closing price of the Stock Exchange on which the same are listed and unlisted to be valued at the investment price. Had these been valued on the basis required by the NBFC Rules, the net income for the year and net assets as at June 30, 2006 would have been higher by Rs. 46,989,099/- (2005 : Rs. 13,444,203/-).

Further, the net asset value of the Fund during the last quarter may also have been lower or higher based on the prevailing stock exchange rates and as such there may be differences in the "element of income and capital gains in prices of units sold less those of units redeemed" accordingly. The impact of the method used by the Fund on the "element of income and capital gains in prices of units sold less those of units redeemed" paid or received is not quantifiable and is considered immaterial as difference between the closing Stock Exchange price and discounted cash flow for term finance certificates form less than 2.89% of the net asset value at the year end.

7.5 Significant terms and conditions of TFCs are as follows:

| Name of Security | Number of Certificates | Face Value (Rs.) | Mark-up Rate (Per annum) | Maturity | Secured / Unsecured | Rating |
|---|------------------------|------------------|--------------------------|--------------|---------------------|--------|
| United Bank Limited (1st issue) | 25,000 | 5,000 | 8.45% | August, 2012 | Unsecured | A |
| United Bank Limited (2nd issue) | 5,000 | 5,000 | 9.49% | March, 2013 | Unsecured | A |
| Trust Leasing Company Limited | 4,500 | 5,000 | 3% + 6 months KIBOR | July, 2009 | Secured | AA- |
| Jahangir Siddiqui & Company Limited | 7,650 | 5,000 | 8.29% | Dec, 2009 | Secured | AA+ |
| Chanda Oil & Gas Securitization Company Limited | 20,000 | 5,000 | 3.25% + 3 months KIBOR | Feb, 2012 | Unsecured | A |
| Naimat Basal Oil & Gas Securitization Company Limited | 15,000 | 5,000 | 2.5% + 6 months KIBOR | April, 2010 | Secured | A |
| Tele Card Limited | 20,000 | 5,000 | 3.75% + 6 months KIBOR | May, 2011 | Secured | A |

| | | |
|-------------|------------------------|---------------------------------------|
| Note | 2006 Rupees | 2005 Rupees (Restated) |
|-------------|------------------------|---------------------------------------|

7.6 Net unrealized loss from holding and dealing in investments at fair value to profit or loss - held for trading

| | | |
|---|----------------------|----------------------|
| Market / fair value of investments at fair value through profit or loss - held for trading | 1,591,506,641 | 1,597,523,641 |
| Less: Cost of investments at fair value through profit or loss - held for trading | <u>1,854,071,980</u> | <u>1,748,302,391</u> |
| | (262,565,339) | (150,778,750) |
| Net unrealized loss in market value investments at fair value through profit or loss at the beginning of the year | <u>150,778,750</u> | <u>28,628,975</u> |
| Less: Realized on disposal during the year | <u>130,728,419</u> | <u>28,493,575</u> |
| | <u>20,050,331</u> | <u>135,400</u> |
| | <u>(242,515,008)</u> | <u>(150,643,350)</u> |

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

| | | |
|------------------------------------|------------------|------------------|
| Opening balance | 1,954,796 | 2,454,795 |
| Less: Amortization during the year | <u>1,954,796</u> | <u>499,999</u> |
| Closing balance | <u>-</u> | <u>1,954,796</u> |

9. REMUNERATION PAYABLE TO THE MANAGEMENT COMPANY

The Management Company is entitled to a remuneration for services rendered to the Fund under the provisions of the NBFC Rules, 2003 during the first five years of a fund's existence, of an amount not exceeding three per cent of the average annual net assets of the Fund and thereafter of an amount equal to two per cent of such assets.

10. REMUNERATION PAYABLE TO THE TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets value of the fund.

| | Note | 2006 Rupees | 2005 Rupees |
|--|------|----------------|----------------|
| 11. CREDITORS, ACCRUED AND OTHER LIABILITIES | | | |
| Against purchase of investments at fair value through profit or loss - held for trading | | 20,053,756 | 95,111,954 |
| Sales load payable | | 571,984 | 791,269 |
| SECP annual fee payable | 11.1 | 1,976,654 | 2,310,463 |
| Accrued expenses | | 437,165 | 425,831 |
| | | 23,039,559 | 98,639,517 |
| | | 23,039,559 | 98,639,517 |

11.1 SECP annual fee payable

This represents annual fee payable to the Securities and Exchange Commission of Pakistan (SECP) in accordance with Rule 79 of the NBFC Rules, 2003, whereby the Fund is required to pay SECP an amount equal to one tenth of 1% of the average annual net assets of the Fund.

12. AUDITORS' REMUNERATION

| | | |
|--|---------|---------|
| Audit fee | 200,000 | 200,000 |
| Half yearly review | 50,000 | 50,000 |
| Review of statement of compliance with Code of Corporate Governance | 25,000 | 25,000 |
| Out of pocket expenses | 40,378 | 33,000 |
| | 315,378 | 308,000 |
| | 315,378 | 308,000 |

13. TAXATION

No provision for current year taxation has been made in the financial statements in view of the exemption under Clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its income excluding realized and unrealized capital gains for the year is distributed among the units holders.

14. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Faysal Asset Management Limited being the management company, Faysal Bank Limited, AKD Securities (Private) Limited and Islamic Investment Company of the Gulf (Bahamas) Limited.

| | 2006 Rupees | 2005 Rupees | |
|--|----------------|----------------|-------|
| Faysal Asset Management Limited | | | |
| Remuneration of Management Company | 44,474,610 | 42,885,730 | |
| Sales load | 6,434,469 | 984,973 | |
| Faysal Bank Limited | | | |
| Issue of units | 651,616 | - | Units |
| Redemption of units | 620,586 | - | Units |
| Profit on PLS Savings Account | 4,790,868 | 2,305,831 | |
| AKD Securities (Pvt.) Limited | | | |
| Brokerage fee | 529,233 | 2,825,785 | |
| Purchase of marketable securities | 26,737,500 | 2,353,881,336 | |
| Sale of marketable securities | 285,883,975 | 1,476,762,890 | |
| Profit on money market transactions | - | 3,800,827 | |
| Listed equity securities purchased under resale commitment | - | 12,515,861,485 | |
| Listed equity securities purchased under resale commitment matured | - | 12,518,597,972 | |
| Issue of units | 186,176 | - | Units |
| Redemption of units | 786,176 | - | Units |

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

15. Interest Rate Sensitivity Position

15.1 The Fund's interest rate sensitivity related to financial assets and financial liabilities as at June 30, 2006 can be determined from the following:

| | ----- Exposed to Interest Rate Risk ----- | | | | Total |
|--|---|---|--------------------|-----------------------------------|---------------|
| | Upto three months | More than three month and upto one year | More than one year | Not exposed to interest Rate Risk | |
| ----- Amount in Rupees ----- | | | | | |
| On-balance sheet financial instruments | | | | | |
| Financial Assets | | | | | |
| Bank Balances | 27,579,973 | - | - | - | 27,579,973 |
| Receivables | - | - | - | 28,647,063 | 28,647,063 |
| Investments | 440,448,500 | - | - | 1,151,058,141 | 1,591,506,641 |
| | 468,028,473 | - | - | 1,179,705,204 | 1,647,733,677 |
| Financial Liabilities | | | | | |
| Remuneration payable to the Management Company | - | - | - | 3,004,781 | 3,004,781 |
| Remuneration payable to the Trustee | - | - | - | 215,737 | 215,737 |
| Creditors, accrued and other liabilities | - | - | - | 23,039,559 | 23,039,559 |
| | | | | 26,260,077 | 26,260,077 |
| On-balance sheet gap | 468,028,473 | - | - | 1,153,445,127 | 1,621,473,600 |

15.2 The rates of return on financial assets are as follows:

| | Percentage 2006 | Percentage 2005 |
|---------------------------|--------------------|--------------------|
| Term Finance Certificates | 8.29% - 13.41% | 8.29% - 12.85% |
| Bank balances | 2.25% - 9% | 0.5% - 7.25% |

In addition, during the year the Fund also charged mark-up on reverse repurchase transactions of listed equity securities ranging between 5.50% to 11.87% (2005: 5.50% to 11.87%). The balance in this account is nil at the year end.

16. Maturities of Assets and Liabilities

| | ----- June 30, 2006 ----- | | | |
|---|------------------------------|---|-----------------------|---------------|
| | Upto three months | More than three months and upto one year | More than one year | Total |
| | ----- Amount in Rupees ----- | | | |
| Assets | | | | |
| Bank Balances | 27,579,973 | - | - | 27,579,973 |
| Receivables | 28,647,063 | - | - | 28,647,063 |
| Investments | 1,591,506,641 | - | - | 1,591,506,641 |
| | 1,647,733,677 | - | - | 1,647,733,677 |
| Liabilities | | | | |
| Remuneration payable to the Management Company | 3,004,781 | - | - | 3,004,781 |
| Remuneration payable to the Trustee | 215,737 | - | - | 215,737 |
| Creditors, accrued and other liabilities | 23,039,559 | - | - | 23,039,559 |
| | 26,260,077 | - | - | 26,260,077 |
| Net Assets | 1,621,473,600 | - | - | 1,621,473,600 |

17. FINANCIAL RISK MANAGEMENT POLICIES

17.1 Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Management Company manages market risk by monitoring exposure on marketable securities by following the internal guidelines of the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

17.2 Yield / interest rate risk

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities and off-balance sheet financial instruments that mature or reprice in a given period. The Management Company manages these mismatches through risk management strategies where significant changes in gap positions can be adjusted.

The Fund is not materially exposed to yield / interest rate risk as there are no interest bearing financial liabilities giving rise to mismatches of financial assets and financial liabilities.

17.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitment associated with financial instruments. The Management Company manages liquidity risk by following internal guidelines of the Investment Committee such as monitoring maturities of financial assets and financial liabilities and investing in highly liquid financial assets.

The Fund is not materially exposed to liquidity risk as all obligations / commitments of the Fund are short term in nature and all assets of the Fund are easily realizable / convertible into cash on the Stock Exchanges and over-the-counter market.

17.4 Credit risk

Credit risk arising from the inability of the counter parties to meet the terms of the Fund's financial instrument contracts is generally limited to the amounts, if any, by which the counter party obligations exceed the obligations of the Fund. The Fund's policy is to enter into financial instrument contracts by following internal guidelines duly approved by the Investment Committee such as approving counter parties, approving credit limits and obtaining adequate collateral and by following strict credit evaluation criteria laid down by the management.

Concentration of credit risk exist 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. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse creditworthy counter parties thereby mitigating any significant concentration of credit risk.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Underlying the definition of fair value is the presumption that the Fund 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.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value as the items are short term in nature.

| | 2006 Rupees | 2005 Rupees |
|--------------------------------|------------------------|------------------------|
| 19. PERFORMANCE TABLE | | |
| Highest offer price / unit | 147.41 | 131.88 |
| Lowest redemption price / unit | 95.42 | 97.47 |

20. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by Board of Directors of Management Company on July 15, 2006.

21. DIVIDEND

The Board of Directors in their meeting held on July 15, 2006 approved the issue of bonus units @ 6% of the face value of Rs.100/- per unit (i.e. Rs.6/- per unit) for the year ended June 30, 2006, amounting to Rs.91,557,623/-. The Institute of Chartered Accountants of Pakistan vide Circular No. 6 dated June 19, 2006 made the requirement of International Accounting Standard 10 "Events after the Balance Sheet Date" mandatory for every entity. International Accounting Standard 10, requires that dividend declared (including stock dividend) to be treated as a non-adjusting event. Accordingly, these financial statements do not include the effect of the aforementioned appropriation as this will be incorporated in the year in which it was declared.

22. GENERAL

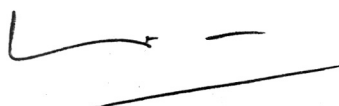
22.1 Corresponding figures have been reclassified, wherever necessary. There were no material reclassifications.

22.2 Figures are rounded off to the nearest rupee.

For Faysal Asset Management Limited
(Management Company)



Salman Haider Sheikh
Chief Executive Officer



Iqbal Alimohamed
Director



Mohammad Iqbal
Director

