

NAFA Funds Annual Report 2008



Managed by: National Fullerton Asset Management Limited



Your investments & NAFA grow together



Joint - Venture Partners

NAFA INCOME FUND



NAFA INCOME FUND





NAFA INCOME FUND

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NAFA INCOME FUND

DIRECTORS' REPORT

The Board of Directors of National Fullerton Asset Management Limited is pleased to present the first Annual Report of **NAFA Income Fund** for the period since launch to June 30, 2008.

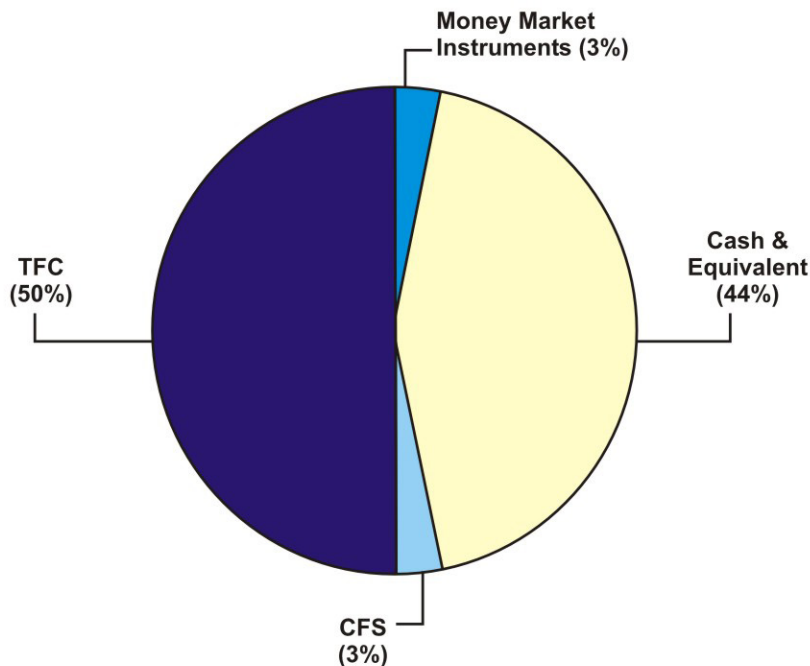
Fund's Performance

NAFA Income Fund commenced its investment activity on March 31, 2008 with an initial fund size of Rs.2,606 million. During this period, Unit Price of your Fund has increased from Rs.10 on March 30, 2008 to Rs.10.2107 on June 30, 2008, thus showing an annualized return of 8.43%. While, its benchmark has recorded an increase by 10.86%, during the period. Thus the Fund has underperformed its benchmark by 2.43%.

NAFA Income Fund has earned a total income of Rs.53.66 million during the period. After deducting expenses of Rs.15.95 million, the net income is Rs.37.71 million, translating into earning per unit of Rs.0.2107.

The asset allocation of the Fund as on June 30, 2008 is as follows:

Asset Allocation as on June 30, 2008



Income Distribution

The Board of Directors of the Management Company has approved a final distribution of 2.096%. After final distribution, the net asset value per unit will be Rs.10.0011 on June 30, 2008.



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Taxation

As the above distribution is more than 90% of the income earned during the year, excluding realized and unrealized capital gains on investments, the Fund is not subject to tax under Clause 99 of the Part I of the Second Schedule of the Income Tax Ordinance, 2001.

Auditors

The present auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment.

Pattern of Unit-holders

The pattern of Unit-holding as on June 30, 2008 is disclosed in the note 25 to these financial statements.

Directors' Statement in Compliance with Code of Corporate Governance

The part of the Directors' report to unit-holders is given as required under section 236 of the Companies Ordinance 1984:

1. The financial statements, prepared by the management company of NAFA Income Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of NAFA Income Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon NAFA Income Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. The Board of Directors of National Fullerton Asset Management Limited held five meetings during the current financial year. The attendance of all directors is disclosed in the note 26 to these financial statements:

Acknowledgement

The Board takes this opportunity to thank its valued unit-holders for their confidence and trust in the Management Company, and providing us with the opportunity to serve them. It also offers its sincere gratitude to the Securities & Exchange Commission of Pakistan and State Bank of Pakistan for their patronage and guidance.

The Board also wishes to place on record its appreciation for the hard work, dedication and commitment enthusiasm shown by the staff and the Trustees.

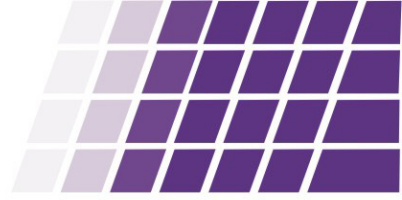
On behalf of the Board of
National Fullerton Asset Management Limited

Masood Karim Shaikh, FCA
Chairman

Dr. Amjad Waheed, CFA
Chief Executive

Date: August 11, 2008
Place: Karachi.

NAFA INCOME FUND



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

NAFA Income Fund (Fund), an open-end scheme was established under a trust deed dated January 03, 2008 executed between National Fullerton Asset Management Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee .

In our opinion, the management company has in all material respects managed the Fund during the Period from March 07, 2008 to 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 (NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations) and the constitutive documents of the fund.



NAFA INCOME FUND

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM MARCH 7, 2008 TO JUNE 30, 2008

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 43 of Listing Regulations of the Lahore Stock Exchange for the purpose of establishing a framework of good Governance, whereby a listed Company is managed in compliance with the best practice of corporate governance.

NAFA Income Fund (the Fund) is an open end mutual fund and is listed at the Lahore Stock Exchange. 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 and has appointed the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary of NAFA and other necessary personnel to manage its affairs.

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 consist seven directors including six independent non-executive directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy was occurred in the Board.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the directors and distributed to 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 the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the period. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. All the members of Board are well aware of operations of the Fund and the Management Company, therefore no orientation courses were arranged during the period.
10. The Board has approved the appointment of Head of Internal Audit and his terms of employment.
11. Directors' Report 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 before approval of the Board.
13. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 20 to the financial statements "Transactions with Connected Persons".

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14. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
15. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.
17. There exists an effective internal audit function within the company.
18. The Management Company has appointed the Head of Internal Audit, who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund.
19. The Statutory Auditors of the fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. 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.
21. We confirm that all other material principles contained in the Code have been complied with.



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FUND MANAGER'S REPORT

NAFA Income Fund

NAFA Income Fund is an open ended Fixed Income Fund.

Investment Objective of the Fund:

The objective of NAFA Income Fund is to earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.

Benchmark:

3-Month T-Bills

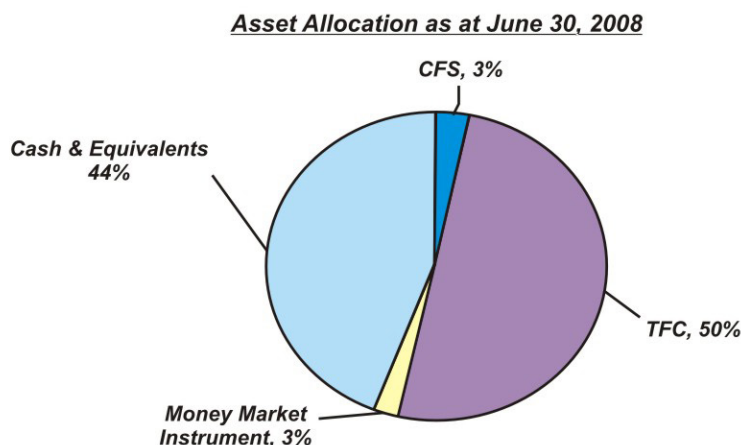
Fund's performance Review:

This is the first Annual report since the launch of your Fund in March, 2008. NAFA Income Fund was launched on March 29, 2008 with an asset size of Rs.2.6 billion. The Fund's annualized return since inception is 8.43% whereas its annualized monthly return for the month of June is 8.56%, with the Fund size of Rs.1.8 billion. The benchmark (3-Month T-Bill) has yielded an annualized return of 10.86%, since the launch of the Fund.

During May 2008, State Bank of Pakistan, keeping in view rising inflation due to higher aggregate demand in domestic economy and higher government borrowing from the Central Bank, increased the Discount Rate by 1.50% to 12.00%. Another step taken by the central bank to check money supply, as a result of direct government borrowing, was to increase the CRR and SLR rates by 1.00% each to 9.00% and 19.00%, respectively.

Effects of hike in Discount Rate, Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) were observed in all investment avenues. Liquidity crunch witnessed due to rise in policy rate, CRR and SLR had its worst effect on liquidity of the banking industry.

Keeping in view the rising interest rate scenario, NAFA Income Fund's asset allocation comprises short term, floating rate instruments. Attached chart shows asset allocation of NAFA Income Fund. As of 30th June 2008 allocation in TFCs, Cash and Equivalent, CFS and money market instruments are 50%, 44%, 3% and 3% of the Fund size respectively.



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Liquidity crunch, witnessed after change in policy rate, CRR and SLR limits during the period, ended up in rising KIBOR as well as CFS rates. CFS rates remained volatile during the period and settled at 16.27% at the end of June 2008. Post interim monetary policy by SBP, 6-Month KIBOR increased by 1.93% to 13.33% from 11.40%. The average rate being offered on the TFCs portfolio of NIF was 12.30% as of 30th June, 2008. Coupon rates NAFA Income Fund's TFCs are linked to KIBOR, which have been on rising trend as and when resetting is taking place on higher rates.

NAFA Income Fund is expected to benefit from a rising interest rate scenario as it is a short duration fund with its investments concentrated in floating rate TFCs, CFS, Ready Future Spread and bank deposits. We expect the return on the Fund to improve going forward.

The Board of Directors of the Management Company has approved a final distribution of 2.096% for the period ended on June 30, 2008. After the final distribution, the net asset value per unit was Rs.10.0011 on June 30, 2008.

During the period there has been no significant change in state of affairs of the Fund. NAFA Income Fund does not have any soft commission arrangement with any of the brokers in the industry.

Following is the Unit Holding pattern of NAFA Income Fund by size of unit holding as of 30th June, 2008.

| Size of Unit holding (Units) | # of Unit Holders |
|------------------------------|-------------------|
| upto 1000 | 387 |
| 1,001 - 5,000 | 131 |
| 5,001 - 10,000 | 104 |
| 10,001 - 50,000 | 185 |
| 50,001 - 100,000 | 56 |
| 100,001 - 500,000 | 78 |
| 500,001 - 1,000,000 | 13 |
| 1,000,001 - 5,000,000 | 10 |
| 5,000,001 - 10,000,000 | 7 |
| 10,000,001 - 100,000,000 | 2 |
| | 973 |



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

We have reviewed the statement of compliance with the best practices contained in the code of corporate governance prepared by the Board of directors of National Fullerton Asset Management Limited, Management Company of **NAFA Income Fund** to comply with XIII of the Lahore Stock Exchange where the Fund is listed.

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

As part of our audit of the 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 covers all control and the effectiveness of such internal controls.

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

Dated: September 9, 2008
Karachi

A. F. Ferguson & Co.
Chartered Accountants



NAFA INCOME FUND

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of NAFA Income Fund which comprise the statement of assets and liabilities as at June 30, 2008, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from March 7, 2008 to June 30, 2008 and a summary of significant accounting policies and other explanatory notes.

Management Company'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 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.

Auditor's 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 June 30, 2008 and of its financial performance, cash flows and transactions for the period from March 7, 2008 to June 30, 2008 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 and the Non-Banking Finance Companies and Notified Entities Regulations, 2007.

NAFA INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2008

| | NOTE | 2008 (Rupees in '000') |
|--|------|---------------------------|
| Assets | | |
| Balances with banks | 4 | 759,564 |
| Investments | 5 | 921,423 |
| Loans and receivables | | 50,000 |
| Receivable against Continuous Funding System (CFS) transactions | 6 | 58,656 |
| Profit receivable | 7 | 41,451 |
| Advances, deposits, prepayments and other receivables | 8 | 6,919 |
| Preliminary expenses and floatation costs | 9 | 4,744 |
| Total assets | | 1,842,757 |
| Liabilities | | |
| Payable to National Fullerton Asset Management Limited - Management Company | 10 | 8,742 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 11 | 251 |
| Payable to Securities and Exchange Commission of Pakistan | 12 | 705 |
| Payable on redemption of units | 13 | 3,333 |
| Accrued expenses and other liabilities | 14 | 1,809 |
| Total liabilities | | 14,840 |
| Net Assets | | 1,827,917 |
| Unit Holders' Funds (as per statement attached) | | 1,827,917 |
| Commitments | 15 | |
| | | Number of units |
| Number of units in issue | | 179,019,887 |
| | | Rupees |
| Net asset value per unit | 16 | 10.2107 |

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND



INCOME STATEMENT

For the period from March 07, 2008 to June 30, 2008

| | NOTE | For the period from March 07, 2008 to June 30, 2008 (Rupees in '000') |
|--|------|---|
| INCOME | | |
| Loss on sale of investments - net | | (2,405) |
| Income from Term Finance Certificates and sukuk bonds | | 28,556 |
| Income from certificates of deposits and clean placements | | 1,604 |
| Income from Continuous Funding System (CFS) transactions | | 19,781 |
| Income from spread transactions | | 3,523 |
| Profit on bank deposits | 17 | 24,193 |
| Unrealised loss on investments at fair value through profit or loss - net | | (2,029) |
| Total Income | | 73,223 |
| EXPENSES | | |
| Remuneration of National Fullerton Asset Management Limited – Management Company | 10.1 | 10,581 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 11.1 | 962 |
| Annual fee - Securities and Exchange Commission of Pakistan | 12.1 | 705 |
| Securities transaction cost | | 2,332 |
| Settlement and bank charges | | 897 |
| Annual listing fee | | 30 |
| Auditors' remuneration | 18 | 182 |
| Amortisation of preliminary expenses and floatation costs | 9 | 256 |
| Total Expenses | | 15,945 |
| Net income from operating activities | | 57,278 |
| Element of income and capital gains included in prices of units issued less those in units redeemed | | (19,559) |
| Net income for the period before taxation | | 37,719 |
| Taxation | | - |
| Net income for the period after taxation | | 37,719 |
| Earnings per unit | 19 | |

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman



NAFA INCOME FUND

DISTRIBUTION STATEMENT

For the period from March 07, 2008 to June 30, 2008

| | NOTE | For the period from March 07, 2008 to June 30, 2008 (Rupees in '000') |
|--------------------------------------|------|---|
| Net income for the period | | 37,719 |
| Undistributed income carried forward | | 37,719 |

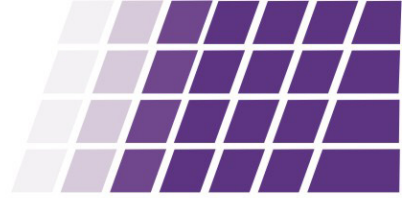
The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND



STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the period from March 07, 2008 to June 30, 2008

| NOTE | For the period from March 07, 2008 to June 30, 2008 (Rupees in '000') |
|--|---|
| Issue of 419,877,785 units | 4,211,307 |
| Redemption of 240,857,898 units | (2,440,668) |
| | 1,770,639 |
| Element of income and capital gains included in prices of units issued less those in units redeemed | 19,559 |
| Unrealised loss on investments at fair value through profit or loss - net | (2,029) |
| Loss on sale on investments - net | (2,405) |
| Other income (net of expenses) | 42,153 |
| Net income for the period | 37,719 |
| Net assets as at the end of the period | 1,827,917 |

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

CASH FLOW STATEMENT

For the period from March 07, 2008 to June 30, 2008

For the period
from March 07,
2008 to June 30,
2008
(Rupees in '000')

NOTE

CASH FLOW FROM OPERATING ACTIVITIES

Net Income for the period

37,719

Adjustments

Unrealised loss on investments at fair value through profit or loss - net

2,029

Amortisation of preliminary expenses and floatation costs

256

Element of loss and capital losses included in prices
of units issued less those in units redeemed

19,559

59,563

(Increase) / decrease in assets

Investments

(923,452)

Loans and receivables

(50,000)

Receivable against Continuous Funding System (CFS) transaction

(58,656)

Dividend and profit receivable

(41,451)

Advances, deposits, prepayments and other receivables

(6,919)

(1,080,478)

Increase / (decrease) in liabilities

Payable to management company

3,767

Payable to Central Depository Company of Pakistan Limited - Trustee

251

Payable to Securities and Exchange Commission of Pakistan

705

Payable on redemption of units

3,333

Accrued expenses and other liabilities

1,809

9,865

Payment made for Preliminary expenses and floatation costs

(25)

Net cash used in operating activities

(1,011,075)

CASH FLOW FROM FINANCING ACTIVITIES

Receipts from issue of units

4,211,307

Payments on redemption of units

(2,440,668)

Net cash inflow from financing activities

1,770,639

Cash and cash equivalents at the end of the period

4

759,564

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman



NAFA INCOME FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the period from March 07, 2008 to June 30, 2008

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Fund (NIF) was established under a Trust Deed executed between National Fullerton Asset Management Limited (NAFA) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on January 03, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 29, 2008 in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2007.

NIF is an open ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange. The units of the Fund were initially offered for public subscription at par from March 25, 2008 to March 28, 2008.

The core objective of the Fund is to earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets. The fund will comprise of investments of various investment horizons with the significant amount invested in short term investments for the purpose of maintaining liquidity.

In accordance with the Trust Deed, the first accounting period of the Fund commenced on the date on which the Trust Property was first paid or transferred to the Trustee i.e. March 7, 2008.

JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned an asset manager rating of AM2 to the Management Company. The Management Company has initiated the process of obtaining the rating of the Fund. Pending completion of this process, the rating of the Fund has not been disclosed in these financial statements.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board 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 Regulations, 2007 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or 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 directives issued by the SECP prevail.

2.2 Amendments to published accounting standards effective in 2008

Amendments to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces certain new disclosures about the level of and the management of an entity's capital. Adoption of this amendment has only resulted in additional disclosures relating to the management of NIF's unit holders' funds which have been set out in note 28 of these financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after July 1, 2007 which are not considered relevant nor have any significant effect on the Fund's operations are not detailed in these financial statements.

2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective.

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after January 1, 2008 are either not relevant to the Fund's operations or are not expected to have significant



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impact on the Fund's financial statements other than increased disclosures in certain cases:

| | |
|--|--------------------------------|
| IAS1-Presentation of Financial Statements (Revised September 2007) | effective from January 1,2009 |
| IAS 23 - Borrowing Costs (Revised March 2007) | effective from January 1, 2009 |
| Amendments to IAS 27 (Revised) - Consolidated and Separate Financial Statements | effective from July 1, 2009 |
| IFRS 3 (Revised) - Business Combinations | effective from July 1, 2009 |
| IFRS 7 - Financial Instruments: Disclosures | effective from April 28, 2008 |
| IFRS 8 - Operating Segments | effective from January 1, 2009 |
| IFRIC 12 - Service Concession Arrangements | effective from January 1, 2008 |
| IFRIC 13 - Customer Loyalty Programmes | effective from July 1, 2008 |
| IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction | effective from January 1, 2008 |
| IFRIC 15 - Agreements for the Construction of Real Estate | effective from January 1, 2009 |
| IFRIC 16 - Hedges of a Net Investment in a Foreign Operation | effective from October 1, 2008 |

2.4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (note 3.2 and note 5)
- ii) Amortisation of preliminary expenses and floatation cost (note 3.7 and note 9)

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments have been carried at fair value.

2.6 Functional and Presentation Currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

3.2 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets. The management determines the appropriate classification of the investments made by the Fund in accordance with the requirements



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of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis.

Investments are categorised as follows:

a) **Financial assets at fair value through profit or loss**

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'Financial assets at fair value through profit or loss'. Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the income statement. Subsequent to initial recognition these investments are marked to market using the closing market rates at the end of each day and are carried on the Statement of Assets and Liabilities at fair value. Net gains and losses arising on changes in fair values of these investments are taken to the Income Statement.

Investments in unquoted debt securities are also carried at fair value.

b) **Available for sale**

Investments intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices, are classified as 'available for sale'

Investments categorised as available for sale are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, 'available for sale' investments are measured at fair value. Net gains and losses arising on changes in fair values of these investments are taken to equity until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset classified as available for sale is impaired. If evidence of impairment exists, the cumulative loss recognised in equity is removed from equity and recognised in the income statement.

Investment in unquoted debt securities are also carried at fair value.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

3.3 **Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition these are carried at amortised cost.

3.4 **Securities under resale agreements – Continuous Funding System (CFS) transactions**

Securities purchased under an agreement to resell (reverse repo) are included as receivable against CFS transactions at the fair value of the consideration given. The CFS transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income from CFS transactions in the Income Statement and is recognised over the term of the respective transactions. Transaction costs are included in the initial measurement of all CFS transactions except for transaction costs that may be incurred on disposal.

3.5 **Spread transactions (Ready-Future Transactions)**

In accordance with the requirements of IAS 39, securities purchased by the Fund in the ready market are carried on the



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Statement of Assets and Liabilities till their eventual disposal, and the forward sale of securities in the futures market is accounted for separately as a 'derivative'.

3.6 Impairment

The carrying amount of assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised immediately in the financial statements.

3.7 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund.

3.8 Provisions

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

3.9 Taxation

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account tax credits, rebates and exemptions, if any, and is made in accordance with the provisions of the Income Tax Ordinance, 2001.

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to avail the tax exemption under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.10 Proposed distributions

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

3.11 Financial assets and financial liabilities

Financial assets carried on the Statement of Assets and Liabilities include balances with banks, receivables against sale of investments, receivable against Continuous Funding System (CFS) transactions, investments, loans and receivables, income receivable and certain other receivables.

Financial liabilities carried on the Statement of Assets and Liabilities include payable to National Fullerton Asset Management Limited – Management Company, payable to Central Depository Company of Pakistan Limited – Trustee, payable against redemption of units and accrued expenses and other liabilities.

The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

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3.12 Offsetting of financial instruments

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

3.13 Issue and redemption of units

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

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

3.14 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to income / (losses) that form part of the Unit Holders' Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

3.15 Revenue recognition

- Capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase (reverse repo) transactions and Continuous Funding System (CFS) transactions is recognised on an accrual basis.
- Dividend income is recognised when the right to receive the payment is established.
- Income on Term Finance Certificates is recognised on time proportion basis.
- Income from clean placements and Certificates of Investment is recognised on an accrual basis.
- Unrealised gains / losses arising on revaluation of investments classified as 'financial assets at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.

3.16 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of

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at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

| 4 | BALANCES WITH BANKS | NOTE | 2008 (Rupees in '000') |
|---|--|------|---------------------------|
| | Current accounts | | 1,479 |
| | Savings accounts | | 208,085 |
| | Term deposits | | 550,000 |
| | | | 759,564 |
| 5 | INVESTMENTS | | |
| | At fair value through profit or loss - held for trading | | |
| | Equity securities purchased under futures sale contracts | 5.1 | - |
| | Term Finance Certificates - listed | 5.2 | 131,245 |
| | Term Finance Certificates - unlisted | 5.2 | 401,360 |
| | Sukuk bonds | 5.2 | 50,335 |
| | Available for sale investments | | |
| | Term Finance Certificates - unlisted | 5.3 | 120,000 |
| | Sukuk bonds | 5.3 | 100,000 |
| | Commercial papers | 5.4 | 118,483 |
| | | | 921,423 |

5.1 Equity securities purchased under futures sale contracts

These securities are held under Ready-Future transactions. These securities are purchased in the ready "T+2" market and simultaneously sold in the future market. The details are as follows:

| Name of the investee company | Number of shares | | | | Market value as at June 30, 2008 | Percentage of investments in relation to net assets | Percentage of investments in relation to total investments |
|------------------------------|-----------------------------|--------------------|-------------------------|---------------------|----------------------------------|---|--|
| | Purchases during the period | Right issue/ bonus | Sales during the period | As at June 30, 2008 | | | |

(Rupees in '000')

Fully paid ordinary shares of Rs 10 each

Investment Banks/Companies

| | | | | | | | |
|-----------------------------------|---------|---|---------|---|---|---|---|
| Arif Habib Securities Limited | 230,500 | - | 230,500 | - | - | - | - |
| Jahangir Siddiqui Company Limited | 156,000 | - | 156,000 | - | - | - | - |

Commercial Banks

| | | | | | | | |
|-------------------------|---------|---|---------|---|---|---|---|
| Arif Habib Bank Limited | 151,000 | - | 151,000 | - | - | - | - |
| Askari Bank Limited | 17,000 | - | 17,000 | - | - | - | - |
| Bank Al Falah Limited | 23,000 | - | 23,000 | - | - | - | - |
| Bank of Punjab Limited | 79,500 | - | 79,500 | - | - | - | - |

NAFA INCOME FUND

| Name of the investee company | Number of shares | | | As at June 30, 2008 | Market value as at June 30, 2008 | Percentage of investments in relation to net assets | Percentage of investments in relation to total investments |
|------------------------------|-----------------------------|--------------------|-------------------------|---------------------|----------------------------------|---|--|
| | Purchases during the period | Right issue/ bonus | Sales during the period | | | | |

(Rupees in '000')

| | | | | | | | |
|--|---------|---|---------|---|---|---|---|
| JS Bank Limited | 784,500 | - | 784,500 | - | - | - | - |
| MCB Bank Limited | 227,000 | - | 227,000 | - | - | - | - |
| National Bank of Pakistan | 73,000 | - | 73,000 | - | - | - | - |
| Soneri Bank Limited | 10,000 | - | 10,000 | - | - | - | - |
| Insurance | | | | | | | |
| Adamjee Insurance Company Limited | 7,500 | - | 7,500 | - | - | - | - |
| Textile Composite | | | | | | | |
| Azgard Nine Limited | 190,500 | - | 190,500 | - | - | - | - |
| Nishat Mills Limited | 30,500 | - | 30,500 | - | - | - | - |
| Cement | | | | | | | |
| D.G Khan Cement Company Limited | 246,500 | - | 246,500 | - | - | - | - |
| Refinery | | | | | | | |
| Attock Refinery Limited | 5,000 | - | 5,000 | - | - | - | - |
| Oil & Gas Exploration Companies | | | | | | | |
| Oil & Gas Development Company Limited | 50,000 | - | 50,000 | - | - | - | - |
| Pakistan Oilfields Limited | 10,000 | - | 10,000 | - | - | - | - |
| Fertilizers | | | | | | | |
| Engro Chemicals Pakistan Limited | 157,000 | - | 157,000 | - | - | - | - |
| Fauji Fertilizer Bin Qasim Limited | 5,500 | - | 5,500 | - | - | - | - |
| Chemicals | | | | | | | |
| Sitara Peroxide Limited | 33,500 | - | 33,500 | - | - | - | - |
| Miscellaneous | | | | | | | |
| Pace (Pakistan) Limited | 354,000 | - | 354,000 | - | - | - | - |
| | 33,500 | - | 33,500 | - | - | - | - |

5.2 Term Finance Certificates and Sukuk bonds

| Name of the investee company | Number of certificate / bonds | | | | Market value as at June 30, 2008 | Percentage of investments in relation to net assets of the Fund | Percentage of investments in relation to total investments |
|------------------------------|-------------------------------|------------|-------------------------|---------------------|----------------------------------|---|--|
| | Purchases during the period | Redemption | Sales during the period | As at June 30, 2008 | | | |

(Rupees in '000')

Term finance certificate - listed

| | | | | | | | |
|----------------------------------|--------|---|--------|--------|----------------|-------|-------|
| Engro Chemicals Pakistan Limited | 10,000 | - | - | 10,000 | 50,530 | 2.76% | 5.48% |
| NIB Bank Limited | 13,000 | - | 12,000 | 1,000 | 5,062 | 0.28% | 0.55% |
| Saudi Pak Leasing | 15,000 | - | - | 15,000 | 75,653 | 4.14% | 8.21% |
| United Bank Limited | 65,000 | - | 65,000 | - | - | - | - |
| | | | | | <u>131,245</u> | | |

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| Name of the investee company | Number of certificates / bonds | | | As at June 30, 2008 | Market value as at June 30, 2008 | Percentage of investments in relation to net assets of the Fund | Percentage of investments in relation to total investments |
|---|--------------------------------|------------|-------------------------|---------------------|----------------------------------|---|--|
| | Purchases during the period | Redemption | Sales during the period | | | | |
| (Rupees in '000') | | | | | | | |
| Term finance certificate - unlisted | | | | | | | |
| Engro Chemicals Pakistan Limited | 20,000 | - | - | 20,000 | 101,750 | 5.57% | 11.04% |
| Pak American Fertilizer Limited | 30,000 | - | - | 30,000 | 150,240 | 8.22% | 16.31% |
| Pakistan Mobile Communication (Private) Limited | 30,000 | - | - | 30,000 | 149,370 | 8.17% | 16.21% |
| | | | | | 401,360 | | |
| Sukuk bonds | | | | | | | |
| New Allied Electronics Industries (Private) Limited | 10,000 | - | - | 10,000 | 50,335 | 2.75% | 5.46% |
| | | | | | 50,335 | | |
| | | | | | 582,940 | | |
| | | | | | 584,969 | | |
| Cost of investments as at June 30, 2008 | | | | | 584,969 | | |

5.2.1 Fair value of listed Term Finance Certificates classified as investments at fair value through profit or loss is determined using rates notified by Mutual Funds Association of Pakistan.

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

5.2.3 The above investments include Term Finance Certificates with market value aggregating to Rs.65,584 thousand which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular no. 11 dated October 23, 2007 issued by SECP.

5.3. Term Finance Certificates and Sukuk bonds - Available for sale

| Name of the investee company | Number of certificates / bonds | | | As at June 30, 2008 | Market value as at June 30, 2008 | Percentage of investments in relation to net assets of the Fund | Percentage of investments in relation to total investments |
|--|--------------------------------|------------|-------------------------|---------------------|----------------------------------|---|--|
| | Purchases during the period | Redemption | Sales during the period | | | | |
| (Rupees in '000') | | | | | | | |
| Term finance certificate - unlisted | | | | | | | |
| World Call Telecom - Pre IPO | 24,000 | - | - | 24,000 | 120,000 | 6.56% | 13.02% |
| | | | | | 120,000 | | |
| Sukuk bonds | | | | | | | |
| Eden Housing | 20,000 | - | - | 20,000 | 100,000 | 5.47% | 10.85% |
| | | | | | 100,000 | | |
| Cost of investments as at June 30, 2008 | | | | | 220,000 | | |

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

NAFA INCOME FUND



5.4 Commercial papers - Available for sale

| Name of the investee company | Number of Units | | | | Market value as at June 30, 2008 | Percentage of investments in relation to net assets of the Fund | Percentage of investments in relation to total investments |
|------------------------------|-----------------------------|---------------------------|-------------------------|---------------------|----------------------------------|---|--|
| | Purchases during the period | Matured during the period | Sales during the period | As at June 30, 2008 | | | |

(Rupees in '000')

Commercial paper

| | | | | | | | |
|-----------------------|--------|---|---|--------|--------|-------|-------|
| Azgard Nine Limited | 15,000 | - | - | 15,000 | 69,779 | 3.82% | 7.57% |
| IGI Insurance Limited | 10,000 | - | - | 10,000 | 48,704 | 2.66% | 5.29% |

118,483

Cost of investment - as at June 30, 2008

118,483

6 RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM (CFS) TRANSACTIONS

The rates of return on CFS transactions outstanding at June 30, 2008 range between 10.30% to 22.9% per annum.

| | NOTE | 2008 (Rupees in '000') |
|--|------|---------------------------|
| 7 PROFIT RECEIVABLE | | |
| Income accrued on Continuous Funding System (CFS) transactions | | 684 |
| Profit on savings & term deposit accounts | | 14,273 |
| Income accrued on Term Finance Certificates | | 25,210 |
| Income accrued on money market placements | | 1,284 |
| | | 41,451 |
| 8 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES | | |
| Security deposits with: | | |
| - National Clearing Company of Pakistan Limited | | 3,500 |
| - Central Depository Company of Pakistan Limited | | 100 |
| Prepayments | | 882 |
| Exposure deposit | | 2,029 |
| Receivable from NAFA Multi Asset Fund on transfer-in of units | | 139 |
| Receivable from NAFA Stock Fund on transfer-in of units | | 269 |
| | | 6,919 |
| 9 PRELIMINARY EXPENSES AND FLOATATION COSTS | | |
| Preliminary expenses and floatation costs | 9.1 | 5,000 |
| Less: amortisation during the period | | 256 |
| Balance as at June 30 | | 4,744 |

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from March 28, 2008 as per the requirements set out in the Trust Deed of the Fund.

NAFA INCOME FUND

| | | 2008 |
|----|---|-------------------|
| | | (Rupees in '000') |
| 10 | PAYABLE TO NATIONAL FULLERTON ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY | NOTE |
| | Management fee | 10.1 |
| | Front-end load | |
| | Others | |
| | | 8,742 |

10.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations), the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current period. The remuneration is paid on a monthly basis in arrears.

| 11 | PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE | |
|----|---|------|
| | Trustee fee | 11.1 |
| | | 251 |

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2008 is as follows:

Amount of Fund Under Management (Average NAV)

Tariff per annum

| | |
|--|---|
| Upto Rs. 1,000 million | Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher |
| On an amount exceeding Rs. 1,000 million | Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million. |

| | | 2008 |
|----|---|-------------------|
| | | (Rupees in '000') |
| 12 | PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN | NOTE |
| | Annual fee | 12.1 |
| | | 705 |

12.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2007, NIF is required to pay as annual fee to the Securities and Exchange Commission of Pakistan, an amount equal to one-tenth of one percent of the average annual net assets of the Scheme.

13 PAYABLE ON REDEMPTION OF UNITS

This includes amount of Rs 2,682 thousand payable to NAFA Cash Fund on transfer-out of units to these funds.

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| | | 2008 (Rupees in '000') |
|-----------|--|---------------------------|
| 14 | ACCRUED EXPENSES AND OTHER LIABILITIES | |
| | Auditor's remuneration | 182 |
| | Settlement charges payable | 76 |
| | Withholding Tax Payable | 291 |
| | Bank charges payable | 6 |
| | NCCPL fee payable | 27 |
| | Payable to brokers | 1,227 |
| | | 1,809 |
| 15 | COMMITMENTS | |
| | Continuous Funding System (CFS) transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase and sale transactions have not been settled as at year end | 7,955 |

16 NET ASSET VALUE PER UNIT

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

| | | 'For the period March 07, 2008 to June 30, 2008 (Rupees in '000') |
|-----------|--------------------------------|--|
| 17 | PROFIT ON BANK DEPOSITS | |
| | Income on saving deposits | 7,103 |
| | Income on term deposits | 17,090 |
| | | 24,193 |
| 18 | AUDITORS' REMUNERATION | |
| | Audit fee | 175 |
| | Out of pocket expenses | 7 |
| | | 182 |

TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company has decided to distribute at least 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

19 EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended June 30, 2008 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

20 TRANSACTIONS WITH CONNECTED PERSONS

20.1 Connected persons include National Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being Trustee, National Bank of Pakistan, NIB Bank Limited and Alexandra Fund Management

NAFA INCOME FUND

Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

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

20.3 Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

20.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

**For the period March
07, 2008 to
June 30, 2008
(Rupees in '000')**

20.5 Details of the transactions with connected persons are as follows

National Fullerton Asset Management Limited - Management Company

Management fee expense for the period

10,581

Units issued / transferred in (10,000,000 units)

100,000

Preliminary expenses and floatation cost

5,000

NIB Bank Limited - Sponsor

Investment in Term Finance Certificates

5,073

Income from Term Finance Certificates

1,259

Chief Executive Officer

Units issued / transferred in (29,400 units)

300

Executives of the Management Company

Units issued / transferred in (50,402 units)

508

Units redeemed / transferred out (42,342 units)

427

Central Depository Company of Pakistan Limited - Trustee

Remuneration

962

CDS charges

472

Security Deposit

100

NAFA Multi Asset Fund

Units issued (5,519,036 units)

56,000

NAFA Cash Fund

Units issued (7,391,566 units)

75,000

2008

(Rupees in '000)

Amounts outstanding as at year end

National Fullerton Asset Management Limited - Management Company

Management fee payable

2,529

Investment held by management company in the Fund (10,000,000 units)

102,107

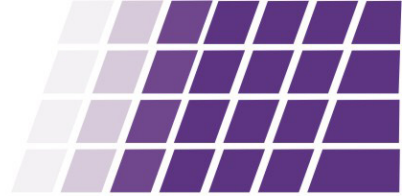
Front end load payable

1,238

Other payable

4,975

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2008
(Rupees in '000)

National Bank of Pakistan - Sponsor

Balance in current account

1,479

NIB Bank Limited - Sponsor

Balance in savings account

181,396

Profit receivable on bank deposits

80

Investment in Term Finance Certificates

5,062

Profit receivable on Term Finance Certificates

1,259

Chief Executive Officer

Investment held in the Fund (29,400)

300

Other Executives of the Management Company

Investment held in the Fund (8,060)

82

NAFA Multi Asset Fund

Investment held in the Fund (5,519,036)

56,353

NAFA Cash Fund

Investment held in the Fund (7,391,566)

75,473

Central Depository Company of Pakistan Ltd.

Remuneration payable

251

CDC charges

76

Security Deposit

100

21 YIELD / INTEREST RATE RISK

The Fund is mainly exposed to mark-up / interest rate risk on its investment portfolio. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that risk is managed within acceptable limits. Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off balance sheet instruments is based on settlement date.

| ----- 2008 ----- | | | | |
|------------------|------------------------------------|-------------------------------------|---------------|------------------------------------|
| Total | --Exposed to Yield/Interest risk-- | | | Not exposed to Yield/Interest risk |
| | Upto three months | Over three months and upto one year | Over one year | |

On-balance sheet financial instruments

----- (Rupees in '000') -----

Financial Assets

| | | | | | |
|---|-----------|---------|---------|---|--------|
| Bank balances | 759,564 | 758,085 | - | - | 1,479 |
| Receivable against Continuous Funding System (CFS) transactions | 58,656 | 58,656 | - | - | - |
| Investmentst | 921,423 | - | 921,423 | - | - |
| Loans and receivables | 50,000 | 50,000 | - | - | - |
| Advances and deposits | 6,919 | - | - | - | 6,919 |
| Profit receivable | 41,451 | - | - | - | 41,451 |
| | 1,838,013 | 866,741 | 921,423 | - | 49,849 |

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----- 2008 -----

| Total | --Exposed to Yield/Interest risk-- | | | Not exposed to Yield/Interest risk |
|-------|------------------------------------|-------------------------------------|---------------|------------------------------------|
| | Upto three months | Over three months and upto one year | Over one year | |

Financial Liabilities

Payable to National Fullerton Asset Management Limited - Management Company
 Payable to Central Depository Company of Pakistan Limited - Trustee
 Payable on redemption of units
 Accrued expenses and other liabilities

| ------(Rupees in '000')----- | | | | |
|------------------------------|---------|---------|---|--------|
| 8,742 | - | - | - | 8,742 |
| 251 | - | - | - | 251 |
| 3,333 | - | - | - | 3,333 |
| 1,809 | - | - | - | 1,809 |
| 14,135 | - | - | - | 14,135 |
| 1,823,878 | 866,741 | 921,423 | - | 35,714 |

On-balance sheet gap

Off-balance sheet financial instruments

CFS transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30, 2008

| | | | | |
|-------|-------|---|---|---|
| 7,955 | 7,955 | - | - | - |
| 7,955 | 7,955 | - | - | - |

Off-balance sheet gap

21.1 The rates of return on financial instruments are as follows:

2008
Percentage
per annum

Balances with banks
 Receivable against Continuous Funding System (CFS) transactions
 Investments - Term Finance Certificates
 Investments - Sukuks
 Investments - Commercial Papers
 Loans and Receivables

1.30 - 13
 10.30 - 22.90
 11.1 - 14.81
 12.82 - 15.14
 10.66 - 12.04
 10.65%

CFS transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30

10.30 - 22.90

22 MATURITIES OF ASSETS AND LIABILITIES

The maturity profile of the Fund's assets and liabilities based on contractual maturities is given below:

----- 2008 -----

| Total | Upto three months | Over three months and upto one year | Over one year |
|-------|-------------------|-------------------------------------|---------------|
|-------|-------------------|-------------------------------------|---------------|

------(Rupees in '000')-----

Assets

Bank balances
 Receivable against Continuous Funding System (CFS) transactions
 Investments
 Loans and receivables
 Advances, deposits, prepayments and other receivables
 Profit receivable
 Preliminary expenses and floatation costs

| | | | |
|-----------|---------|---------|---------|
| 759,564 | 759,564 | - | - |
| 58,656 | 58,656 | - | - |
| 921,423 | - | 118,535 | 802,888 |
| 50,000 | 50,000 | - | - |
| 6,919 | 630 | 660 | 5,629 |
| 41,451 | 16,241 | - | 25,210 |
| 4,744 | 252 | 751 | 3,741 |
| 1,842,757 | 885,343 | 119,946 | 837,468 |

NAFA INCOME FUND



----- 2008 -----

| Total | Upto three months | Over three months and upto one year | Over one year |
|-------|-------------------|-------------------------------------|---------------|
|-------|-------------------|-------------------------------------|---------------|

----- (Rupees in '000') -----

Liabilities

Payable to National Fullerton Asset Management Limited – Management Company
 Payable to Central Depository Company of Pakistan Limited – Trustee
 Payable to Securities and Exchange Commission of Pakistan
 Payable on redemption of units
 Accrued expenses and other liabilities

| | | | |
|-----------|---------|---------|---------|
| 8,742 | 8,742 | - | - |
| 251 | 251 | - | - |
| 705 | 705 | - | - |
| 3,333 | 3,333 | - | - |
| 1,809 | 1,809 | - | - |
| 14,840 | 14,840 | - | - |
| 1,827,917 | 870,503 | 119,946 | 837,468 |

23 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of the investment committee of the Fund are as follows

| | Qualification | Experience in years |
|--------------------|--|---------------------|
| 1 Dr. Amjad Waheed | Doctorate in Business Administration / CFA | 17 |
| 2 Sajjad Anwar | CFA / MBA Finance | 7.5 |
| 3 Rukhsana Narejo | CFA / MBA Banking and Finance | 6 |
| 4 Khurram Shehzad | CFA / MBA | 9 |

Rukhsana Narejo is the fund manager of NIF. She is also the fund manager of NAFA Cash Fund.

24 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

| | 2008 % |
|--|--------|
| 1 FDM Capital Securities (Private) Limited | 17.47% |
| 2 Global Securities Pakistan Limited | 17.32% |
| 3 Noman Abid & Company Limited | 10.98% |
| 4 Orix Investment Bank limited | 10.58% |
| 5 Atlas Capital Market Limited | 9.49% |
| 6 Moosani Securities (Private) Limited | 7.74% |
| 7 Multiline Securities | 7.60% |
| 8 Dawood Equities Limited | 7.19% |
| 9 Growth Securities (Private) Limited | 3.01% |
| 10 Live Securities (Private) Limited | 2.90% |

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25 PATTERN OF UNIT HOLDING

| Category | As at June 30, 2008 | | |
|----------------------------------|------------------------|-------------------|-----------------------|
| | Number of unit holders | Investment amount | Percentage investment |
| | (Rupees in '000') | | |
| Individuals | 884 | 315,801 | 17.28% |
| Associated companies / Directors | 1 | 300 | 0.02% |
| Insurance companies | 3 | 30,543 | 1.67% |
| Bank / DFIs | 7 | 250,232 | 13.69% |
| NBFCs | 1 | 1,501 | 0.08% |
| Retirement funds | - | - | 0.00% |
| Public Limited companies | 5 | 102,107 | 5.58% |
| Others | 72 | 1,127,433 | 61.68% |
| | 973 | 1,827,917 | 100.00% |

26 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 12th, 13th, 14th, 15th and 16th Board meetings were held on July 5, 2007, August 8, 2007, October 18, 2007, February 15, 2008 and April 16, 2008 respectively. Information in respect of attendance by Directors in the meetings is given below:

| Name of Director | Number of meetings | | | Meeting not attended |
|------------------|--------------------|----------|---------------|-----------------------------|
| | Held | Attended | Leave granted | |
| Masood Karim | 5 | 5 | - | - |
| Dr Amjad Waheed | 5 | 5 | - | - |
| Gerard Lee | 5 | 4 | 1 | 12th meeting |
| Iqbal Hassan | 5 | 4 | 1 | 16th meeting |
| Patrick Pang | 5 | 5 | - | - |
| Shahid Anwar | 5 | 2 | 3 | 12th, 13th and 16th meeting |
| Masroor Qureshi | 5 | 5 | - | - |

27 RISK MANAGEMENT POLICIES

27.1 Market risk

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

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

27.2 Credit risk

Credit risk arising from the inability of the counterparties to fulfill their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon. The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

NAFA INCOME FUND



Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties 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 counterparties thereby mitigating any significant concentration of credit risk.

27.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset at close to its fair value. In addition the Fund is exposed to daily cash redemption of units. The Management Company manages liquidity risk by following internal guidelines such as monitoring maturities of financial assets and financial liabilities and investing in highly liquid financial assets.

27.4 Yield / Interest rate risk

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve. Yield / interest rate risk arises from the possibility that changes in market rates of return will affect the value of the financial instruments. A Fund is exposed to yield / interest rate risk as a result of mismatches or gaps in the amounts of financial assets and financial liabilities that mature or reprice in a given period. The Fund manages this risk by matching the repricing of financial assets and liabilities through risk management strategies. The position for financial instruments is based on earlier of contractual repricing date or maturity.

28 UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit holders' fund is represented by redeemable units. These units are entitled to distributions and to payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable on the Fund.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies stated in note 27, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or 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 tradeable 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 either short term in nature or periodically repriced.

30 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 03, 2008 have approved distribution at the rate of 2.096% percent. The financial statements of the Fund for the period ended June 30, 2008 do not include the effect



NAFA INCOME FUND

of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2009.

31 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 11, 2008.

32 GENERAL

Figures have been rounded off to the nearest thousand rupees.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

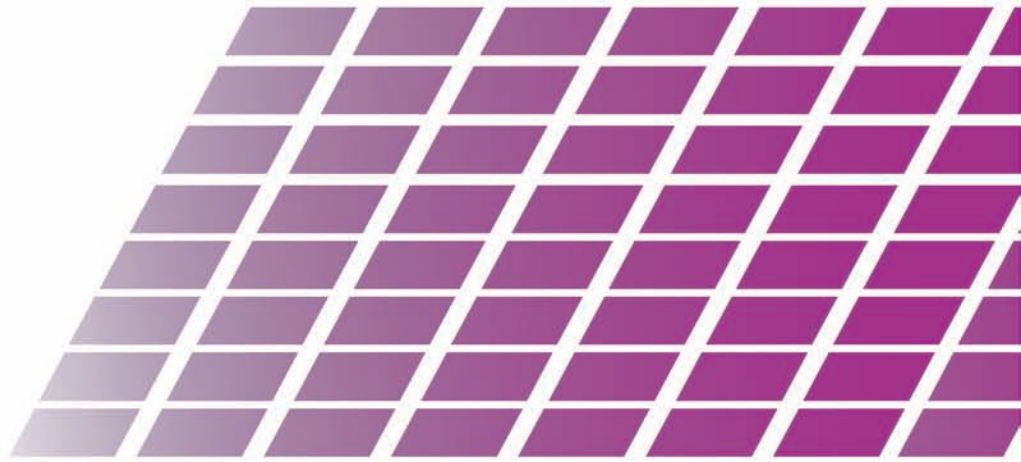


NAFA Income Fund Performance Table

| Particulars | For the year ended June 30, 2008 |
|--|-------------------------------------|
| Net assets (Rs '000') | 1,827,917 |
| Net Income (Rs '000') | 37,719 |
| Net Asset Value per unit (Rs) | 10.0011 |
| Offer price per unit | 10.1032 |
| Redemption price per unit | 10.0011 |
| Highest offer price per unit (Rs) | 10.1032 |
| Lowest offer price per unit (Rs) | 98.935 |
| Highest redemption price per unit (Rs) | 10.0011 |
| Lowest redemption price per unit (Rs) | 9.7955 |
| Total return of the fund | 2.11% |
| Capital growth | 0.01% |
| Income distribution | 2.10% |
| Interim distribution per units | - |
| Final distribution per unit | 0.2096 |
| Distribution dates | |
| Interim | |
| Final | 3-Jul-08 |
| Average annual return (launch date 29-03-08) | 8.43% |
| (Since Inception to June 30,2008) | 2 Years |
| portfolio composition (Please See Fund Manager Report) | |
| Weighted average portfolio duration | |
| <p>"Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up."</p> | |



NAFA INCOME FUND



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