

# Commitment Par Excellence



FAYSAL  
BALANCED  
GROWTH FUND

Faysal  
Income &  
Growth Fund

FAYSAL  
SAVINGS  
GROWTH FUND

Managed by

# Faysal Asset Management Limited



Faysal  
income &   
Growth Fund

## Faysal Income & Growth Fund

The prime objective of Faysal Income & Growth Fund (FIGF) is to provide superior long-term risk adjusted returns by investing in a diverse pool of fixed income securities, including money market instruments; in particular, the aim is to minimise interest rate risk through duration management and default risk through portfolio diversification. The Fund will employ prudent and disciplined investment management, and maximise the total investment return through systematic and informed security selection.

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## Fund Information

**Management Company**  
Faysal Asset Management Limited

**Board of Directors of the Management Company**  
Mr. Khalid Siddiq Tirmizey, Chairman  
Mr. Salman Haider Sheikh, Chief Executive Officer  
Mr. Sanaullah Qureshi, Director  
Mr. Feroz Rizvi, Director  
Syed Majid Ali Esq., Director

**CFO of the Management Company**  
Mr. Abdul Razzak Usman  
Mr. Shakeel Musani (Resigned w.e.f July 7, 2008)

**Company Secretary of the Management Company**  
Mr. M. Siddique Memon

**Audit Committee**  
Mr. Feroz Rizvi, Chairman  
Mr. Sanaullah Qureshi, Member  
Syed Majid Ali Esq., Member

**Trustee**  
Central Depository Company of Pakistan  
Suite # M 13, 16, Mezzanine Floor, Progressive Plaza,  
Beaumont Road, Near PIDC House, Karachi.

**Bankers to the Fund**  
Atlas Bank Limited  
Bank Alfalah Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
MCB Bank Limited  
NIB Bank Limited  
Saudi Pak Commercial Bank Limited  
The Bank of Punjab

**Auditors**  
Ford Rhodes Sidat Hyder & Co., Chartered Accountants

**Legal Advisor**  
Mohsin Tayebaly & Co.  
2nd Floor, Dime Centre,  
BC-4, Block-9, KDA-5,  
Clifton, Karachi.

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

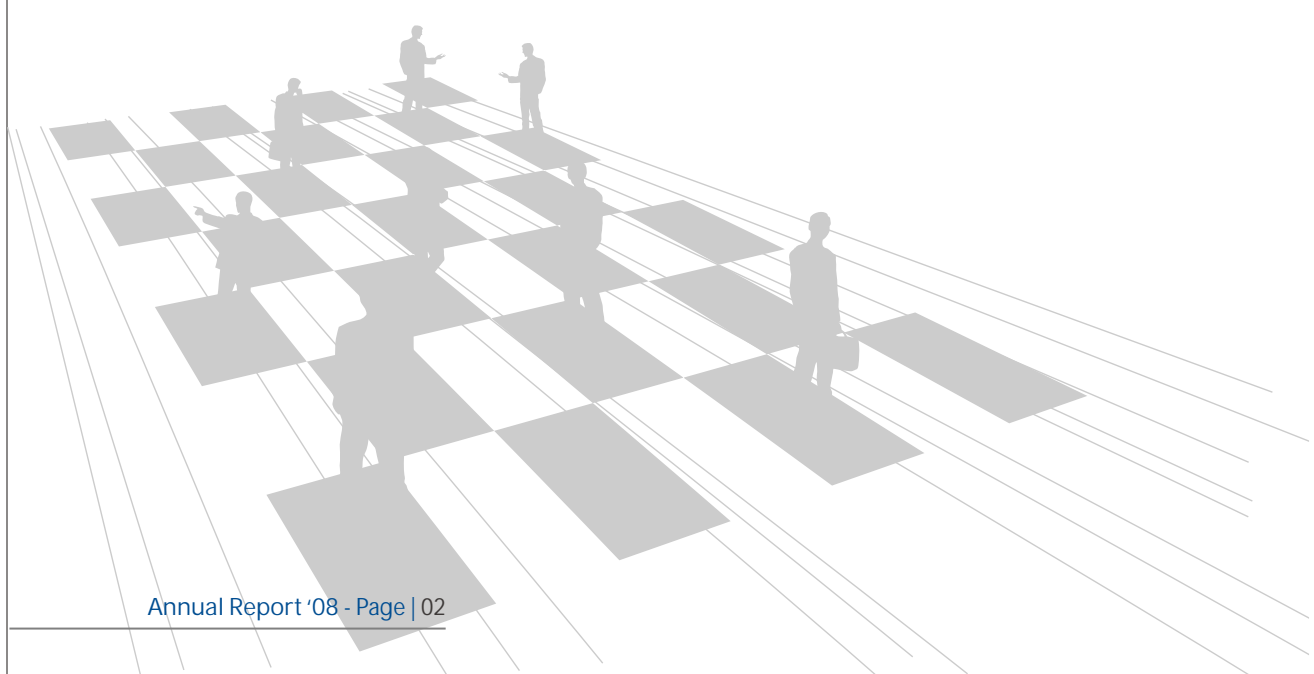
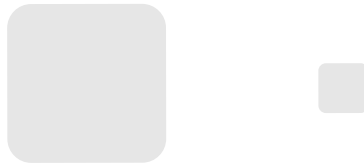
**Distributors**  
Atlas Capital Markets (Pvt) Limited  
Alfalah Securities (Pvt) Limited  
Faysal Asset Management Limited  
Faysal Bank Limited  
Flow (Pvt) Limited  
Foundation Securities (Pvt) Limited  
IGI Investment Bank Limited  
JS Global Capital Limited  
Pak Oman Investment Bank Limited  
Reliance Financial Products (Pvt) Limited



## Mission Statement



FIGF seeks to provide its risk-averse investors an opportunity to earn a consistent market based income with a conservative risk profile while maintaining security of principal as its prime objective.



## Report of the Directors of the Management Company



The Directors of the Faysal Asset Management Limited, the Management Company of Faysal Income & Growth Fund (FIGF), are pleased to present the third Annual Report on the operations of FIGF along with the audited accounts, Reports of the Trustee and Auditors to the Unit Holders for the financial year ended June 30, 2008.

### Sale and Redemption of Units

During the year, units worth Rupees 6,542 million were issued and units with a value of Rupees 7,015 million were redeemed. FIGF being a Hybrid Income fund is favoured by investors during the bullish run of the equity markets as it provides investors a chance to earn a higher yield than average fixed income funds. The fund witnessed redemptions towards the end of the year as the equity markets witnessed a downturn thus resulting in the investors switching into the pure money market funds. The fund size will improve as the risk to reward ratio indicates better yield for the long term investors as indicated by the inception yield of 11.40%.

### Unit Holders

As of June 30, 2008, total unit outstanding were decreased by 1.53%. As of June 30, 2008, 22,280,970 units with a value of Rs. 2,304 million were outstanding (June 30, 2007: 22,627,369 units with a value of Rs. 2,554 million). The number of investors in the fund was increased by over 43% during the year. This indicates lower concentration risk in the fund.

### 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 period as well as the prices prevailing as of June 30, 2008 were as below:

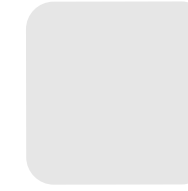
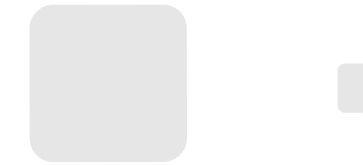
|                     | Offer Price | Redemption Price |
|---------------------|-------------|------------------|
| Highest             | 109.24      | 108.15           |
| Lowest              | 101.41      | 100.39           |
| As Of June 30, 2008 | 104.47      | 103.43           |

### Performance

Faysal Income & Growth Fund (FIGF), by the grace of Almighty Allah, performed well with one of the highest yields when compared with the fixed income funds in the country. FIGF posted an annualised yield of 9.94% for the year while the average fixed income funds posted a yield of 9.41%. This clearly indicates out-performance of the fund during the year. Being a predominantly income fund, the fund's emphasis is on managing interest rate risk and duration risk by maintaining a short to medium-term investment portfolio. The emphasis was also given to the credit quality of the financial instruments in the set allocation to provide stable long-term returns while minimising portfolio risk.

### Market Overview & Future Outlook

On the economic front, the real GDP was recorded at 5.8% in FY08 as compared to 6.8% in FY07. The average rate of growth in the country has been around 6.6% in the past five years. Going forward, the economic conditions have been deteriorating resulting from high oil import bill and political uncertainty. The rise in the international oil prices fuelled inflationary pressure in the economy. The headline CPI inflation remained high with pressure on food inflation indicating the highest inflationary numbers in a long time. The central bank remained its strict monetary policy tightening stance throughout the fiscal year to control inflation. The sharp rising interest rate scenario slowed the overall economic output. The devaluation of rupee versus dollar is expected to further impact the worsening situation.





## Report of the Directors of the Management Company

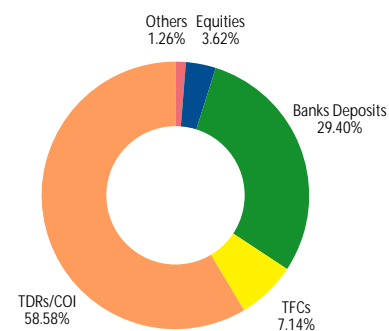


The rising trend of commodity prices in the international market, higher demand for furnace oil by thermal power plants, higher oil import bill due to increase in oil prices and anticipated increase in the import of power generating machinery may put upward pressures on the import bill. These factors along with the political uncertainty have impacted the foreign direct investment and foreign portfolio investment negatively. The flight of local and foreign capital from the economy has posted serious economic challenges for the economic managers.

Sustained efforts and vigilance is required by the economic managers along with political stability to address the existing and new emerging challenges of the macroeconomic environment. Inflationary pressures have to be further contained by addressing deeper issues than that of the supply side economics. Similarly, long-term health of the economy requires a lower sustainable current account deficit, concurrent with a rise in the domestic savings rate and a gradual reduction in the fiscal deficit. A graduated increase in the tax-to-GDP ratio is also required to finance the development spending which needs to be raised for in the long-term growth potential of the country.

### Asset Allocation

The Asset Allocation of the fund as on June 30, 2008 is as follows:



Due to rising international oil prices, we are witnessing an increasing inflationary pressure in the economy resulting in further extension of the tight monetary policy stance by the policy makers. This aggressive tightening stance has compelled the fund managers to manage the liquidity required for the investment in Government Securities by holding it in A-rated financial institutions at attractive yields.

### Income Distribution

The Board has approved fund distribution at the rate of 10% (Interim 6.66% and final 3.34%) (i.e. Rs. 10 per unit). This dividend represents one of the highest paid dividends in the fixed income and/or money market category funds during the same period.

### Mutual Fund Rating

JCR-VIS has maintained fund stability rating of "A+(f)" for Faysal Income & Growth Fund (FIGF). This is one of the highest ratings among the fixed income funds in Pakistan. The fund stability rating is based on the investment policy and asset allocation

mix of the portfolio. The portfolio has indicated low variance and downside deviation risk by minimising interest rate risk and duration risk. This was achieved by maintaining high credit quality portfolio in shorter durations giving optimum yield to the investors while minimising portfolio risk.

### Meetings of the Directors

The details relating to the meetings of directors are given in this Annual Report.

### Corporate Governance

1. A prescribed statement by the management along with the auditors' report thereon for the year ended June 30, 2008 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 unit holder'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 judgement.
  - 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 been fully disclosed in the accounts.
  - ix. The details of Board Meetings held and attended by the Directors form part of this Annual Report.
  - x. The prescribed pattern of shareholding is given as part of this Annual Report.

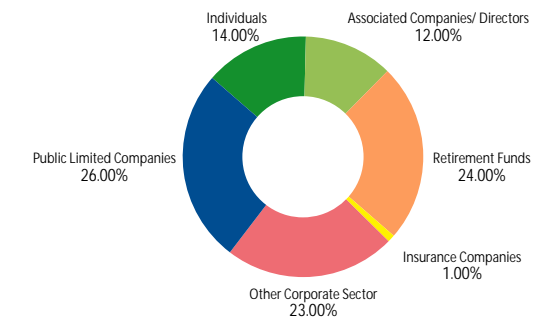
The sale and repurchase of units of the Fund carried out by the Directors, CEO, COO CFO and Company Secretary of the Management Company including their spouse and minor children are as under:

| Trades By:                       | Investment                 | Redemption |
|----------------------------------|----------------------------|------------|
|                                  | ----- (No. of Units) ----- |            |
| Mr. Khalid S. Tirmizy (Director) | 137,363                    | -          |
| Mr. Farook Bengali (Director)    | 449,563                    | 469,233    |
| Mr. Mohammad Iqbal (Director)    | 365                        | -          |
| Mr. Salman Haider Sheikh (CEO)   | 14,139                     | 14,139     |
| Mr. Tahir Sohail (COO)           | 993                        | 993        |

## Report of the Directors of the Management Company



### Pattern of Holding



### Auditors

The present auditors Messers Ford Rhodes Sidat Hyder & Co. Chartered Accountants retire and, being eligible, offer themselves for re-appointment. The Board endorses the recommendation of the Audit Committee for re-appointment of Messers Ford Rhodes Sidat Hyder & Co. Chartered Accountants as the auditors for the financial year 2009.

### Acknowledgement

The Board of Directors of the Management Company is thankful to unit holders for their confidence in 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:  
September 24, 2008

## Fund Manager's Report



### Investment Objective

FIGF seeks to provide risk-averse investors an opportunity to earn a consistent market base income with conservative risk profile while maintaining security of principal as its prime objective.

#### Fund Information

|                       |                               |           |   |
|-----------------------|-------------------------------|-----------|---|
| Fund Type             | Open Ended-Income Market Fund | Registrar | Gangjees Registrar Services (Pvt.) Ltd.             |
| Fund Launch Date      | 10th October 2005             | Trustees  | Central Depository Company of Pakistan              |
| Performance Benchmark | 6 Month KIBOR                 | Auditors  | Ford Rhodes Sidat Hyder & Co. Chartered Accountants |
| Rating                | A+ (f) by JCR-VIS             |           |   |

#### Returns

#### Portfolio Characteristics

|                    | Returns | Portfolio Characteristics |        |         |        |
|--------------------|---------|---------------------------|--------|---------|--------|
|                    |         | KIBOR                     |        | T-BILLS |        |
| Month On Month     | 12.77%  |                           |        |         |        |
| Year to Date       | 9.94%   | 3M                        | 13.88% | 3M      | 11.41% |
| Since Inception    | 11.40%  | 6M                        | 14.19% | 6M      | 11.49% |
| MoM Avg Mkt Return | 9.00%   | 12M                       | 14.47% | 12M     | 11.73% |

### Money Market Review

The overnight money market closed on the average of 10.68% during the month of June, 2008, however the liquidity crunch in the last month was observed mainly due to the building of balance sheets and to maintain CRR & SLRs. Financial institutions were eager to borrow even at higher rates to cover their positions, while lending institutions made profits on short duration deposits. SBP in accordance with its concretionary monetary policy stance drained excess liquidity from the system during the month of June amounting Rs. 181.5bn, Rs. 67bn, and Rs. 4.3bn through OMOs, T-bills and PIBs auctions respectively. This fiscal year observed a bumpy ride in interest rates as within 6 months SBP raised discount rate by 200 bps and there are chances of further tightening to stem PKR depreciation against USD as well as inflation.

In the first 6 months of this fiscal year, SBP accommodated the money market levels by keeping liquidity supply stable, which also checked the gradual rise in the shorter end of the yield curve. Nevertheless a large segment of the money market funds anticipated a 50 bps (basis points) yield hike was in the offing; hence short and medium term liquidity was re-allocated by the industry towards floating rate instruments and to some extent even into local sovereign paper markets.

The State Bank of Pakistan accepted bids at higher cut-off yields on Pakistan Investment Bonds (PIBs) as rates jumped upwards due to secondary market yields as well as downward ratings by Moody and S&P. Coupon rates remained at previous levels set by SBP.

## Fund Manager's Report



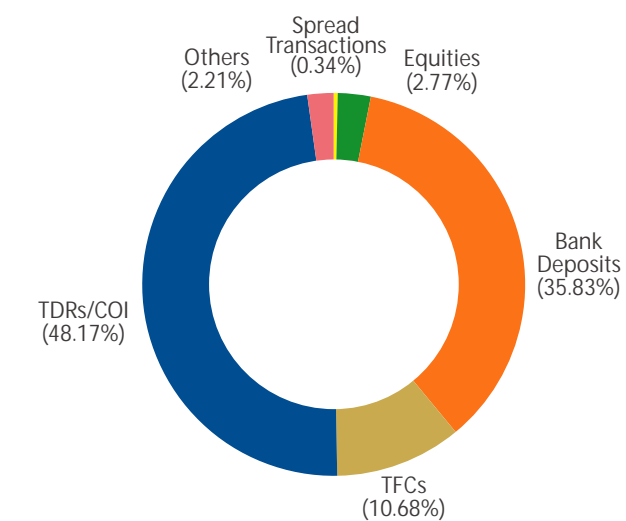
However, despite inducing investors towards PIBs the institutional response lacked book-building spirit for the paper on offer. Resultantly the State Bank mopped up much lower amounts to meet borrowing requirements in comparison against instruments used in similar roles as the NSS.

The cut-off yield on the longer end benchmark i.e. the 10-year bond was set at 13.42% against the previous cut-off yield of 11.44%, showing an increase of 189 bps. The SBP has been advising and advocating jumbo auctions of PIBs to make it an alternative borrowing resource for the government instead of relying on direct mechanisms of borrowing from SBP, there is no match between the figures of borrowing through PIBs and SBP as the government borrowed over Rs. 651 billion from SBP till mid June.

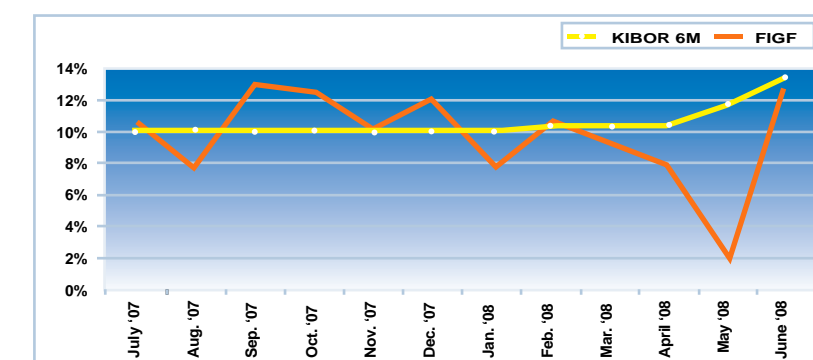
### Performance

FIGF outperformed by yielding 9.94% return for FY'08 as compared to its peer groups average annualised return of 9.41% leading by 53 bps for the year. FIGF also outperformed the income funds during June by achieving 12.77% annualised return. FIGF attained since inception annualised returns of 11.40%. This month FIGF started at Rs. 102.35-NAV and closed at Rs. 103.43. On the asset allocation side exposure in TDRs/COIs, equities and TFCs increased to 62.58%, 3.62% and 3.14% respectively while exposure to Bank Deposits and others reduced to 29.40% and 1.25% respectively.

#### Average Asset Allocation FY 07-08 (%)



#### KIBOR (6 M) vs FIGF



## Trustee Report to the Unit Holders



Report of the Trustee pursuant to Regulation 58(f) and Clause 9 of Schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007

The Faysal Income & Growth Fund (Fund), an open-end fund was established under a trust deed dated April 27, 2005, executed between Faysal Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2008 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and the constitutive documents of the Fund.

Muhammad Hanif  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi:  
October 9, 2008

## Statement of Compliance with the Code of Corporate Governance for the Year Ended June 30, 2008



This statement is being presented by the Board of Directors of Faysal Asset Management Limited (FAML the company), the management company of Faysal Income & Growth Fund (the 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 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. A casual vacancy had occurred in the Board subsequent to June 30, 2008, which was filled up by the directors within 1 day thereof.
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 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 periods. 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 Faysal Asset Management Limited are professionally qualified persons with rich experience in the financial sector and are well aware of their duties and responsibilities under the Companies Ordinance 1984, the NBFC (Establishment and Regulation) Rules 2003, NBFC's and Notified Entities Regulations, and Memorandum and Articles of FAML.
10. The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. 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.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
13. The Directors, CEO and Executive do not hold any interest in the units of the fund other than that disclosed in the pattern of the share holdings (units).
14. The Fund has complied with all the corporate and financial reporting requirements of the Code.

## Statement of Compliance with the Code of Corporate Governance for the Year Ended June 30, 2008



15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee. During the year, the Chairman of the Audit Committee resigned w.e.f June 03, 2008, and one of the members of the Audit Committee was nominated as Chairman.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Management Company has outsourced its internal audit function to M. Yousuf Adil Saleem & Co., Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with policies and procedures of the fund and they (or their representatives) are involved in the internal audit function on a full time basis.
18. 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 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 the 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.

Karachi:  
September 24, 2008

Salman Haider Sheikh  
Chief Executive Officer

## Review Report to the Members 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 (the Code) prepared by the Board of Directors of Faysal Asset Management Limited (the Management Company) of the Faysal Income & Growth Fund (the Fund) to comply with the Listing Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code 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 and report if it does not. A review is limited primarily to inquiries of the Fund's personnel and review of various documents prepared by the Fund 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 systems 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 Management Company's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Fund for the year ended 30 June 2008.

Karachi:  
September 24, 2008

Chartered Accountants



## Independent Auditors' Report to the Unit Holders



We have audited the accompanying financial statements of Faysal Income & Growth Fund (the Fund), which comprise the statement of assets and liabilities as at 30 June 2008, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), Non Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2008 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, the NBFC Rules and the NBFC Regulations.

Karachi  
September 24, 2008

*Feroz Rizvi*  
Feroz Rizvi & Partners Chartered Accountants

## Statement of Assets and Liabilities as at June 30, 2008



|   | Note | June 30,<br>2008     | June 30,<br>2007     |
|---|------|----------------------|----------------------|
| ----- (Rupees) -----                    |      |                      |                      |
| <b>Assets</b>                           |      |                      |                      |
| Bank balances and term deposit receipts | 7    | 1,727,489,489        | 2,080,845,481        |
| Dividend and other receivables          | 8    | 27,481,998           | 51,299,102           |
| Investments                             | 9    | 556,280,383          | 432,026,379          |
| <b>Total assets</b>                     |      | <b>2,311,251,870</b> | <b>2,564,170,962</b> |
| <b>Liabilities</b>                      |      |                      |                      |
| Payable to the Management Company       | 10   | 3,100,874            | 4,502,202            |
| Remuneration payable to the Trustee     | 11   | 282,003              | 277,972              |
| Accrued and other liabilities           | 12   | 3,454,595            | 5,764,647            |
| <b>Total liabilities</b>                |      | <b>6,837,472</b>     | <b>10,544,821</b>    |
| <b>Net assets</b>                       |      | <b>2,304,414,398</b> | <b>2,553,626,141</b> |
| <b>Unit holders' fund</b>               |      | <b>2,304,414,398</b> | <b>2,553,626,141</b> |
| ----- Number of units -----             |      |                      |                      |
| <b>Number of units in issue</b>         |      | <b>22,280,970</b>    | <b>22,627,369</b>    |
| ----- (Rupees) -----                    |      |                      |                      |
| <b>Net asset value per unit</b>         |      | <b>103.43</b>        | <b>112.86</b>        |

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

Chartered Accountants

*Salman Haider Sheikh*

Salman Haider Sheikh  
Chief Executive Officer

For Faysal Asset Management Limited  
(Management Company)

*Feroz Rizvi*

Feroz Rizvi  
Director

*Syed Majid Ali*

Syed Majid Ali  
Director

## Income Statement for the Year Ended June 30, 2008



|  | Note | June 30,<br>2008 | June 30,<br>2007 |
|--|------|------------------|------------------|
| <b>Income</b>  |      |                  |                  |
| Net capital gain on sale of investments 'at fair value through profit or loss'   |      | 5,168,820        | 19,413,245       |
| Income from reverse repurchase transactions of listed equity securities  |      | -                | 30,686           |
| Profit earned on debt securities   |      | 52,749,110       | 27,934,568       |
| Dividend income  |      | 2,894,785        | 4,938,375        |
| Return on bank balances and term deposit receipts  |      | 287,528,278      | 147,510,785      |
| Unrealised (loss) / gain on investments 'at fair value through profit or loss' - net   | 9.8  | (9,771,545)      | 868,249          |
|  |      | 338,569,448      | 200,695,908      |
| <b>Element of (loss) / income and capital (losses) / gains included in prices of units sold less those in units redeemed</b> |      | (5,266,306)      | 103,538,864      |
| <b>Total Income</b>  |      | 333,303,142      | 304,234,772      |
| <b>Expenses</b>  |      |                  |                  |
| Remuneration of the Management Company   | 10   | 40,932,285       | 8,838,718        |
| Remuneration of the Trustee  | 11   | 3,998,899        | 2,571,963        |
| Brokerage charges  |      | 2,497,900        | 896,381          |
| Bank charges and guarantee commission  |      | 461,733          | 17,464           |
| Auditors' remuneration   | 13   | 327,464          | 267,278          |
| SECP annual fee  |      | 2,992,709        | 1,571,963        |
| Legal and professional charges   |      | 225,000          | 219,610          |
| Fees and subscriptions   |      | 35,000           | 35,000           |
| Settlement charges and capital value tax   |      | 402,230          | 216,513          |
| <b>Total Expenses</b>  |      | 51,873,220       | 14,634,890       |
| <b>Net income for the year before taxation</b>   |      | 281,429,922      | 289,599,882      |
| <b>Taxation</b>  | 14   | -                | -                |
| <b>Net income for the year after taxation carried forward for distribution</b>   |      | 281,429,922      | 289,599,882      |
| <b>Earnings per unit at the close of the year</b>  | 15   | 12.63            | 12.80            |

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

For Faysal Asset Management Limited  
(Management Company)

Salman Haider Sheikh  
Chief Executive Officer

Feroz Rizvi  
Director

Syed Majid Ali  
Director

## Distribution Statement for the Year Ended June 30, 2008



|  | June 30,<br>2008 | June 30,<br>2007 |
|--|------------------|------------------|
| <b>Undistributed income brought forward</b>  | 290,889,252      | 79,470,968       |
| Final bonus distribution for the year ended June 30, 2007 @ Rs. 12.75 per unit (2006: Rs. 5.5 per unit) declared for distribution on July 07, 2007   | (288,498,954)    | (78,181,598)     |
| Interim bonus distribution for the year ended June 30, 2008 @ Rs. 6.66 per unit (2007: Rs. Nil per unit) declared for distribution on April 16, 2008 | (144,432,824)    | -                |
| Interim dividend for the year ended June 30, 2008 @ Rs. 6.66 per unit (2007: Rs. Nil per unit) declared for distribution on April 16, 2008           | (63,070,026)     | -                |
| <b>Net income for the year after taxation</b>  | 281,429,922      | 289,599,882      |
| <b>Undistributed income carried forward</b>  | 76,317,370       | 290,889,252      |

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

For Faysal Asset Management Limited  
(Management Company)

Salman Haider Sheikh  
Chief Executive Officer

Feroz Rizvi  
Director

Syed Majid Ali  
Director

## Cash Flow Statement for the Year Ended June 30, 2008



|   | June 30,<br>2008     | June 30,<br>2007 |
|---|----------------------|------------------|
|   | ----- (Rupees) ----- |                  |
| <b>Cash Flows From Operating Activities</b>   |                      |                  |
| Net income for the year before taxation   | 281,429,922          | 289,599,882      |
| <b>Adjustments for non-cash and other items:</b>  |                      |                  |
| Net capital gain on sale of investments 'at fair value through profit or loss'  | (5,168,820)          | (19,413,245)     |
| Dividend income   | (2,894,785)          | (4,938,375)      |
| Profit earned on debt securities  | (52,749,110)         | (27,934,568)     |
| Return on bank balances and term deposit receipts   | (287,528,278)        | (147,510,785)    |
| Element of loss / (income) and capital losses / (gains) included in prices of units sold less those in units redeemed | 5,266,306            | (103,538,864)    |
| Unrealised loss / (gain) on investment 'at fair value through profit or loss' - net                                   | 9,771,545            | (868,249)        |
|   | (51,873,220)         | (14,604,204)     |
| <b>(Increase) / decrease in Assets</b>  |                      |                  |
| Dividend and other receivables  | (3,510,653)          | 53,402,022       |
| <b>Increase / (decrease) in Liabilities</b>   |                      |                  |
| Payable to the Management Company   | (1,401,328)          | 1,373,824        |
| Remuneration payable to the Trustee   | 4,031                | 73,030           |
| Accrued and other liabilities   | (1,670,743)          | (2,091,956)      |
|   | (3,068,040)          | (645,102)        |
|   | (58,451,913)         | 38,152,716       |
| Proceeds from sale / redemption of investments  | 1,831,147,799        | 1,023,072,147    |
| Payment against purchase of investments   | (1,946,968,398)      | (1,230,773,748)  |
| Dividend received   | 1,975,210            | 6,588,375        |
| Encashment / purchase of term deposit receipts  | 1,250,000,000        | (2,000,000,000)  |
| Profit received on debt securities  | 50,289,660           | 22,749,563       |
| Return received on bank balances and term deposit receipts  | 304,559,621          | 117,931,398      |
| <b>Net cash from / (used in) operating activities</b>   | 1,432,551,979        | (2,022,279,549)  |
| <b>Cash Flows from Financing Activities</b>   |                      |                  |
| Amounts received against issue of units   | 6,542,365,643        | 3,669,928,623    |
| Payments made against redemption of units   | (7,015,203,588)      | (2,803,318,064)  |
| Dividend paid   | (63,070,026)         | -                |
| <b>Net cash (used in) / from financing activities</b>   | (535,907,971)        | 866,610,559      |
| Net increase / (decrease) in cash and cash equivalents during the year  | 896,644,008          | (1,155,668,990)  |
| Cash and cash equivalents at the beginning of the year  | 80,845,481           | 1,236,514,471    |
| <b>Cash and cash equivalents at the end of the year</b>   | 977,489,489          | 80,845,481       |

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

For Faysal Asset Management Limited  
(Management Company)

Salman Haider Sheikh  
Chief Executive Officer

Feroz Rizvi  
Director

Syed Majid Ali  
Director

## Statement of Movement in Unit Holders' Funds for the Year Ended June 30, 2008



|  | June 30,<br>2008            | June 30,<br>2007 |
|--|-----------------------------|------------------|
|  | ----- (Rupees) -----        |                  |
| Net asset value per unit at the beginning of the year  | 112.86                      | 105.59           |
| Net asset value per unit at the end of the year  | 103.43                      | 112.86           |
| <b>Net Assets at the beginning of the year</b>   | 2,553,626,141               | 1,500,954,564    |
| Amount received on issue of units *  | 6,542,365,643               | 3,669,928,623    |
| Amount paid on redemption of units **  | (7,015,203,588)             | (2,803,318,064)  |
|  | (472,837,945)               | 866,610,559      |
| Element of loss / (income) and capital losses / (gains) included in prices of units sold less those in units redeemed  | 5,266,306                   | (103,538,864)    |
| Interim dividend @ Rs. 6.66 per unit<br>(Declared for distribution on April 16, 2008)  | (63,070,026)                | -                |
| Net income for the year after taxation   | 281,429,922                 | 289,599,882      |
| <b>Net Assets at the end of the year</b>   | 2,304,414,398               | 2,553,626,141    |
|  | ----- Number of units ----- |                  |
| * Number of units issued (including 4,304,943 bonus units issued during the year ended June 30, 2008 and 781,113 bonus units issued during the year ended June 30, 2007) | 67,469,797                  | 34,034,159       |
| ** Number of units redeemed  | 67,816,196                  | 25,599,457       |

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

For Faysal Asset Management Limited  
(Management Company)

Salman Haider Sheikh  
Chief Executive Officer

Feroz Rizvi  
Director

Syed Majid Ali  
Director

## Notes to the Financial Statements for the Year Ended June 30, 2008



### 1. Legal Status and Nature Of Business

Faysal Income & Growth Fund (the Fund) has been established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and has been authorised as an unit trust scheme by the Securities and Exchange Commission of Pakistan (SECP) on June 24, 2005. It has been constituted under a Trust Deed, dated April 27, 2005 between Faysal Asset Management Limited, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited (CDC) as the Trustee, also incorporated under the Companies Ordinance, 1984.

The Fund is an open ended income 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 (Guarantee) Limited. The Fund was launched on October 10, 2005.

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

### 2. Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non Banking Finance Companies and Notified Entities Regulation, 2007 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the requirements of the said directives prevail.

### 3. Basis of Measurement

3.1 These financial statements have been prepared under the historical cost convention except for investments and derivatives which are accounted for as stated in notes 4.1 and 4.2 below.

3.2 The financial statements are presented in Pak Rupees, which is the Fund's functional and presentational currency.

### 4. Summary of Significant Accounting Policies

#### 4.1 Investments and other financial assets

The Management Company determines the appropriate classification of the Fund's 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.

All regular way purchases and sales of securities that require delivery within the time frame established by regulation of market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets. Regular way purchases and sales are purchases or sales of investments that require delivery of assets within the period generally established by regulation or market convention such as "T+2".

The fair value of investments that are actively traded in an organised financial market is determined by reference to the quoted market bid prices at the close of business on the statement of assets and liabilities date. 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.

## Notes to the Financial Statements for the Year Ended June 30, 2008



Investments of the Fund are categorised as follows:

### At fair value through profit or loss

Investments at fair value through profit or loss includes investments held for trading and investments designated upon initial recognition as at fair value through profit or loss.

Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading.

Investments may be designated at initial recognition as at fair value through profit or loss if:

- (i) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- (ii) The assets are part of a group of investments which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- (iii) The investments contain an embedded derivative that would need to be separately recorded.

These values are initially recognised at fair value and the transaction cost associated with the investments are taken directly to income statement.

Subsequent to the initial recognition, these investments are carried in the statement of assets and liabilities at fair value. Net gain and losses arising on changes in fair values of these investments are taken to income statement in the period in which they arise.

### Held-to-maturity investments

Investment securities with fixed maturities and fixed or determinable payments are classified as held-to-maturity investments when management has both the intention and ability to hold to maturity. After initial measurement, such investments are carried at amortised cost less any provision for impairment except for in case of debt securities (listed but not regularly traded on a stock exchange) and government securities, which are carried at fair value in accordance with the requirements of the NBFC Regulations.

### Loans and Receivables

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

### Available-for-sale investments

Available-for-sale investments are those non-derivative investments that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments 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.

#### 4.2 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 statement of assets and liabilities. The resultant gains and losses are included in the income currently.

#### 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 recognised in the statement of assets and liabilities.



## Notes to the Financial Statements for the Year Ended June 30, 2008



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 recognised 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 Impairment of financial assets

An assessment is made at each statement of assets and liabilities 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.

#### 4.5 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.

#### 4.6 Issue and redemption of units

Units issued are recorded at the offer price prevalent on the day the investment form, complete in all respects, is received. 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 redemption form, complete in all respects, is accepted. 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.

#### 4.7 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are carried in the statement of assets and liabilities at cost.

#### 4.8 Revenue recognition

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

Dividend income on equity securities are recognised in the income statement when the right to receive the dividend is established.

## Notes to the Financial Statements for the Year Ended June 30, 2008



Gains or losses on sale of securities and unrealised gains or losses arising on revaluation of investments classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

Mark-up on government securities, debt securities, return on certificates of investment, profit on clean placements, return on bank balances and income from reverse repurchase agreements are recognised on a time proportion basis.

- 4.9 Element of income / loss and capital gains / losses included 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 equalisation account called "element of income / loss and capital gains / losses included in prices of units sold less those in units redeemed" is created.

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

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

#### 4.10 Taxation

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates, if any. The Fund is exempt from taxation under Clause 99 of Part I of the 2nd Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income excluding realised and unrealised capital gains for the year is distributed amongst the Fund unit holders. The Fund intends to avail this exemption for current and future periods. Accordingly, no provision is made for current and deferred taxation in these financial statements.

#### 4.11 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 recognised amount and the Fund intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 4.12 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 year end.

#### 4.13 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves, made subsequent to the statement of assets and liabilities date are considered as non-adjusting events and are recognised in the financial statements in the period in which such dividends are declared / transfers are made.

#### 4.14 Financial assets and financial liabilities

Financial assets carried on the statement of assets and liabilities include bank balances, dividend and other receivables and investments.

Financial liabilities carried on the statement of assets and liabilities include payable to Management Company, remuneration payable to the trustee and accrued and other liabilities.

At the time of initial recognition, all financial assets and financial liabilities are measured at fair value. The particular recognition methods adopted for subsequent remeasurement of significant financial assets and financial liabilities are disclosed in the individual policy statements associated with each item.

## Notes to the Financial Statements for the Year Ended June 30, 2008



### 5. Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgements about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgements made by management in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment are explained in the relevant accounting policies / notes to the financial statements.

### 6. Accounting Standards and Interpretations Not Yet Effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations.

| Standard or Interpretation  | Effective date (accounting periods beginning on or after) |
|---|---|
| IAS- 1 Presentation of Financial Statements (Revised)   | January 01, 2009  |
| IAS- 23 Borrowing Costs (Revised)   | January 01, 2009  |
| IAS- 27 Consolidated and Separate Financial Statements (Revised)                                      | January 01, 2009  |
| IFRS- 3 Business Combinations   | January 01, 2009  |
| IFRS- 7 Financial Instruments : Disclosures   | July 01, 2008   |
| IFRS- 8 Operating Segments  | January 01, 2009  |
| IFRIC- 12 Service Concession Arrangements   | January 01, 2009  |
| IFRIC- 13 Customer Loyalty Programs   | July 01, 2008   |
| IFRIC- 14 The Limit on the Defined Benefit Asset, Minimum Funding Requirements and their Interactions | January 01, 2008  |

The Fund expects that the adoption of the above standards and interpretations will have no material impact on the Fund's financial statements in the period of initial application other than to the extent of certain changes on enhancement in the presentation and disclosure in the financial statements.

## Notes to the Financial Statements for the Year Ended June 30, 2008



|   | Note   | June 30,<br>2008     | June 30,<br>2007     |
|---|--|----------------------|----------------------|
|   |  | ----- (Rupees) ----- |                      |
| <b>7. Bank Balances and Term Deposit Receipts</b>                             |  |                      |                      |
| Cash at bank - PLS Saving Accounts  | 7.1  | 677,489,489          | 80,845,481           |
| Term deposit receipts   | 7.2  | 1,050,000,000        | 2,000,000,000        |
|   |  | <u>1,727,489,489</u> | <u>2,080,845,481</u> |
| 7.1   | These carry mark-up ranging from 0.0085% to 13.5 % (2007: 3.0% to 12.15%) per annum and include balance of Rs. 860,429 (2007: Rs. 6,055,000) with Faysal Bank Limited (a related party). |                      |                      |
| 7.2   | These have a tenure of fifteen days to one year (June 30, 2007: six months to one year) and carry mark-up ranging from 11% to 15% (June 30, 2007: 11.25% to 11.35%) per annum.           |                      |                      |
| <b>8. Dividend and Other Receivables - considered good</b>                    |  |                      |                      |
| Receivable against sale of investments 'at fair value through profit or loss' |  | -                    | 6,153,750            |
| Dividend income receivable  |  | 919,575              | -                    |
| Mark-up receivable on debt securities   |  | 748,138              | 6,658,285            |
| Security deposits   |  | 3,600,000            | 100,000              |
| Return receivable on bank balances and term deposit receipts                  |  | 22,203,632           | 38,387,067           |
| Prepaid bank guarantee commission   |  | 10,653               | -                    |
|   |  | <u>27,481,998</u>    | <u>51,299,102</u>    |
| <b>9. Investments</b>   |  |                      |                      |
| At fair value through profit or loss  |  |                      |                      |
| Listed equity securities  | 9.1  | 83,428,445           | 14,135,000           |
| Listed debt securities  | 9.2  | 24,009,162           | 90,922,923           |
| Unlisted debt securities  | 9.3  | 48,411,090           | 301,816,969          |
|   |  | <u>155,848,697</u>   | <u>406,874,892</u>   |
| Held-to-maturity  |  |                      |                      |
| Musharika certificates  |  | -                    | 25,151,487           |
| Commercial papers   | 9.6  | 96,182,371           | -                    |
| Certificate of investment   | 9.7  | 304,249,315          | -                    |
|   |  | <u>556,280,383</u>   | <u>432,026,379</u>   |

## Notes to the Financial Statements for the Year Ended June 30, 2008



### 9.1 Listed equity securities \*

| Name of the investee company<br>* Ordinary share having a face value of Rs. 10/-<br>each unless stated otherwise. | ----- Number of shares / units ----- |                              |  |                                 | ---- Investments as % of ---- |   |              |                      |
|---|--------------------------------------|------------------------------|--|---------------------------------|-------------------------------|---|--------------|----------------------|
|   | As at July 01,<br>2007               | Purchased<br>during the year | Bonus / shares<br>received during<br>the year 2008 | Disposed off<br>during the year | As at June 30,                | Market value as at<br>June 30, 2008<br>(Rupees) | Net Assets   | Total<br>Investments |
| <b>Investment Banks/Companies/Securities</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Arif Habib Securities Limited   | -                                    | 100,000                      | -  | (100,000)                       | -                             | -   | -            | -                    |
| Jahangir Siddiqui & Co. Limited   | -                                    | 35,000                       | -  | (35,000)                        | -                             | -   | -            | -                    |
| <b>Technology and Communication</b>   |                                      |                              |  |                                 |                               |   |              |                      |
| Pakistan Telecommunication Company Limited  | -                                    | 700,000                      | -  | (700,000)                       | -                             | -   | -            | -                    |
| Worldcall Telecom Limited   | -                                    | 500,000                      | -  | (500,000)                       | -                             | -   | -            | -                    |
| <b>Oil &amp; Gas Exploration Companies</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Pakistan Petroleum Limited  | -                                    | 680,000                      | -  | (680,000)                       | -                             | -   | -            | -                    |
| Pakistan Oilfields Limited  | -                                    | 120,000                      | -  | (120,000)                       | -                             | -   | -            | -                    |
| Oil & Gas Development Company Limited   | -                                    | 2,200,000                    | -  | (2,200,000)                     | -                             | -   | -            | -                    |
| <b>Commercial Banks</b>   |                                      |                              |  |                                 |                               |   |              |                      |
| Allied Bank Limited   | -                                    | 25,000                       | -  | (25,000)                        | -                             | -   | -            | -                    |
| National Bank of Pakistan   | -                                    | 260,100                      | 10,000   | (270,100)                       | -                             | -   | -            | -                    |
| Askari Bank Limited   | -                                    | 200,000                      | -  | (200,000)                       | -                             | -   | -            | -                    |
| The Bank of Khyber  | 100,000                              | 6,155,000                    | -  | (3,165,000)                     | 3,090,000                     | 43,878,000                                      | 1.90%        | 7.89%                |
| Bank Alfalah Limited  | -                                    | 200,000                      | -  | (200,000)                       | -                             | -   | -            | -                    |
| BankIslami Pakistan Limited   | -                                    | 670,000                      | 80,000   | (650,000)                       | 100,000                       | 1,481,000                                       | 0.06%        | 0.27%                |
| The Bank of Punjab  | -                                    | 305,000                      | -  | (305,000)                       | -                             | -   | -            | -                    |
| JS Bank limited   | 300,000                              | 2,750,000                    | 200,000  | (2,950,000)                     | 300,000                       | 4,122,000                                       | 0.18%        | 0.74%                |
| JS Bank limited (Right)   | -                                    | 200,000                      | -  | (200,000)                       | -                             | -   | -            | -                    |
| Habib Bank Limited  | -                                    | 100                          | -  | (100)                           | -                             | -   | -            | -                    |
| PICIC Commercial Bank Limited   | -                                    | 200,000                      | -  | (200,000)                       | -                             | -   | -            | -                    |
| NIB Bank Limited  | -                                    | 1,754,500                    | -  | (1,566,000)                     | 188,500                       | 2,143,245                                       | 0.09%        | 0.39%                |
| United Bank Limited   | -                                    | 25,000                       | -  | (25,000)                        | -                             | -   | -            | -                    |
| <b>Insurance</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Adamjee Insurance Company Limited   | -                                    | 29,300                       | -  | (29,300)                        | -                             | -   | -            | -                    |
| EFU Life Assurance Limited  | -                                    | 300,000                      | -  | (300,000)                       | -                             | -   | -            | -                    |
| <b>Power Generation and Distribution</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| The Hub Power Company Limited   | 50,000                               | 50,000                       | -  | (100,000)                       | -                             | -   | -            | -                    |
| <b>Oil &amp; Gas Marketing Companies</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Sui Southern Gas Company Limited  | -                                    | 292,000                      | -  | (292,000)                       | -                             | -   | -            | -                    |
| <b>Fertilizers</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Engro Chemicals Pakistan Limited  | -                                    | 150,000                      | -  | (150,000)                       | -                             | -   | -            | -                    |
| Fauji Fertilizer Bin Qasim Limited  | 125,000                              | 3,567,500                    | -  | (3,592,500)                     | 100,000                       | 3,597,000                                       | 0.16%        | 0.65%                |
| <b>Chemicals</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Nimir Industrial Chemicals Limited  | -                                    | 1,200,000                    | -  | -                               | 1,200,000                     | 4,056,000                                       | 0.18%        | 0.73%                |
| <b>Cement</b>   |                                      |                              |  |                                 |                               |   |              |                      |
| D.G. Khan Cement Company Limited  | -                                    | 700,000                      | -  | (700,000)                       | -                             | -   | -            | -                    |
| Lucky Cement Limited  | -                                    | 101,500                      | -  | (101,500)                       | -                             | -   | -            | -                    |
| <b>Textile Composites</b>   |                                      |                              |  |                                 |                               |   |              |                      |
| Azgard Nine limited   | -                                    | 610,000                      | -  | (610,000)                       | -                             | -   | -            | -                    |
| Nishat Mills Limited  | -                                    | 50,000                       | -  | (50,000)                        | -                             | -   | -            | -                    |
| <b>Textile Spinning</b>   |                                      |                              |  |                                 |                               |   |              |                      |
| DS Industries Limited   | -                                    | 240,000                      | -  | -                               | 240,000                       | 12,170,400                                      | 0.53%        | 2.19%                |
| <b>Tobacco</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Pakistan Tobacco Company Limited  | -                                    | 102,700                      | -  | (300)                           | 102,400                       | 11,980,800                                      | 0.52%        | 2.15%                |
| <b>Auto mobile Assembler</b>  |                                      |                              |  |                                 |                               |   |              |                      |
| Pak Suzuki Motor Company Limited  | -                                    | 76,500                       | -  | (76,500)                        | -                             | -   | -            | -                    |
|   | <u>575,000</u>                       | <u>24,549,200</u>            | <u>290,000</u>                                     | <u>(20,093,300)</u>             | <u>5,320,900</u>              | <u>83,428,445</u>                               | <u>3.62%</u> | <u>15.01%</u>        |

## Notes to the Financial Statements for the Year Ended June 30, 2008



### 9.2 Listed debt securities\*

|   | As at July 01,<br>2007 | Purchased<br>during the year | Fully redeemed<br>during the year | Disposed off<br>during the year | As at June 30,<br>2008 | Market value as at<br>June 30, 2008<br>(Rupees) | Net Assets   | Total<br>Investments |
|---|------------------------|------------------------------|-----------------------------------|---------------------------------|------------------------|---|--------------|----------------------|
| <b>*Term finance certificates (TFCs)</b>  |                        |                              |                                   |                                 |                        |   |              |                      |
| <b>Oil &amp; Gas Exploration Companies</b>  |                        |                              |                                   |                                 |                        |   |              |                      |
| Chanda Oil & Gas Securitisation Company<br>Naimat Basal Oil & Gas Securitisation<br>Company Limited | 15,448                 | -                            | (15,448)                          | -                               | -                      | -   | -            | -                    |
|   | 4,000                  | -                            | -                                 | -                               | 4,000                  | 8,016,469                                       | 0.35%        | 1.44%                |
| <b>Textile Composite</b>  |                        |                              |                                   |                                 |                        |   |              |                      |
| Azgard Nine Limited   | 2,000                  | -                            | -                                 | -                               | 2,000                  | 10,337,652                                      | 0.45%        | 1.86%                |
| <b>Technology and Communication</b>   |                        |                              |                                   |                                 |                        |   |              |                      |
| Telecard Limited  | 2,020                  | -                            | -                                 | -                               | 2,020                  | 5,655,041                                       | 0.25%        | 1.02%                |
|   | <u>23,468</u>          | <u>-</u>                     | <u>(15,448)</u>                   | <u>-</u>                        | <u>8,020</u>           | <u>24,009,162</u>                               | <u>1.05%</u> | <u>4.32%</u>         |
| <b>9.3 Unlisted debt securities</b>   |                        |                              |                                   |                                 |                        |   |              |                      |
| <b>Textile Composite</b>  |                        |                              |                                   |                                 |                        |   |              |                      |
| Azgard Nine Limited (PPTFC)   | 20,000                 | -                            | (20,000)                          | -                               | -                      | -   | -            | -                    |
| Azgard Nine Limited (PPTFC)   | 1                      | -                            | (1)                               | -                               | -                      | -   | -            | -                    |
| Azgard Nine Limited (PPTFC)   | 1                      | -                            | (1)                               | -                               | -                      | -   | -            | -                    |
| <b>Cement</b>   |                        |                              |                                   |                                 |                        |   |              |                      |
| Three Star Cement (PPTFC)   | 1,100                  | -                            | (1,100)                           | -                               | -                      | -   | -            | -                    |
| Kohat Cement Company Limited<br>(Sukuk Certificates)  | -                      | 100,000                      | -                                 | -                               | 100,000                | 48,411,090                                      | 2.10%        | 8.70%                |
|   | <u>21,102</u>          | <u>100,000</u>               | <u>(21,102)</u>                   | <u>-</u>                        | <u>100,000</u>         | <u>48,411,090</u>                               | <u>2.10%</u> | <u>8.70%</u>         |
|   | <u>44,570</u>          | <u>100,000</u>               | <u>(36,550)</u>                   | <u>-</u>                        | <u>108,020</u>         | <u>72,420,252</u>                               | <u>3.15%</u> | <u>13.02%</u>        |

9.4 Effective February 12, 2008, the Fund has changed the basis of valuation of debt securities, both listed and unlisted, from Discounted Cash Flow Method as allowed by IAS-39 'Financial Instruments: Recognition and Measurement' to the rates notified by the Mutual Funds Association of Pakistan (MUFAP) as required by the NBFC Regulations. However, in case there are no rates notified by the MUFAP the debt security(ies) will be valued at Discounted Cash Flow Method as allowed by IAS-39. The said change results in more accurate valuation of debt securities and compliance of the NBFC Regulations. This change has been accounted for prospectively in accordance with the requirements of IFRS. Had the listed debt securities been valued at Discounted Cash Flow Method as allowed by IAS-39, the carrying value of investment and the net income for the period would have been lower by Rs. 172,109.

9.5 Significant terms and conditions of Debt Securities are as follows:

| Name of security<br>certificates                         | Number of<br>(Rupees) | Face value | Mark-up rate (per annum) | Maturity        | Secured/Unsecured | Rating |
|--|-----------------------|------------|--------------------------|-----------------|-------------------|--------|
| <b>Listed debt securities (TFCs)</b>                     |                       |            |                          |                 |                   |        |
| Naimat Basal Oil & Gas Securitization<br>Company Limited | 4,000                 | 5,000      | 2.5% + 6 months KIBOR    | April, 2010     | Secured           | A+     |
| Telecard Limited   | 2,000                 | 5,000      | 3.75% + 6 months KIBOR   | May, 2011       | Secured           | BBB    |
| Azgard Nine Limited                                      | 2,000                 | 5,000      | 2.4% + 6 months KIBOR    | September, 2012 | UnSecured         | A+     |
| <b>Unlisted debt securities (Sukuk Certificates)</b>     |                       |            |                          |                 |                   |        |
| Kohat Cement Company Limited                             | 100,000               | 500        | 1.8% + 6 months KIBOR    | June, 2012      | Secured           | A+     |

|  |       | June 30,<br>2008<br>(Rupees) | June 30,<br>2007 | Investment as % of<br>Net<br>assets | Investment as % of<br>Total |
|--|-------|------------------------------|------------------|-------------------------------------|-----------------------------|
| <b>9.6 Commercial papers</b>   |       |                              |                  |                                     |                             |
| Azgard Nine Limited-I  | 9.6.1 | 48,193,954                   | -                | 2.09%                               | 8.66%                       |
| Azgard Nine Limited-II   | 9.6.2 | 47,988,417                   | -                | 2.08%                               | 8.63%                       |
|  |       | <u>96,182,371</u>            | -                | <u>4.17%</u>                        | <u>17.29%</u>               |
| <b>9.6.1</b> It has face value of Rs. 50 million and carries mark-up at the rate of 11.54% per annum and will mature on November 02, 2008. |       |                              |                  |                                     |                             |
| <b>9.6.2</b> It has face value of Rs. 50 million and carries mark-up at the rate of 11.46% per annum and will mature on November 17, 2008. |       |                              |                  |                                     |                             |
| <b>9.7 Certificate of investment</b>   |       |                              |                  |                                     |                             |
| Pak Libya Holding Company  | 9.7.1 | 304,249,315                  | -                | 13.20%                              | 54.69%                      |
| <b>9.7.1</b> It carries mark up of 11% p.a. and will mature on August 15, 2008.  |       |                              |                  |                                     |                             |

## Notes to the Financial Statements for the Year Ended June 30, 2008



|  | Note  | June 30,<br>2008   | June 30,<br>2007 |
|--|---|--------------------|------------------|
| 9.8  | Net unrealised (loss) / gain during the year in the value of investments 'at fair value through profit or loss'   |                    |                  |
|  | Fair value of investments 'at fair value through profit or loss'  | 155,848,697        | 406,874,892      |
|  | Cost of investments 'at fair value through profit or loss'  | (165,606,509)      | (405,738,858)    |
|  |   | (9,757,812)        | 1,136,034        |
|  | Net unrealised loss on investment 'at fair value through profit or loss' at the beginning of the year   | (1,136,034)        | 31,381,191       |
|  | Realised on disposal during the year  | 1,122,301          | (31,648,976)     |
|  |   | (13,733)           | (267,785)        |
|  |   | <u>(9,771,545)</u> | <u>868,249</u>   |
| <b>10. Payable to the Management Company</b>   |   |                    |                  |
|  | Management fee payable  | 2,997,174          | 1,957,799        |
|  | Sales load payable  | 103,700            | 2,544,403        |
|  |   | <u>3,100,874</u>   | <u>4,502,202</u> |
| 10.1   | The Management Company is entitled to a remuneration for services rendered to the Fund under the provisions of the NBFC Regulations 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. During the current year, upto July 15, 2007, the Management Company has claimed its remuneration at the rate of 1.0 percent (2007: 1.0 percent), from July 15, 2007 to January 02, 2008 at the rate of 1.25 percent and from January 03, 2008 onwards at the rate of 1.5 percent of the average daily net assets of the Fund. |                    |                  |
| <b>11. Remuneration Payable to the Trustee</b> |   |                    |                  |
|  | 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.  |                    |                  |
|  |   | June 30,<br>2008   | June 30,<br>2007 |
| <b>12. Accrued and Other Liabilities</b>       | Note  |                    |                  |
|  | Against purchase of investments 'at fair value through profit or loss'  | -                  | 3,980,794        |
|  | SECP annual fee payable   | 2,992,709          | 1,571,963        |
|  | Accrued liabilities   | 461,886            | 208,340          |
|  | Others  | -                  | 3,550            |
|  |   | <u>3,454,595</u>   | <u>5,764,647</u> |
| 12.1   | This represents annual fee payable to the SECP in accordance with the NBFC Regulations, whereby the Fund is required to pay SECP annually an amount equal to one tenth of 1% of the average annual net assets of the Fund.  |                    |                  |

## Notes to the Financial Statements for the Year Ended June 30, 2008



|  | June 30,<br>2008  | June 30,<br>2007  |
|--|---|-------------------|
| <b>13. Auditors' Remuneration</b>                                |   |                   |
|  | ----- (Rupees) -----  |                   |
|  | 184,000   | 160,000           |
|  | 57,500  | 50,000            |
|  | 28,750  | 25,000            |
|  | 50,000  | -                 |
|  | 7,214   | 32,278            |
|  | <u>327,464</u>  | <u>267,278</u>    |
| <b>14. Taxation</b>  |   |                   |
|  | The Fund is exempt from tax under clause 99 of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year, as reduced by the capital gains whether realised or unrealised, is distributed among its unit holders.                           |                   |
| <b>15. Earnings Per Unit</b>                                     |   |                   |
|  | Earnings per unit (EPU) is calculated by dividing the net income after tax for the year by the number of units outstanding as at the end of the year EPU based on cumulative weighted average units for the whole year has not been disclosed as in the opinion of the Management Company determination of the same is not practicable. |                   |
|  | June 30,<br>2008  | June 30,<br>2007  |
| <b>16. Cash and Cash Equivalents</b>                             |   |                   |
|  | ----- (Rupees) -----  |                   |
|  | 677,489,489   | 80,845,481        |
|  | 300,000,000   | -                 |
|  | <u>977,489,489</u>  | <u>80,845,481</u> |
| <b>17. Transactions with Connected Persons / Related Parties</b> |   |                   |
| 17.1   | Transactions during the year  |                   |
|  | Faysal Asset Management Limited (Management Company)  |                   |
|  | Remuneration of Management Company  | 40,932,285        |
|  | Sales load paid / payable   | 3,838,703         |
|  | Faysal Asset Management Limited - Employees Provident Fund  |                   |
|  | Issue of 434 bonus units (2007: 2,384 units)  | 43,717            |
|  | Redemption of Nil units (2007: 226 units)   | -                 |
|  | Faysal Asset Management Limited - Staff Gratuity Fund   |                   |
|  | Issue of 233 bonus units (2007: 1,430 units)  | 23,484            |
|  | Redemption of Nil units (2007: 271 units)   | -                 |
|  | Faysal Bank Limited (group company)   |                   |
|  | Issue of 2,209,783 units including 335,896 bonus units (2007: 137,376 bonus units)  | 233,626,549       |
|  | Redemption of 2,973,272 units (2007: Nil units)   | 306,861,812       |
|  | Cash dividend paid  | 12,480,090        |
|  | Profit received on PLS saving accounts  | 128,939           |
|  | Faysal Bank Limited - Staff Provident Fund  |                   |
|  | Issue of 76,625 bonus units (2007: 280,573 units including 5,495 bonus units)   | 7,709,730         |
|  |   | 30,550,000        |



## Notes to the Financial Statements for the Year Ended June 30, 2008



|  | June 30,<br>2008     | June 30,<br>2007 |
|--|----------------------|------------------|
|  | ----- (Rupees) ----- |                  |
| Faysal Bank Limited - Staff Gratuity Fund  |                      |                  |
| Issue of 39,970 bonus units (2007: 143,034 units including 5,495 bonus units)    | 4,021,708            | 15,550,000       |
| Redemption of Nil units (2007: 44,512 units)                                     | -                    | 5,000,000        |
| Mybank Limited (common directorship)   |                      |                  |
| Issue of 19,667,845 units including 338,663 bonus units (2007: 13,543,094 units) | 2,033,903,563        | 1,500,000,000    |
| Redemption of 22,326,948 units (2007: 10,883,988 units)                          | 2,301,165,394        | 1,211,547,677    |
| Cash dividend paid   | 31,489,362           | -                |
| AKD Securities (Private) Limited (common directorship)                           |                      |                  |
| Brokerage fee  | 144,000              | 57,500           |
| Directors of the Management Company  |                      |                  |
| Khalid S. Tirmizey - Director  |                      |                  |
| Issue of 137,363 units (2007: Nil)   | 14,000,000           | -                |
| Farook Bengali - Ex-Director (including close relative)                          |                      |                  |
| Issue of 449,563 units including 60,254 bonus units (2007: 307,444 units)        | 45,815,245           | 34,000,000       |
| Redemption of 469,233 units (2007: 23,128 units)                                 | 48,534,003           | 2,500,000        |
| Mohammad Iqbal - Director  |                      |                  |
| Issue of 365 bonus units (2007: 1,813 units)                                     | 36,730               | 200,000          |
| Salman Haider Sheikh - Chief Executive Officer (including close relative)        |                      |                  |
| Issue of 14,139 units including 180 bonus units (2007: 895 units)                | 1,500,000            | 100,000          |
| Redemption of 14,139 units (2007: Nil units)                                     | 1,521,052            | -                |
| Tahir Sohail - Chief Operating Officer   |                      |                  |
| Issue of 993 units including 61 bonus units (2007: Nil units)                    | 106,205              | -                |
| Redemption of 993 units (2007: Nil units)  | 101,280              | -                |
| Central Depository Company of Pakistan Limited (Trustee of the Fund)             |                      |                  |
| Remuneration of the Trustee  | 3,998,899            | 2,571,963        |
| Settlement charges   | 99,464               | 36,503           |
| Issue of 198,714 units including 12,237 bonus units (2007: Nil units)            | 21,441,327           | -                |
| Redemption of 198,714 units (2007: Nil units)                                    | 20,342,345           | -                |

## Notes to the Financial Statements for the Year Ended June 30, 2008



|   | June 30,<br>2008     | June 30,<br>2007 |
|---|----------------------|------------------|
|   | ----- (Rupees) ----- |                  |
| 17.2 Outstanding balances as at year end                                  |                      |                  |
| Faysal Asset Management Limited (Management Company)                      |                      |                  |
| Remuneration of Management Company  | 2,997,174            | 1,957,799        |
| Sales load payable  | 103,700              | 2,544,403        |
| Faysal Asset Management Limited - Employees Provident Fund                |                      |                  |
| Units in issue (Number of units 2008: 2,592, 2007: 2,158)                 | 268,716              | 243,548          |
| Faysal Asset Management Limited - Staff Gratuity Fund                     |                      |                  |
| Units in issue (Number of units 2008: 1,393, 2007: 1,159)                 | 143,483              | 130,829          |
| Faysal Bank Limited (group company)                                       |                      |                  |
| Units in issue (Number of units 2008: 1,873,887, 2007: 2,637,376)         | 193,807,227          | 297,627,882      |
| Balance in PLS Saving Accounts  | 860,429              | 6,055,000        |
| Faysal Bank Limited - Staff Provident Fund                                |                      |                  |
| Units in issue (Number of units 2008: 457, 197, 2007: 380,573)            | 48,259,730           | 30,738,084       |
| Faysal Bank Limited - Staff Gratuity Fund                                 |                      |                  |
| Units in issue (Number of units 2008: 238,493, 2007: 198,522)             | 24,571,708           | 22,405,229       |
| Directors of the Management Company                                       |                      |                  |
| Khalid S. Tirmizey - Director   |                      |                  |
| Units in issue (Number of units 2008: 137,363, 2007: Nil)                 | 14,138,721           | -                |
| Mohammad Iqbal - Director   |                      |                  |
| Units in issue (Number of units 2008: 2,178, 2007: 1,813)                 | 225,272              | 204,623          |
| Salman Haider Sheikh - Chief Executive Officer (including close relative) |                      |                  |
| Units in issue (Number of units 2008: 1,075, 2007: 895)                   | 111,169              | 100,975          |
| Central Depository Company of Pakistan Limited (Trustee of the Fund)      |                      |                  |
| Remuneration of the Trustee payable                                       | 282,003              | 277,972          |
| Settlement charges payable  | 24,282               | 6,931            |
| Units in issue (Number of units 2008: Nil, 2007: Nil)                     | -                    | -                |

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

### 18. Financial Risk Management Policies

#### 18.1 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 SECP.

## Notes to the Financial Statements for the Year Ended June 30, 2008



### 18.2 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 / mark-up rate risk arises from mismatches in the amount of interest / mark-up based financial assets, 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.

### 18.3 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 significant obligations / commitments of the Fund are short term in nature and significant assets of the Fund are easily realisable / convertible into cash on the Stock Exchanges and over-the-counter market.

### 18.4 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 concentrations of credit risk.

## 19. 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.

## 20. Non-adjusting Event After the Balance Sheet Date

The Board of Directors of the Management Company in their meeting held on July 05, 2008 have declared a bonus issue at the rate of 3.34% (i.e. Rs. 3.34 per unit). The financial statements of the Fund for the year ended June 30, 2008 do not include the effect of the bonus issue which will be accounted for in the financial statements of the Fund subsequent to the year end.

## Notes to the Financial Statements for the Year Ended June 30, 2008



## 21. Supplementary Non Financial Information

The information regarding unit holding pattern, top ten brokers, members of the Investment Committee, fund manager, meetings of the Board of Directors of the Management Company and rating of the Fund and the Management Company has been disclosed in Annexure I to the financial statements.

## 22. Corresponding Figures

Prior year's figures have been reclassified wherever necessary, for the purposes of comparison and better presentation. Significant reclassifications is as follows:

| Statement                           | Component   | Reclassification from                              | Reclassification to                      | Amount (Rupees) |
|-------------------------------------|-------------|--|--|-----------------|
| Income Statement                    | Expenses    | Brokerage, capital value tax and settlement        | Settlement charges and capital value tax | 216,513         |
| Statement of Assets and Liabilities | Liabilities | Accrued and other liabilities (Sales load payable) | Payable to the Management Company        | 2,544,403       |

## 23. General

Figures are rounded off to the nearest rupee.

## 24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 24, 2008 by the Board of Directors of the Management Company.

For Faysal Asset Management Limited  
(Management Company)

Salman Haider Sheikh  
Chief Executive Officer

Feroz Rizvi  
Director

Syed Majid Ali  
Director

Supplementary Non Financial Information as Required  
Under Section 6(D), (G), (H), (I), (J) & (K) of the 4<sup>th</sup> Schedule of  
the NBFC and Notified Entities Regulations, 2007



(i) Pattern of Unit Holding

|  | Units Held        | Amount<br>(Rupees)   | % of Total     |
|--|-------------------|----------------------|----------------|
| Associated Companies / Directors   |                   |                      |                |
| Faysal Bank Limited  | 1,873,887         | 193,807,227          | 8.41%          |
| Faysal Bank Limited - Staff Provident fund                                   | 457,197           | 47,285,752           | 2.05%          |
| Faysal Bank Limited - Staff Gratuity fund                                    | 238,493           | 24,666,167           | 1.07%          |
| Faysal Asset Management Limited - Staff Gratuity Fund                        | 1,393             | 144,031              | 0.01%          |
| Faysal Asset Management Limited -<br>Employees Provident Fund                | 2,592             | 268,125              | 0.01%          |
| Khalid S. Tirmizey - Director  | 137,363           | 14,206,762           | 0.62%          |
| Mohammad Iqbal - Director  | 2,178             | 225,272              | 0.01%          |
| Salman Haider Sheikh - Chief Executive Officer<br>(including close relative) | 1,075             | 111,169              | 0.00%          |
| Retirement Funds   | 5,363,459         | 554,716,925          | 24.07%         |
| Insurance Companies  | 174,808           | 18,079,541           | 0.78%          |
| Other Corporate Sector Entities  | 5,077,870         | 525,179,846          | 22.79%         |
| Public Limited Companies   | 5,922,593         | 612,545,504          | 26.58%         |
| Individuals  | 3,028,062         | 313,178,077          | 13.59%         |
|  | <u>22,280,970</u> | <u>2,304,414,398</u> | <u>100.00%</u> |

(ii) List of Top Ten Brokers by Percentage of Commission Paid

| Name                                  | Percentage |
|---------------------------------------|------------|
| BMA Capital Management Limited        | 25.45%     |
| Ismail Iqbal Securities (Pvt) Limited | 19.06%     |
| Escort Investment Bank Limited        | 13.41%     |
| Invisor Securities (Pvt) Limited      | 11.45%     |
| Alfalah Securities (Pvt) Limited      | 9.83%      |
| AKD Securities (Private) Limited      | 5.76%      |
| Akhai Capital Management Limited      | 5.02%      |
| JS Global Capital Limited             | 4.43%      |
| Elixir Securities (Pvt) Limited       | 1.83%      |
| Arif Habib Securities Limited         | 1.40%      |

(iii) The Members of the Investment Committee

Following are the members of the Investment Committee of the Fund:

Mr. Salman Haider Sheikh  
Mr. Tahir Sohail  
Mr. Shakeel Musani (resigned w.e.f. July 07, 2008)  
Mr. Mohammad Taha Hamdani (resigned w.e.f. May 16, 2008)  
Mr. Omar Ehtisham Anwar  
Syed Aamir Hussain Rizvi  
Mr. Teerath Mal Bhojwani (resigned w.e.f. May 13, 2008)  
Mr. Adeel Hussain

Supplementary Non Financial Information as Required  
Under Section 6(D), (G), (H), (I), (J) & (K) of the 4<sup>th</sup> Schedule of  
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Mr. Salman Haider Sheikh

Mr. Haider has over 12 years of international experience of asset management and investment banking. He has held various securities licenses including Series-7 (General Securities Representative) and Series-63 (Uniform Securities Agent Law) issued by the National Association of Securities Dealers, (NASD) New York. He has also passed course examinations for Series-3 (Futures & Commodities) and Series-24 (General Securities Principal) and Life & Health Insurance licenses. He has participated in a six-month course on financial systems, risk management, analysis of financial products, marketing strategy and compliance at Wachovia Bank, USA.

Mr. Haider has managed large investment portfolios for both retail and institutional clients on the equity and fixed income side. Mr. Haider participated as a team member in venture capital / Private equity and investment banking transactions of over \$1 billion. His work experience includes positions in the USA at Merrill Lynch, Janney Montgomery & Scott and Wachovia Bank. Mr. Haider holds a post-graduate certificate in "Executive Leadership" from CORNELL UNIVERSITY. He holds an MBA from RUTGERS UNIVERSITY with major concentration in Finance. He also holds a Bachelors in Finance from the same institution.

Mr. Tahir Sohail

Mr. Tahir Sohail is a senior banker with over 22 years of broad based banking experience with leading multinational banks like Citibank N.A. and Deutsche Bank. He has worked in increasingly responsible positions within corporate, consumer and private banking businesses both within and outside Pakistan and was instrumental in implementing a credit scoring model for credit cards acquisition in Pakistan during his Citibank tenure. In Deutsche Bank, Mr. Tahir was actively involved in developing wealth management products at Asia Pacific regional level. Mr. Tahir holds a Bachelor degree.

Mr. Shakeel Musani

Mr. Shakeel Musani is a qualified Chartered Accountant. Previously, Mr. Musani held the position of Assistant Manager in A. F. Ferguson & Co. Chartered Accountants. His responsibilities included strategic audit planning, system evaluation, documentation and risk management, corporate business and financial reporting, and taxation and allied matters. His responsibilities also included representing major companies of oil & gas and financial sectors before the Income Tax and Sales Tax assessing and appellate authorities. He was also responsible for advising to national and multinational clients on local and international taxation. He was a member of the team making recommendations to the Central Board of Revenue on the Income Tax Ordinance, 2001. (resigned w.e.f. July 07, 2008)

Mr. Mohammad Taha Hamdani

Mr. Mohammad Taha Hamdani has qualified his Chartered Accountancy in July 2001 and was associated with Ford Rhodes Sidat Hyder & Co., Chartered Accountants. Mr. Hamdani enjoys a diversified exposure. He was associated with PTCL, the largest telecommunication network in the country as Deputy Director. He also carries the experience of working as Group Internal Auditor for one of the leading Five Star International Hotels in Pakistan, and as a Group Finance Manager for an international trading & manufacturing group based in Saudi Arabia. (resigned w.e.f. May 16, 2008)

Mr. Omar Ehtisham Anwar

Mr. Omar Ehtisham Anwar has almost three years of experience in equity markets. He is a graduate of Lahore University of Management Sciences (LUMS) and holds a BSC (Honors) degree in Computer Science. Previously, Mr. Anwar was working for Alfalah Securities, a subsidiary of Bank Alfalah in the Institutional Sales Group. His responsibilities included dealing with individuals, institutional and foreign clients, guiding clients on their investment options by keeping abreast of market conditions, meeting market deadlines and risk assessment. He was also responsible for providing business and technical support and initiating new product ideas.

Syed Aamir Hussain Rizvi

Mr. Rizvi holds a Masters degree (MBA) from Adamson University –Philippines. Mr. Rizvi has over 10 years of professional experience in the money and capital market out of which six years were spent in money market brokerage and portfolio management. Mr. Rizvi was a fund manager at BMA Asset Management Company Limited, managing fixed income portfolio of BMA Principal Guaranteed and discretionary funds, including retirement funds of multinational companies. He has

Supplementary Non Financial Information as Required  
Under Section 6(D), (G), (H), (I), (J) & (K) of the 4<sup>th</sup> Schedule of  
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been associated with the Faysal Asset Management Limited since the last eight months as Fund Manager for both Faysal Income & Growth Fund and Faysal Savings Growth Fund.

Mr. Teerath Mal Bhojwani

Mr. Bhojwani is an MBA with a major in finance from the Institute of Business Administration Karachi. He also possesses the degree of BE from Mehran University of Engineering and Technology, Jamshoro. Before joining Faysal Asset Management Limited, he was associated with Arif Habib Limited as an Investment Analyst. He started his professional career as a Research Analyst at Noman Abid & Company. Apart from having capital markets exposure, he carries an experience of managing the operations of a rice processing enterprise and commodity trading for eight years. Currently he is visiting faculty at PAF- KIET. (resigned w.e.f May 13, 2008)

Mr. Adeel Hussain

Mr. Hussain holds a postgraduate degree in Finance (MBA) from Coventry University, West Midlands, United Kingdom. Mr. Hussain has over 4 years of specialised professional experience in the field of Investment Risk Management. He has worked across various arms of the financial services industry as a risk manager, which includes conventional & Islamic banks and AMCs. Before joining Faysal Asset Management Limited he was heading the Risk Management Department at Dawood Islamic Bank Limited (DIBL). Apart from professional expertise in the area of financial risk management, he has also taught Microeconomics, Portfolio Management & Derivatives at various leading universities of the country at the post graduate level such as SZABIST & MAJU as a member of the adjunct faculty.

(iv) Particulars of Fund Managers

Mr. Omar Ehtisham Anwar

Mr. Omar Ehtisham Anwar has almost three years of experience in equity markets. He is a graduate of Lahore University of Management Sciences (LUMS) and holds a BSC (Honors) degree in Computer Science. Previously, Mr. Anwar was working for Alfalah Securities, a subsidiary of Bank Alfalah in the Institutional Sales Group. His responsibilities included dealing with individual, institutional and foreign clients, guiding clients on their investment options by keeping abreast with market conditions, meeting market deadlines and risk assessment. He was also responsible for providing business and technical support and initiating new product ideas.

Presently Mr. Omar is also looking after Equity area of Faysal Balanced Growth Fund and Faysal Savings Growth Fund.

Syed Aamir Hussain Rizvi

Mr. Rizvi holds a Masters degree (MBA) from Adamson University –Philippines. Mr. Rizvi has over 10 years of professional experience in the money and capital market out of which six years were involved in money market brokerage and portfolio management. Mr. Rizvi was a fund manager at BMA Asset Management Company Limited, managing fixed income portfolio of BMA Principal Guaranteed and discretionary funds, including retirement funds of multinational companies. He has been associated with the Faysal Asset Management Limited since the last eight months as Fund Manager for both Faysal Income & Growth Fund and Faysal Savings Growth Fund.

Presently Mr. Rizvi is also looking after Fixed Income Investment area of Faysal Balanced Growth Fund and Faysal Savings Growth Fund.

Supplementary Non Financial Information as Required  
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(v) Meetings of the Board of Directors

Following is the analysis of the attendance in the meetings of the Board of Directors of the Management Company during the year:

| Name of Directors  | Meetings Attended | Meeting held on |                 |                  |                  |                   |                |               |
|--|-------------------|-----------------|-----------------|------------------|------------------|-------------------|----------------|---------------|
|  |                   | 07 July, 2007   | 13 August, 2007 | 23 October, 2007 | 26 October, 2007 | 11 February, 2008 | 16 April, 2008 | 03 June, 2008 |
| Mr. Khalid Tirmizey<br>(elected w.e.f. September 26, 2007)   | 4                 | -               | -               | 1                | 1                | 1                 | -              | 1             |
| Mr. Farook Bengali<br>(retired w.e.f. September 26, 2007)  | 2                 | 1               | 1               | -                | -                | -                 | -              | -             |
| Salman Haider Sheikh   | 7                 | 1               | 1               | 1                | 1                | 1                 | 1              | 1             |
| Mr. Hassan Mohamed Mahmood<br>(retired w.e.f. September 26, 2007)                                      | -                 | -               | -               | -                | -                | -                 | -              | -             |
| Mr. Feroz Rizvi  | 3                 | -               | -               | -                | -                | 1                 | 1              | 1             |
| Mr. Iqbal Alimohamed<br>(resigned w.e.f. June 03, 2008)  | 4                 | 1               | 1               | -                | 1                | 1                 | -              | -             |
| Mr. Aqeel Karim Dhedhi<br>(retired w.e.f. September 26, 2007)  | -                 | -               | -               | -                | -                | -                 | -              | -             |
| Mr. Mohammad Iqbal<br>(resigned w.e.f. July 23, 2008)  | 7                 | 1               | 1               | 1                | 1                | 1                 | 1              | 1             |
| Mr. Shahid Waqar Mahmood<br>(retired w.e.f. September 26, 2007)  | 2                 | 1               | 1               | -                | -                | -                 | -              | -             |
| Mr. Sanaullah Qureshi<br>(elected w.e.f. September 26, 2007)   | 2                 | -               | -               | -                | -                | 1                 | 1              | -             |
| Mr. Muhammad Farid Alam<br>(elected w.e.f. September 26, 2007<br>and resigned w.e.f. January 02, 2008) | 2                 | -               | -               | 1                | 1                | -                 | -              | -             |

(vi) Rating of the Fund and the Management Company

The JCR - VIS Credit Rating Company Limited (JCR - VIS) has assigned a "A+(f)" fund rating to Faysal Income & Growth Fund.

JCR - VIS has awarded an "AM3+" asset manager rating to the Management Company.





Faysal Bank

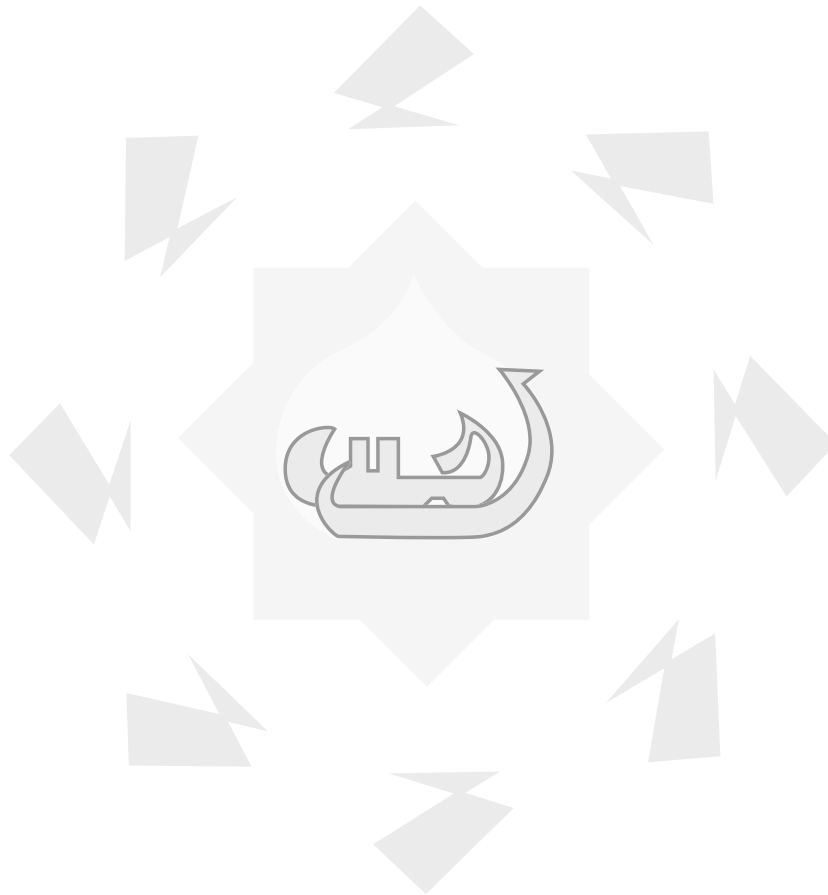


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