

PERFORMANCE

FBGF, by the grace of Almighty Allah, has performed well as the fund has appreciated by 25.86% during the full year of operations as compared to an appreciation of 14.7% in the previous year.

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

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

SALE AND REDEMPTION OF UNITS

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

UNIT PRICES

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

	<u>Offer Prices</u>	<u>Redemption Prices</u>
Highest	147.41	144.38
Lowest	97.57*	95.42*
As of June 30, 2006	108.65*	106.26*

* Adjusted for interim bonus dividend of 20%

INVESTMENT ACTIVITIES

EQUITY INVESTMENTS

FBGF had diversified exposure in several growth sectors including oil & gas sector, banking and telecommunication sector. In view of the rise in international oil prices and recent discoveries by the oil exploration companies, we remained invested in the oil &

gas sector as our major investment. FBGF also maintained its holding in the telecommunication sector as the privatization of the largest telecommunication company in Pakistan, PTCL, was completed during this period. The banking sector exhibited major growth in earnings during this period and hence the fund increased its overall exposure in this sector.

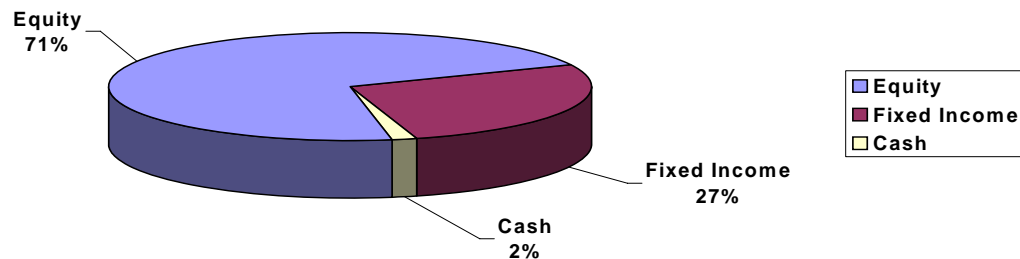
FIXED INCOME INVESTMENTS

The Fund is taking a cautious stance on investment in bond markets, as bond prices tend to be more vulnerable to rising interest rates. However, the fund has investment in several attractive KIBOR Linked floating rate Term Finance Certificates (TFCs). Going forward we anticipate further increase in the overall interest rate scenario.

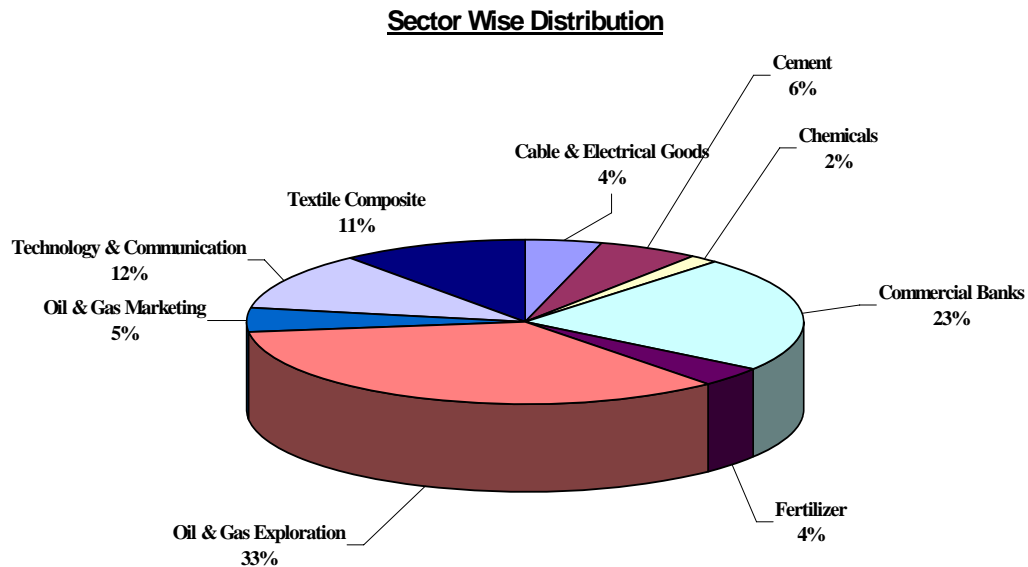
ASSET ALLOCATION

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

Portfolio Classification



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



INCOME & RETURN ON UNITS

During the year ended June 30th 2006 FBGF posted an overall yield to its investors of around 26%. The fund has posted a net profit of Rs. 405.9 million. This mainly includes a net capital gain of Rs 399.49 million.

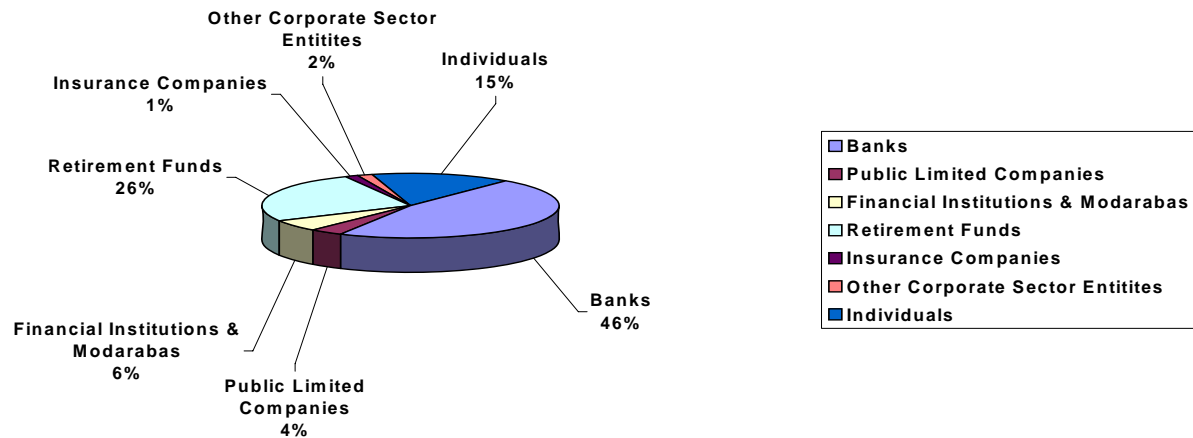
INCOME DISTRIBUTION

The fund announced record results for the fiscal year ending on June 30th, 2006 and paid a record annual dividend of 26% as bonus units to its unit holders. The fund paid 20% interim dividend and a final dividend of 6% both as bonus units to its unit holders.

PATTERN OF HOLDING

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

Classification of Unit Holders



FUTURE OUTLOOK

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

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

The sector analysis indicates strong discoveries on the Oil & Gas front. These discoveries along with setting up of new refineries in the country will lead us towards

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