

managed by



TO ACHIEVE THE OBJECTIVE OF GENERATING A POSITIVE RETURN AND LONG TERM CAPITAL APPRECIATION, THE FUND CAN INVEST IN EQUITY SECURITIES OR DEBT INSTRUMENTS IN A RANGE OF 0-100% FOR EACH CATEGORY, BASED ON A NUMBER OF FACTORS INCLUDING (BUT NOT LIMITED TO) ECONOMIC OUTLOOK, MARKET CONDITIONS, INTEREST RATE MOVEMENTS, SECTOR/STOCK FUNDAMENTALS ETC.

KASB ASSET ALLOCATION FUND

(formerly KASB Balanced Fund)

ANNUAL REPORT
June 30, 2011

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FUND INFORMATION

Management Company

KASB Funds Limited

Registered Office:

9th Floor, Trade Centre, I.I. Chundrigar
Road, Karachi-74200, Pakistan

Principal Office

5th Floor, Trade Centre, I.I. Chundrigar
Road, Karachi-74200, Pakistan

UAN: (92-21) 111 535 535

Fax: (92-21) 3263 9188

URL: www.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman

Mr. Amer Maqbool - Chief Executive

Mr. Qaiser P. Mufti

Mr. Syed Muhammad Rehmanullah

Mr. Muzaffar Ali Shah Bukhari

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Mansoor Ali

Audit Committee

Mr. Robert John Richard Owen

Mr. Syed Muhammad Rehmanullah

Mr. Qaiser P. Mufti

Trustee

Central Depository Company of Pakistan
Limited, CDC House, 99-B, Block 'B',
SMCHS, Main Shakra-e-Faisal, Karachi.

Fund Ranking

1 Star by PACRA

Bankers to the Fund

KASB Bank Limited

Auditors

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

Legal Advisor

Bawaney & Partners

Room No. 404, 4th Floor, Beaumont Plaza,
6-cl-10, Beaumont Road, Civil Lines,
Karachi-75530

Registrar

KASB Funds Limited

5th Floor, Trade Centre, I.I. Chundrigar
Road, Karachi-74200, Pakistan

Distributors

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Standard Chartered Bank (Pakistan) Limited

Management Company Rating

Rated AM3 by JCR-VIS

MISSION STATEMENT

The Fund aims to generate a positive return and long term capital appreciation for unit holders by investing in both the Equity and Debt markets.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Asset Allocation Fund (formerly KASB Balanced Fund) (KAAF, the Fund), is pleased to present the fourth Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2011.

Financial Highlights

	FY 2011	FY 2010	Increase / (Decrease) (%)
Net (Loss) / Income (Rs. in Million)	(31.26)	31.38	(199.62)
Net Assets as at June 30 (Rs. in Million)	357.77	462.69	(22.68)
NAV per Unit as on June 30 (Rs.) *	38.07	43.13	(11.73)
Return (%)	(5.72)	0.89	(742.70)

* Par value of each unit is Rs. 50.

Economic Environment

The financial year 2010-11 can be termed as economically successful, considering the massive flood destroying the agricultural land and creating human tragedy. Despite this, country was able to post a modest growth of 1.14% in Large Scale manufacturing (LSM) and was also able to return current account surplus of USD 437mln backed by record exports & remittances of USD 25.4bln and USD 11.2bln respectively.

The developments on fiscal front were, however, worrisome. Tax collection, even after revising twice, failed to reach to PKR 1,580bln. Tax to GDP ratio was mere 9%, the lowest in the region which gave way to a humungous deficit of PKR 1,100bn. Since the deficit was too large to be consumed by local and foreign resources, it forced Government to borrow the gap from Central Bank which abated in keeping inflation at high level. This phenomenon, together with international price hike and administrative mismanagement kept inflation at 14% level restricting central bank to introduce any ease in the monetary market.

The Federal Budget was a key event but ambitious revenue enhancement and subsidy curtailment targets raised questions on the execution of the stated targets.

Capital Market

The market enjoyed second consecutive rally with KSE-100 & KSE-30 posting 28.53% and 21.24% respectively. The outperformance of KSE-100 was mainly due to 263% rise in the price of Nestle which possess a weight of % in KSE-100. Net portfolio investment of USD 365m was registered in FY-11 as against USD 588m showing a decrease of 38%. The average daily volume of market remained dismal at 95m shares evidencing lack of price discovery in the market. Various leverage tools like Margin Trading System (MTS), Margin Finance System (MFS) were introduced during the year which failed to attract individuals to the market in large numbers. Only three IPOs were introduced during the year reflecting unwillingness by private sector to adopt strict regulations with no definite benefit.

Investment Strategy

KAAF aims to achieve the objective of generating regular income together with capital appreciation. On the income side, the fund invests both in shorter duration and longer duration debt instruments as well as fixed income transactions in the capital market to achieve consistent income for Unit Holders keeping in view capital preservation. On the equity side, the Fund invests in fundamentally undervalued stocks that have business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management. Liquidity is an important consideration in the stock selection process as well and illiquid but fundamentally under valued stocks are kept at a minimum. For the outgoing fiscal year, banking, fertilizer and oil and gas sectors remained in favour with the fund as they offered most value as well as growth opportunities.

For FY11, the income portion of KAAF was invested in floating rate instruments and long tenor placements. On the equity side, we continue to follow stock-specific, fundamentals driven strategy to outperform the benchmark.

Fund Performance

The Fund has earned a return of -5.72% for FY11 against the benchmark (50% 6 Month KIBOR + 50% KSE-30) return of 17.50%. This underperformance has come from the income portion on the back of re-valuation impact in TFCs/Sukuks both due to credit related issues as well as market pricing. The Net Asset Value per unit of the Fund at the close of the year stood at Rs. 38.07. The net loss for the year ended June 30, 2011 was Rs. 31.26 million.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

Income Distribution

As the Fund has incurred net loss for the year, therefore, no dividend was declared by the Board of Directors of KASB Funds Limited for the financial year ended June 30, 2011.

Sale and redemption of units

The fund size of KAAF was Rs. 462.69 million on June 30, 2010 which decreased by 22.68% by the end of the financial year to close at Rs. 357.77 million on June 30, 2011. During the year, units worth Rs. 1.53 million were issued and units with a value of Rs. 59.83 million were redeemed. As on June 30, 2011, the total number of outstanding units was 9,397,631 with a value of Rs. 357.77 million.

Code of Corporate Governance

The Board of Directors states that:

- a) The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- b) Proper books of accounts of the Fund have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements of the Fund and accounting estimates are based on reasonable and prudent judgments.
- d) 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, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k) The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

As detailed in note no. 1 of these financial statements KASB Funds Limited has acquired Crosby Asset Management (Pakistan) Limited with effect from July 20, 2011.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2011 is disclosed in note 23.3 of the financial statements.

During the year, no trades were carried out in the units of the Fund by the Directors, CEO, Company Secretary & CFO, and their spouses and minor children, of the Management Company.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2011, banks and financial institutions held 24.31% out of the total units; associated companies held 68.51%, individuals held 1.26% units and 0.88% and 5.04% units were held by Retirement Funds and other corporate sector entities respectively. Detailed pattern is also annexed.

Future Outlook

The next year, in our opinion, would be handled by political team rather than economic one as time for coming election is getting near and Government would try to put up some good face in front of masses. This may result in decisions which are economically harmful, for example: Non transfer of International petrol and diesel prices to avoid further human cry; Non raise of electricity prices to get them at par with the cost; Increase in subsidies. IMF's outstanding tranches of USD 3.4bln and initiation of repayment of USD 2bln from March 2012 would also prove to be deciding factor going forward.

On positive front, we expect higher agricultural produce of Sugar, cotton, wheat and rice which would result in increased exports and put a check on inflation. However, concerns on inflation would remain intact backed by increased energy tariff, higher international oil prices, and manipulation caused by middle man.

On the debt side, restructuring of most troubled debt instruments has successfully taken place during the year. Over the long term, returns are expected to remain healthy as credit issues resolve.

Auditors

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadi & Co. - Chartered Accountants as auditors of KASB Asset Allocation Fund (formerly KASB Balanced Fund) for the financial year ending June 30, 2012. The Board has approved the appointment.

Acknowledgement

The Board of Directors of the Management Company thanks the Fund's valued investors, the Securities and Exchange Commission of Pakistan, The State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee) for their confidence, continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

For and on behalf of the Board

September 15, 2011
Karachi

Amer Maq
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS)

As at June 30, 2011

	Units held	
	Numbers	Percentage
Associated Companies		
KASB Bank Limited	6,438,038	68.51
Banks and Financial Institutions	2,284,496	24.31
Individuals	118,848	1.26
Retirement Funds	82,495	0.88
Other Corporate Sector Entities	473,754	5.04
	<u>9,397,631</u>	<u>100.00</u>

PERFORMANCE TABLE

	2011	2010	2009
Total net asset value as at June 30 (Rs. '000)	357,767	462,688	625,814
Net asset value per unit as at June 30 (Rs.)	38.07	43.13	42.75
Selling price for units as at June 30 (Rs.)	38.85	44.01	43.63
Repurchase price for units as at June 30 (Rs.)	38.07	43.13	42.75
Final dividend distribution per unit (Rs.)	-	2.75	-
Date of final distribution	-	July 3, 2010	-
Highest selling price per unit (Rs.)	45.89	48.57	50.76
Lowest selling price per unit (Rs.)	38.85	43.44	35.48
Highest repurchase price per unit (Rs.)	44.97	47.59	49.74
Lowest repurchase price per unit (Rs.)	38.07	42.57	34.77
Return (%)	-5.72	0.89	-14.28

Return since inception is -18.67%

Launch date of the Fund is December 31, 2007

Disclaimer:

Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up.



ANNUAL FUND MANAGERS' REPORT

1. Type & Category of Fund
 Open-end Asset Allocation

2. Inception Date
 December 31, 2007

3. Investment objective
 The Fund aims to generate a positive return and long term capital appreciation for unit holders by investing in both the equity and debt markets.

4. Accomplishment of objective
 The fund is achieving its objective of generating regular income by investing in the fixed income instruments within the SECP rules. The fund continues to target long-term capital appreciation through investment in equities within the SECP rules

5. Benchmark
 50% 6 month KIBOR + 50% KSE 30 Index

6. Performance Return	KAAF Return	Benchmark Return
Since inception	-18.67%	20.09%
FY 2011	-5.72%	17.50%
CY 2011	-13.08%	6.79%
For June 11	-3.3%	-0.2%

7. Strategies and policies employed during the period
 Due to continued liquidity pressure in the markets and risk aversion by the participants, the corporate debt market remained highly depressed resulting in few trades of govt. backed TFCs/Sukuks and top rated banking instruments. In the presence of very few buyers, the prices of majority of TFCs declined significantly during the year as bargain hunting gained momentum. The fund remained focused in offloading TFCs and to restructure non-performing corporate debt. As a result most of instruments held in the fund with credit concerns have been restructured during the year. On the equity side, the Fund invested in fundamentally undervalued stocks that had business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management

8. Weighted Asset allocation	June 30, 2011	June 30, 2010
Asset Allocation		
Other Equity Investments	6.64%	6.64%
Chemicals	3.17%	3.77%
Commercial Banks	16.71%	6.41%
Oil & Gas	17.37%	9.76%
Personal Goods	13.81%	3.98%
Non-Life Insurance	5.36%	2.56%
Placements	7.65%	13.33%
TFCs & Sukuks	4.61%	37.55%
Cash & Other Assets	24.68%	16.00%

9. Significant changes in asset allocation during the period
 As compared to the beginning of the year, the Fund's exposure to govt. debt was reduced to nil, while the allocation of Cash & Other Assets within the portfolio increased to 25% in line with fund strategy. Asset allocation of the equity portion changes dynamically as per sector outlook.

10. Fund Performance
 Returns on the fund remained on the lower side due mainly to the valuation impact as well as credit deterioration in income instruments held by the fund. KAAF has provided return of -18.67% since inception, against benchmark return of 20.09%. It has recorded a return of -5.72% in FY11 against the benchmark return of 17.50% for the same period.

The AUM of the fund were PKR 463 million (NAV per unit: Rs 43.13 on June 30, 2010 and at the end of the year the AUM of the fund stood at PKR 358 million (NAV per unit: Rs 38.07).

ANNUAL FUND MANAGERS' REPORT

11. **Review of the market(s) invested in during the period**
The economic environment slightly improved during FY11 with a modest GDP growth of 2% as against a GDP growth of 4.1% in FY10. The decline in growth was due to massive floods in Pakistan destroying major crops together with chronic energy crisis and law and order situation.

The country's external account ended into a surplus of USD 437m backed by record exports & remittances of USD 25.4bn and USD 11.2bn respectively. The fiscal account deficit, however, remained worrisome as it reached to over PKR 1trn behind Tax to GDP ratio of mere 9%, the lowest in the region. Since the deficit was too large to be consumed by local and foreign resources, it forced Government to borrow the gap from Central Bank which abated in keeping inflation at high level.

This inflation stayed at 14%, forcing central bank to introduce tougher measures like increasing the discount rate by 1.5% to 14%. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders

FY11 saw the equity market rise significantly as the KSE-30 index appreciated by 21.24% during the period under review. Net Foreign Portfolio Investment of USD 365 million has been the primary driver behind this decent run as abundant global liquidity has seen money flowing to all emerging and frontier markets. The average daily volume of market remained dismal at 95m shares evidencing lack of price discovery in the market. Various leverage tools like Margin Trading System (MTS), Margin Finance System (MFS) were introduced during the year which failed to attract individuals to the market in large numbers. Only three IPOs were introduced during the year reflecting unwillingness by private sector to adopt strict regulations with no definite benefit.

Lack of liquidity for corporate debt continues to prevail amid pricing volatility. A few instruments were restructured during the quarter as most of the companies that were having financial difficulties in a lean economic patch have managed to negotiate a restructuring with its investors. Market continues to be risk averse as investors find government papers yield attractive resulting in very few trades in TFCs/Sukuks.
12. **Fund performance by market(s) and by instruments**
For details, please refer to the full yearly accounts.
13. **Distribution**
No distributions were made during the year.
14. **Significant changes in the state of affairs**
During the period under review the liquidity crunch and risk aversion increased significantly in the market. Government has been relying heavily on the banking sector to finance its fiscal deficit by providing higher returns on the govt. papers, resulting in the non-availability of loan to private sector. As a result, leasing and investment banks were not able to pay off the fund's lending on time. There were few other companies that delayed payments on their principal and markup commitments. This resulted in fall in NAV of funds holding sukuks and TFCs.
15. **Breakdown of unit holdings by size**
Breakdown of unit holdings by size is same as in the director's report.
16. **Unit Splits**
There were no unit splits during the period.
17. **Circumstances materially affecting the interests of the unit holders**
Changes in market rates of TFCs/ Sukuks and other debt instruments based on the new pricing mechanism severely affected fund returns. In addition, mark to market impacts of secondary market trades also affected fund performance.
18. **Soft Commission**
The management company received soft commission from the brokers in the form of research reports which were sent in both soft and hard copies.

TRUSTEE REPORT TO THE UNIT HOLDERS OF KASB ASSET ALLOCATION FUND

Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

The KASB Asset Allocation Fund (the Fund), an open-end scheme was established under a trust deed dated October 25, 2007, executed between KASB Funds 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, 2011 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, 2008 and the constitutive documents of the Fund.

Muhammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited
Karachi, October 28, 2011

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2011

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 35 of the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited ("KSE" or "the Stock Exchange"). The purpose of the Code is to establish a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

As detailed in note no. 1 of these financial statements KASB Funds Limited has acquired Crosby Asset Management (Pakistan) Limited with effect from July 20, 2011.

KASB Funds Limited ("the Company" or "the Management Company"), which is an Unlisted Public Limited Company, is the Management Company of KASB Asset Allocation Fund [formerly KASB Balanced Fund] ("the Fund"). The Fund being an open-end scheme doesn't have its own Board of Directors ("the Board"). The Management Company, which manages the affairs of the Fund, has applied the principals contained in the Code to the Fund, whose Units are listed on the Stock Exchange, in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors and none of the directors represent minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including the Management Company.
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 NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. On January 17, 2011, Mr. Masood Karim Sheikh resigned from the Board of the Management Company. Mr. Qaisar P. Mufti was appointed in his place to duly fill the vacancy.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by the all the directors and employees of the Management Company.
6. The Board has developed a vision/mission statement and significant policies for 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, 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 of the Board. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
10. During the year, there was a change of the Company Secretary and the Internal Auditors; however, there was no change of Chief Financial Officer.
11. The directors' report for the year 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 executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit-holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
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.
16. The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for compliance.
17. Mr. Adnan Akhtar Mannan, appointed as the Internal Auditor of the Management Company in place of Ms. Saman Hasan Qadri on August 27, 2010, resigned on May 31, 2011. The Management Company is in the process of appointment of the Internal Auditor to be involved in the Internal Audit function on a full time basis.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors of the Fund 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. The related party transactions have been placed before the Audit Committee and approved by the Board with necessary justification for non arm's length transactions (if any) and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

September 15, 2011
Karachi

Amer Maq
Chief Executive

**REVIEW REPORT TO THE UNIT HOLDERS ON KASB ASSET ALLOCATION FUND
[FORMERLY KASB BALANCED FUND] "THE FUND"
ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF 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 KASB Funds Limited, "the Management Company" of the Fund to comply with the Listing Regulations of Karachi Stock Exchange where the Fund is listed.

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

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

Further, sub-regulation (xiii-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2011.

Date: 15 September 2011

Karachi

KPMG Taseer Hadi &
Chartered Accountants
Moneeza Usman Butt

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of KASB Asset Allocation Fund (formerly KASB Balanced Fund) ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2011, and the income statement, statement of comprehensive income, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2011 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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' judgment, 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 2011, and of its financial performance, its 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 Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 15 September 2011

Karachi

KPMG Taseer Hadi &
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2011

	Note	2011	2010
----- (Rupees in '000) -----			
ASSETS			
Balances with banks	4	67,859	59,113
Receivable against sale of investments		768	84
Placements	5	-	22,050
Certificates of investment	6	31,687	39,608
Investments	7	268,647	327,016
Dividend and profit receivable	8	1,601	9,686
Deposits and prepayments	9	3,072	7,627
Preliminary expenses and floatation costs	10	961	1,601
Total assets		374,395	466,785
LIABILITIES			
Payable against purchase of investments		13,407	1,023
Payable to KASB Funds Limited - Management Company	11	32	617
Payable to Central Depository Company of Pakistan Limited - Trustee	12	65	80
Payable to The Securities and Exchange Commission of Pakistan	13	382	444
Accrued expenses and other liabilities	14	2,742	1,933
Total liabilities		16,628	4,097
Net assets		357,767	462,688
Unit holders' funds		357,767	462,688
(Number of units)			
Number of units in issue	15	9,397,631	10,727,020
(Rupees)			
Net asset value per unit		38.07	43.13

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT

For the year ended June 30, 2011

	Note	2011	2010
		----- (Rupees in '000) -----	
INCOME / (LOSS)			
Income from term finance and sukuk certificates		10,148	36,998
Income from government securities		-	1,667
Dividend income		10,299	7,077
Income from placements		-	4,091
Income from certificates of investment		3,744	5,455
Profit on bank and other deposits		7,200	9,269
Capital gain on sale of investments		23,557	64,664
Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	7.5	7,572	(20,571)
Total income		62,520	108,650
EXPENSES			
Remuneration of KASB Funds Limited - Management Company	11.1	8,292	10,452
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	829	1,045
Annual fee - The Securities and Exchange Commission of Pakistan		382	444
Transaction cost on securities		3,737	2,517
Settlement and bank charges		351	264
Legal and professional charges		521	572
Fees and subscription		168	140
Auditors' remuneration	16	449	506
Amortisation of preliminary expenses and floatation costs		640	640
Printing and other expenses		130	139
Provision for Workers Welfare Fund	17	-	627
Provision against non-performing investments	7.7	41,016	50,000
Provision against non-performing placements	5	21,550	9,450
Provision against non-performing certificates of investment	6	7,922	-
Provision for doubtful income receivable		5,941	12,864
Total expenses		91,928	89,660
		(29,408)	18,990
Net realised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(1,852)	12,388
Net (loss) / Income for the year		(31,260)	31,378
Earnings / (loss) per unit	18		

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2011

	2011	2010
	----- (Rupees in '000) -----	
Net (loss) / income for the year	(31,260)	31,378
Other comprehensive income:		
Net unrealised appreciation / (diminution) in fair value of investments classified as 'available for sale' during the year	8,733	(734)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	786	1,778
Other comprehensive income for the year	9,519	1,044
Total comprehensive (loss) / income for the year	<u>(21,741)</u>	<u>32,422</u>

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

For KASB Funds Limited
 (Management Company)

 Chief Executive

 Director

DISTRIBUTION STATEMENT

For the year ended June 30, 2011

	2011	2010
	----- (Rupees in '000) -----	
Accumulated loss brought forward	29,862	(22,087)
- Realised gains / (losses)	<u>(96,271)</u>	<u>(77,478)</u>
- Unrealised losses - net	(66,409)	(99,565)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	786	1,778
Net (loss) / income for the year	(31,260)	31,378
Final distribution at the rate of Rs. 2.75 per unit for the period ended June 30, 2010 (June 30, 2009: Rs. Nil per unit)		
- Issue of bonus units	<u>(3,556)</u>	-
- Cash dividend	<u>(25,943)</u>	-
	<u>(29,499)</u>	-
Accumulated loss carried forward	<u>(126,382)</u>	<u>(66,409)</u>
Accumulated loss carried forward		
- Realised (losses) / gains	<u>(38,832)</u>	29,862
- Unrealised losses - net	<u>(87,550)</u>	<u>(96,271)</u>
	<u>(126,382)</u>	<u>(66,409)</u>

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

Chief Executive

For KASB Funds Limited
(Management Company)

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended June 30, 2011

Note	2011	2010
	----- (Rupees in '000) -----	
Net assets at beginning of the year	462,688	625,814
Issue of 36,811 units (2010: 39,476 units)	1,531	1,773
Issue of 88,062 bonus units (2010: Nil units)	3,556	-
Redemption of 1,454,262 units (2010: 3,950,422 units)	(59,834)	(183,155)
	(54,747)	(181,382)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed:		
- amount representing accrued (income) / loss and realised capital (gains) / losses - transferred to the Income Statement	1,852	(12,388)
- amount representing unrealised capital (gains) / losses - transferred directly to other comprehensive income	(786)	(1,778)
	1,066	(14,166)
Distributions during the year		
- Issue of bonus units	(3,556)	-
- Cash dividend	(25,943)	-
	(29,499)	-
Unrealised diminution in fair value of investments classified as 'available for sale' at the end of the year	(30,026)	(8,733)
Provision against non performing 'available for sale' investments	30,026	-
Unrealised diminution in fair value of investments classified as available for sale' at the beginning of the year	8,733	7,999
Unrealised appreciation / (diminution) in fair value of investments classified as available for sale' during the year	7.6	8,733
		(734)
Net unrealised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amounts representing unrealised appreciation / (diminution)		786
		1,778
Net loss for the year (excluding unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gains)	(62,389)	(12,715)
Capital gain for the year	23,557	64,664
Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	7,572	(20,571)
Net (loss) / income for the year (including unrealized appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gains)	(31,280)	31,378
Net assets as at the end of the year	357,767	462,688
	(Rupees)	
Net asset value per unit as at the beginning of the year	43.13	42.75
Net asset value per unit as at the end of the year	38.07	43.13

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

CASH FLOW STATEMENT

For the year ended June 30, 2011

2011 2010
------(Rupees in '000)-----

CASH FLOWS FROM OPERATING ACTIVITIES

Net (loss) / income for the year (31,260) 31,378

Adjustments for:

Unrealised (appreciation) / diminution in fair value of investments classified as 'at fair value through profit or loss'	(7,572)	20,571
Provision against non-performing investments	41,016	50,000
Provision against non-performing placements	21,550	9,450
Provision against non-performing certificates of investment	7,922	-
Provision for doubtful income receivable	5,941	12,864
Net realised element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	1,852	(12,388)
Amortisation of preliminary expenses and floatation costs	640	640
	71,349	81,137

Decrease / (increase) in assets

Receivable against sale of investments	684	4,106
Investments	82,100	35,561
Placements	(22,050)	58,662
Certificates of investment	(7,921)	(39,608)
Dividend and income receivable	(8,085)	2,221
Deposits and prepayments	(4,555)	46
	40,173	60,988

Increase / (decrease) in liabilities

Payable against purchase of investments	12,384	1,023
Payable to KASB Funds Limited - Management Company	(586)	(382)
Payable to Central Depository Company of Pakistan Limited - Trustee	(20)	(46)
Payable to The Securities and Exchange Commission of Pakistan	(62)	(323)
Accrued expenses and other liabilities	814	76
	12,530	348
Net cash generated from operating activities	124,052	142,473

CASH FLOWS FROM FINANCING ACTIVITIES

Dividend paid	(25,943)	-
Net payments from sale and redemption of units	(58,303)	(182,354)
Net cash used in financing activities	(84,246)	(182,354)
Net increase / (decrease) in cash and cash equivalents during the year	39,806	(39,881)
Cash and cash equivalents at beginning of the year	59,113	67,616
Cash and cash equivalents at end of the year	67,659	59,113

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Asset Allocation Fund (formerly KASB Balanced Fund) ("the Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on October 25, 2007 and was approved by The Securities and Exchange Commission of Pakistan (SECP) on November 26, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). In conformity with circular 7 of 2009 dated March 6, 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Asset Allocation" category and all references of the name have been replaced from KASB Balanced Fund to KASB Asset Allocation Fund.

The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as Non-Banking Finance Company under the NBFC Rules issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Trade Centre, I. I. Chundrigar Road, Karachi, Pakistan. The JCR-VIS has assigned management quality rating of AM3 to the Management Company and Pakistan Credit Rating Agency Limited (PACRA) has assigned a 1 star ranking to the Fund.

The Securities and Exchange Commission of Pakistan vide letter no. SCD/PR&DD/AMCW/CAML & KFL/333/2010 dated July 15, 2011 has sanctioned the Scheme of Arrangement of acquisition and simultaneous merger of Crosby Asset Management (Pakistan) Limited ("CAMPL") with and into KASB Funds Limited ("KFL") in terms of Section 282L of the Companies Ordinance, 1984 and the rights to manage Crosby Dragon Fund, Crosby Phoenix Fund and AMZ Plus Income Fund have been transferred to KFL with effect from July 20, 2011.

The Fund is an open end fund and is listed on the Karachi Stock Exchange (Guarantee) Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder. Moreover, there are no non-compliant investments with the investment criterion of assigned category as at June 30, 2011.

The objective of the Fund is to generate a positive return and long term capital appreciation for unit holders by investing in both the Equity and Debt markets.

Title to the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the 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, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

2.2 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective during the year. However, the amendments or interpretations did not have any material effect on the financial statements of the Fund.

New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. These standards are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements, other than increased disclosures in certain cases:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19 Employee Benefits (amended 2011) effective for annual periods on or after 1 January 2013
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24 Related Party Disclosures (revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

2.3 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that certain financial assets are measured at fair value.

2.4 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount 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 results of which form the basis of making the judgments about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value & derivative financial instruments

The Management Company has determined fair value of certain investments by using quotations from The Karachi Stock Exchange (Guarantee) Limited and using rates notified by Mutual Fund Association of Pakistan (MUFAP). Fair value estimates are made at a specific point in time, based on market conditions and information about financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore, cannot be determined with precision.

Other assets

Judgment is also involved in assessing the realisability of asset balances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently in the preparation of these financial statements except mentioned otherwise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) At fair value through profit or loss

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments 'at fair value through profit or loss' are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) Available for sale

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'. This includes receivable against sale of investments, receivable against placements, certificates of investment and other receivables and are carried at amortised cost using effective yield method, less impairment losses, if any.

d) Financial liabilities

Financial liabilities, other than those 'at fair value through profit or loss', are measured at amortised cost using the effective yield method.

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instruments 'at fair value through profit or loss' are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement.

Fair value measurement principles

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

Basis of valuation of Term Finance / Sukuk Certificates

Investment in debt securities are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009 and Circular 3 of 2010. Circular 1 of 2009 also specifies a criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity upto six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009.

Basis of valuation of Government Securities

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

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-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as 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 agreement.

All reverse repo transactions are accounted for on the settlement date.

Impairment

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Any subsequent decrease in impairment loss on debt securities classified as 'available for sale', is recognised in the income statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non performing investments in compliance with Circular 13 of 2009 issued by SECP.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the financial assets and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting of financial instruments

Financial assets and liabilities are 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 amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.2 Unit holders' funds

Unit holders' funds representing the units issued by the Fund, is carried at the net asset value representing the investors' right to a residual interest in the Fund assets.

3.3 Issue and redemption of units

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

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

3.4 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) included in prices of units sold 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.

During the year, the Fund has revised the calculation for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised calculation, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognized in income statement and to the extent that it is represented by unrealized appreciation / (diminution) arising during the year on available for sale securities is included in distribution statement. Previously, the Fund used to calculate element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed represented by distributable income was included in income statement and element of income / (loss) and capital gains / (losses) represented by unrealized appreciation / (diminution) on available for sale securities was recognized in distribution statement.

The revised calculation, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the calculation not changed, the net loss for the year ended June 30, 2011 would have been higher by Rs. 12.06 million.

3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from the last day after the close of the IPO period as per the Trust Deed of the Fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

3.6 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.

3.7 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 issue at the year end.

3.8 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders.

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund intends to avail the tax exemption 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. Accordingly, no deferred tax asset or liability or current tax has been recognised in these financial statements.

3.9 Revenue recognition

- 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 transactions and debt securities is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Dividend income is recognised when the right to receive the dividend is established.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

All expenses including management fee and trustee fee are recognised in the Income Statement on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of deposits accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.12 Other assets

Other assets are stated at cost less impairment losses, if any.

3.13 Dividend distributions and appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

4. BALANCES WITH BANKS

2011 **2010**
 -----(Rupees in '000)-----

In deposit accounts	4.1	67,659	59,113
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4.1 These deposit accounts carry mark-up at the rate of 5% to 12% per annum (June 30, 2010: 5% to 12% per annum).

5. PLACEMENTS - Unsecured

This represents placement with a financial institution and carries profit at the rate of 13.42% (June 30, 2010: 13.42% per annum).

Due to continuous delays in payments by the counter party, the Fund recognised full provision against the investment and suspended further accrual of markup in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above is without prejudice to the Fund's claim against the above financial institution for the entire exposure and unrecognised markup and other charges etc.

6. CERTIFICATES OF INVESTMENT - Unsecured

This represents certificate of investment with a financial institution and carries profit at the rate of 15% per annum (June 30, 2010: 15% per annum).

Due to continuous delays in payments by the counter party, the Fund recognised a provision against the investment and suspended further accrual of markup in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above is without prejudice to the Fund's claim against the above financial institution for the entire exposure and unrecognised markup and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

7. INVESTMENTS

		2011	2010
		----- (Rupees in '000) -----	
'At fair value through profit or loss'			
<i>Held for trading</i>			
- Quoted equity securities	7.1	249,565	153,259
<i>Designated on initial recognition</i>			
- Fixed income and other debt securities	7.2	4,707	124,655
- Advance against Pre Initial Public Offer investments	7.3	-	-
		4,707	124,655
'Available for sale'			
- Fixed income and other debt securities	7.4	14,375	49,102
		<u>268,647</u>	<u>327,016</u>

The cost of the above investments as at June 30, 2011 amounted to Rs. 421.163 million (June 30, 2010: Rs. 461.816 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

7.1 Quoted equity securities - 'at fair value through profit or loss' - held for trading

Name of the investee company	(Number of Shares)					Market value as at June 30, 2011	Market value as a percentage of total investments
	As at July 1, 2010	Purchases during the period	Bonus issued during the period	Sales during the period	As at June 30, 2011		
SHARES OF LISTED COMPANIES							(Rupees in '000)
- Fully paid up ordinary shares of Rs. 10/- each unless otherwise stated							
Construction and Material							
Attock Cement Pakistan Limited	-	351,543	-	173,348	178,195	8,648	3.22
D.G. Khan Cement Company Limited	100,000	350,000	-	450,000	-	-	-
Lucky Cement Limited	110,588	552,016	-	589,134	73,470	5,204	1.94
Chemical							
Engro Corporation Limited	39,321	977,276	12,019	959,096	69,520	11,349	4.22
Fauji Fertilizer Company Limited	79,127	638,069	-	717,185	11	2	0.01
Fauji Fertilizer Bin Qasim Limited	-	325,000	-	325,000	-	-	-
ICI Pakistan Limited	15,000	590,000	-	605,000	-	-	-
Lotte Pakistan PTA Limited	56,650	3,270,000	-	3,326,650	-	-	-
Dawood Hercules Limited	-	52,500	-	52,500	-	-	-
Dascon Oxychem Limited	50,000	-	-	50,000	-	-	-
Fatima Fertilizer Company Limited	-	150,000	-	150,000	-	-	-
Banks							
Allied Bank Limited	-	663,593	5,164	668,302	455	29	0.01
Habib Bank Limited	-	205,000	-	205,000	-	-	-
MCB Bank Limited	43,475	1,718,609	-	1,657,232	104,852	20,897	7.78
NIB Bank Limited	316,597	-	-	110,000	206,597	312	0.12
National Bank of Pakistan	125,000	1,323,601	18,750	1,318,601	148,750	7,500	2.79
Bank Alfalah Limited	-	365,000	-	365,000	-	-	-
United Bank Limited	226,306	1,348,676	-	1,073,731	501,451	31,045	11.56
General Industrials							
Ecopack Limited	631,433	647,753	-	1,282,186	17,000	21	0.01
Packages Limited	37,576	16,186	-	53,762	-	-	-
Tri-Pack Films Limited	34,724	-	-	34,724	-	-	-
Thal Limited	-	4,315	-	4,315	-	-	-
Non Life Insurance							
Adamjee Insurance Company Limited	148,500	1,080,197	-	943,764	294,933	19,168	7.14
Financial Services							
Jahangir Siddiqui & Company Limited	150,000	575,317	-	475,000	250,317	1,622	0.60
Arif Habib Securities Limited	-	100,000	-	100,000	-	-	-
Oil & Gas							
Oil & Gas Development Company Limited	73,860	994,681	-	1,066,159	2,382	364	0.14
Pakistan Oilfields Limited	26,831	641,692	-	610,429	58,094	20,856	7.76
Pakistan Petroleum Limited	82,184	695,008	5,936	677,100	86,028	17,814	6.63
Attock Petroleum Limited	7,433	105,164	-	112,597	-	-	-
Pakistan State Oil Company Limited	58,853	238,280	-	233,004	64,129	16,967	6.32
National Refinery Limited	-	59,000	-	59,000	-	-	-
Attock Refinery Limited	-	150,000	-	100,000	50,000	6,137	2.28
Personal Goods							
Ibrahim Fibres Limited	473,101	1,123,386	-	782,847	833,640	35,196	13.10
Azgard Nine Limited	3,598	150,000	-	153,598	-	-	-
Nishat Mills Limited	51,045	911,908	-	801,045	161,908	8,150	3.03
Nishat (Chunlan) Limited	-	1,072,940	-	800,275	272,665	6,078	2.26
Electricity							
Hub Power Company Limited	284,525	899,213	-	1,179,280	4,458	168	0.06
Kot Addu Power Company Limited	-	812,858	-	800,581	212,275	9,045	3.37
Nishat Chunian Power Limited	75,000	125,000	-	200,000	-	-	-
Nishat Power Limited	-	175,000	-	-	175,000	2,702	1.01
Software and Computer Services							
Netsol Technologies Limited	136	-	-	136	-	-	-
Automobile Assembler							
Pak Suzuki Motor Company Limited	-	83,704	-	20,970	62,734	3,924	1.46
Media							
Hum Network Limited	-	811,321	-	6,468	804,853	12,121	4.51
Fixed Line Telecommunication							
Pakistan Telecommunication Company Limited 'A'	21,200	2,178,625	-	1,901,200	298,625	4,246	1.58
						<u>249,666</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

7.1.1 Investments include quoted equity securities with market value as at June 30, 2011 aggregating to Rs. 27.515 million (June 30, 2010: 15.414 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Funds trades in terms of Circular No. 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

7.2 Fixed Income and other debt securities - designated as 'at fair value through profit or loss' on Initial recognition

Name of the investee company	Profit rate (%)	----- (Number of certificates) -----				Market value as at June 30, 2011	Percentage of total investment on the basis market value
		As at July 01, 2010	Purchases during the year	Sales during the year	As at June 30, 2011		
(Rupees in '000)							
Term Finance Certificates							
Pakistan Mobile Communications Limited - III	7.2.1 15.34	20,000	-	19,000	1,000	4,707	1.75
Agritech Limited - II (formerly: Pak American Fertilizers Limited)	7.2.2 15.49	1,000	-	-	1,000	-	-
Allied Bank Limited		-	7,000	7,000	-	-	-
						4,707	
Sukuk Certificates							
New Allied Electronics Industries (Private) Limited - I	7.2.3 16.01	160,000	-	-	160,000	-	-
						4,707	

7.2.1 These term finance certificates issued on October 28, 2008 and carrying mark-up equal to 6 month KIBOR plus 165 basis points per annum. The principal redemption and mark-up thereon are paid semi-annually with no floor and cap. These certificates mature on October 28, 2013.

7.2.2 This represents term finance certificates of Agritech Limited (AL). The investment in AL is secured against collaterals. On July 14, 2010, owing to financial difficulties, AL paid full profit amounting to Rs. 2.462 million, however, no payment was made against the principal due amounting to Rs. 3.497 million. The Fund recognised full provision against the investment and suspended further accruals of profit there against. Therefore, the investment is fully provided as at June 30, 2011

The above provision against said investment and related profit are in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and related SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above provision is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized markup and other charges etc.

7.2.3 This represents sukuk certificates of New Allied Electronics Industries (Private) Limited - I (NAEIL). The investment in NAEIL is secured against collaterals.

On October 25, 2008, owing to financial difficulties, NAEIL paid full profit amounting to Rs. 2.113 million, however, no payment was made against the principal due amounting to Rs. 3.125 million. The Fund recognised full provision against the investment and suspended further accruals of profit there against. Therefore, the investment is fully provided as at June 30, 2011.

The above provision against said investment and related profit are in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and related SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized profit and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

7.3 Advance against Pre Initial Public Offer investments - designated as 'at fair value through profit or loss' on initial recognition

Name of the investee company	Profit rate (%)	----- (Number of certificates) -----				Carrying value as at June 30, 2011	Percentage of total investment on the basis carrying value
		As at July 01, 2010	Purchases during the year	Sales during the year	As at June 30, 2011		

(Rupees in '000)

Dewan Cement Limited	73.1	16.12	10,000	-	-	10,000	-
							-

- 7.3.1 This represents investment in advance against term finance certificates of Dewan Cement Limited (DCL). The investment in DCL is secured against collaterals. The Fund has made full provision against the said investment and full provision against markup receivable till October 5, 2008. Moreover, the Fund suspended further accruals of markup there against. Therefore, the investment has been fully provided as at June 30, 2011.

The above provision against said investment and related markup are in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and related SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognised markup and other charges etc.

7.4 Fixed Income and other debt securities- 'available for sale'

Name of the investee company	Profit rate (%)	----- (Number of certificates) -----				Market value as at June 30, 2011	Percentage of total investment on the basis market value
		As at July 01, 2010	Purchases during the year	Sales during the year	As at June 30, 2011		

----- (Number of certificates) ----- (Rupees in '000)

Term Finance Certificates

Agritech Limited - II (formerly: Pak American Fertilizers Limited)	7.22	15.49	6,000	-	-	6,000	-	0.00
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Sukuk Certificates

Security Leasing Corporation Limited	6.287	-	9,500	-	-	9,500	14,375	5.35
							14,375	

- 7.4.1 These Sukuk certificates were restructured in March 2011. According to the latest restructuring terms, SLCL will not pay mark-up, however, payment of principal will continue according to previous terms. These certificates are secured against registered charge over specific leased assets and associated lease receivables with 25% security margin and will mature in March 19, 2014.

Previously, these certificates, were restructured in March 2010. These carried a fixed mark-up equal to a rate of 6 % per annum till September 18, 2011 out of which 3% is paid monthly while the remaining would be deferred and will be paid in six equal monthly instalments starting from October 19, 2013. The mark-up rate will be increased to 1 month KIBOR per annum from September 19, 2011 till the date of maturity. The principal would be redeemable in 48 equal monthly instalments starting from March 19, 2010.

Initially, these Sukuk certificates carried mark-up equal to the base rate of 2% plus 6 months Karachi Interbank Offer Rate per annum, receivable semi-annually in arrears with no floor or cap and were due to mature in June 01, 2012. The principal was redeemable in 60 equal semi-annual instalments commencing from the 6th month from the issue date.

The Company was unable to pay the instalment comprising of profit on the said sukuk certificates amounting to Rs. 0.048 million on April 19, 2011 due to the financial difficulties being faced by it. Considering this it was classified as non-performing debt security by MUFAP. However, subsequent to the year end, the said sukuk certificates of SLCL has been restructured and has been classified as a performing security by MUFAP under circular 1.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	2011	2010
	------(Rupees in '000)-----	
7.5 Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'		
Fair value of investments	254,272	277,914
Less: cost of investments	<u>(376,762)</u>	<u>(403,980)</u>
	(122,490)	(126,066)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' at beginning of the year	126,066	55,495
Provision against non-performing investments	<u>3,996</u>	<u>50,000</u>
	130,062	105,495
	<u>7,572</u>	<u>(20,571)</u>
7.6 Unrealised appreciation / (diminution) in fair value of investments classified as 'available for sale'		
Fair value of investments	14,375	49,102
Less: cost of investments	<u>(44,401)</u>	<u>(57,835)</u>
	(30,026)	(8,733)
Net unrealised diminution in fair value of investments classified as 'available for sale' at beginning of the year	8,733	7,999
Provision against non-performing 'available for sale' investments	<u>30,026</u>	<u>-</u>
	38,759	7,999
	<u>8,733</u>	<u>(734)</u>
7.7 Movement in provision against debt securities		
Opening balance	50,000	-
Provision against non-performing investment classified as 'at fair value through profit or loss' during the year	4,995	50,000
Provision against non-performing investments classified as 'available for sale' during the year	<u>36,021</u>	<u>-</u>
Closing balance	<u>91,016</u>	<u>50,000</u>
8. DIVIDEND AND PROFIT RECEIVABLE		
Dividend receivable	649	159
Income accrued on bank deposits	818	782
Income accrued on certificates of investment	-	2,197
Income accrued on term finance and sukuk certificates	<u>134</u>	<u>6,548</u>
	<u>1,601</u>	<u>9,686</u>
9. DEPOSITS AND PREPAYMENTS		
Deposit with National Clearing Company of Pakistan Limited	2,750	3,500
Deposit with Central Depository Company of Pakistan Limited	100	100
Financial Institutions (FI) Margins with National Clearing Company of Pakistan Limited	-	4,027
Prepaid fee - National Clearing Company of Pakistan Limited	<u>222</u>	<u>-</u>
	<u>3,072</u>	<u>7,627</u>
10. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs	1,601	2,241
Less: Amortisation during the year	<u>(640)</u>	<u>(640)</u>
	<u>961</u>	<u>1,601</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

11. PAYABLE TO KASB FUNDS LIMITED - MANAGEMENT COMPANY

11.1 Under the provisions of the NBFC Regulations, 2008, 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. During the year, remuneration of management company is charged at the rate of 2 percent per annum of the average annual net assets of the Fund.

11.2 In accordance with Clause 6.2.1.2 of the offering document, Management Company has issued type 'B' units to core investors. The Management Company offers a special rebate on the management fee to type 'B' units, (currently rebate is applicable at one-fourth of the management fee applicable to type 'B' units). However, difference between normal rates and reduced rates is passed on to type 'B' unit holders by way of issuance of type 'A' additional units, as a result the management fee charged to Income Statement remains at the rates specified in note 11.1. Total 36,309 additional units were issued during the year to type 'B' unit holders at a value of Rs. 1.511 million. (37,500 additional units were issued during the year ended June 30, 2010 at a value of Rs. 1.686 million.)

12. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

2011 **2010**
---- (Rupees in '000) ----

Trustee fee	60	76
CDS charges	5	4
	<u>65</u>	<u>80</u>

12.1 The trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed at the higher of Rs. 0.7 million or 0.2% per annum on amount upto Rs. 1.0 billion of average daily net assets of the Fund and Rs. 2.0 million plus 0.1% per annum on amount exceeding Rs. 1.0 billion of average daily net assets of the Fund.

13. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

As per schedule II of the NBFC Regulations 2008, asset allocations funds are required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Scheme.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	335	303
Legal and professional charges payable	120	110
Credit rating fee payable	100	100
Others	2,187	1,420
	<u>2,742</u>	<u>1,933</u>

15. NUMBER OF UNITS IN ISSUE

	Units	
Total outstanding at beginning of the year	10,727,020	14,637,966
Sales during the year	36,811	39,476
Bonus units issued	88,062	-
Redemption during the year	<u>(1,454,262)</u>	<u>(3,950,422)</u>
Total units in issue at the end of the year	<u>9,397,631</u>	<u>10,727,020</u>

Face value of the unit is Rs. 50 each.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

The units in issue as at June 30 in each class are:

		2011	2010	2011	2010
		Units		-----(Rupees in '000)-----	
Type 'A' Units	15.1	2,182,187	3,227,020	83,076	139,191
Type 'B' Units	15.2	7,215,444	7,500,000	274,691	323,497
		9,397,631	10,727,020	357,767	462,688

15.1 Type 'A' units are meant for all types of investors, except for core investors.

15.2 Type 'B' units are meant for the core investors. (Refer note 11.2)

16. AUDITORS' REMUNERATION

	2011	2010
Audit fee	275	250
Half yearly review	75	66
Other certifications and services	60	111
Out of pocket expense	39	79
	449	506

17. PROVISION FOR WORKERS WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh, challenging the applicability of WWF to the CISs, which is pending adjudication.

On July 15, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However, on December 14, 2010 the Ministry filed its response against the Constitutional petition pending in the Honorable High Court of Sindh. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Honorable High Court of Sindh. The case has been heard on March 12, 2011 by the full bench judge of Honorable High Court of Sindh and judgment in this respect has been reserved.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act 2006 and the Finance Act 2008 has declared the said amendments as unlawful and unconstitutional hence struck them down. The Management Company is hopeful that the decision of the Honorable Lahore High Court will lend further support to the Constitutional Petition which is pending in the Honorable High Court of Sindh. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs. 0.627 million in these financial statements representing charge accrued up to June 30, 2010.

18. EARNINGS PER UNIT

Due to the specific nature of open ended collective investment schemes in respect of daily issuance and redemptions of units, determination of weighted average number of units for calculation of earnings per unit is not practical.

19. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. No provision has been made in these financial statements due to loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

20. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company, KASB Securities Limited, KASB Modaraba, KASB Technology Services Limited, KASB Modaraba Management (Private) Limited, Structured Venture (Private) Limited (indirectly through KASB Securities Limited) being the subsidiary companies of KASB Bank Limited, Shakarganj Food Products Limited, New Horizon Exploration and Production Limited and KASB International Limited being the associated companies of KASB Bank Limited, Central Depository Company of Pakistan Limited (CDC) being the Trustee of the Fund, other Funds managed by the management company (including KASB Cash Fund, KASB Income Opportunity Fund (formerly KASB Liquid Fund), KASB Islamic Income Opportunity Fund (formerly KASB Islamic Income Fund), KASB Stock Market Fund, KASB Capital Protected Gold Fund, Crosby Dragon Fund, Crosby Phoenix Fund and AMZ Plus Income Fund) and directors, keymanagement personnel and officers of the Management Company, personnel and officers of the Management Company.

Transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations 2008 and the Trust Deed respectively.

Details of transactions with connected persons / related parties and balances with them at year end are as follows:

		2011	2010
		----- (Rupees in '000) -----	
20.1	Transactions		
	KASB Funds Limited		
	Remuneration expense	<u>8,292</u>	<u>10,452</u>
	Sales load	<u>-</u>	<u>1</u>
	KASB Bank Limited		
	Bank charges	<u>4</u>	<u>5</u>
	Profit accrued on bank deposits	<u>7,200</u>	<u>9,143</u>
	Transfer in the Fund: Nil units (2010: Nil units)	<u>-</u>	<u>58,497</u>
	Additional units: 24,931 units (2010: 25,000 units)	<u>1,038</u>	<u>1,124</u>
	KASB Securities Limited		
	Brokerage expense	<u>542</u>	<u>354</u>
	KASB Income Opportunity Fund (formerly KASB Liquid Fund)		
	Purchase of sukuk certificates: 7,000 units (2010: 7000 units)	<u>-</u>	<u>34,733</u>
	Central Depository Company of Pakistan Limited - Trustee		
	Remuneration	<u>829</u>	<u>1,045</u>
	CDS charges	<u>78</u>	<u>66</u>
	Directors and officers of the Management Company		
	Conversion out of the Fund: Nil units (2010: 5,981 units)	<u>-</u>	<u>278</u>
20.2	Balances		
	KASB Funds Limited		
	Payable to the Management Company	<u>32</u>	<u>617</u>
	KASB Bank Limited		
	Bank balance	<u>67,119</u>	<u>57,343</u>
	Profit receivable on bank deposits	<u>818</u>	<u>782</u>
	Units held: 6,438,038 units (2010: 6,413,107 units)	<u>245,096</u>	<u>276,597</u>
	KASB Securities Limited		
	Brokerage payable	<u>78</u>	<u>9</u>
	Central Depository Company of Pakistan Limited - Trustee		
	Payable to the Trustee	<u>65</u>	<u>80</u>
	Security deposit	<u>100</u>	<u>100</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

- 20.3 The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as ultimate counter parties are not connected persons.
- 20.4 The rate of return on this deposit is 12% per annum (2010: 12% per annum).

21. RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by investment committee under policies approved by Board of Directors. The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's activities expose it to a variety of financial risks such as:

- Market risk
- Credit risk and
- Liquidity risk

Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

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

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

Interest rate risk

Interest rate risk arises from the possibility that changes in prevailing level of interest rates will affect future cash flows or the fair values of financial instruments. The Fund holds floating rate debt securities that expose the fund to cash flow interest rate risk.

The Fund manages fair value risk by investing primarily in floating rate debt securities preferably with no cap and floor to insulate Fund from fair value interest rate risk.

As at June 30, 2011, the investment in debt securities exposed to interest rate risk is detailed in Note 7.2 and 7.4.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund investment in Term Finance Certificates and Sukuk Certificates carry floating interest rate that expose the Fund to cash flow interest rate risk. In case of 100 basis point increase / decrease in KIBOR on June 30, 2011 with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs.0.01 million (2010: Rs.0.454 million with consequential effect on net income for the year. This arises substantially from the increase / decrease in interest income and receivable on Term Finance Certificates and Sukuk Certificates.

Investments in placements, certificates of investment which are carried at amortised cost and not expose the Fund to fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests. Further the composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the effect on the Fund's net assets and income statement of future movements in interest rates.

Other price risk

Other price risk includes equity price risks which is the risk of changes in the fair value of equity securities as a result of changes in the levels of KSE 30 Index and the value of individual shares. The equity price risk exposure arises from investments in equity securities held by the Fund for which prices in the future are uncertain. The Fund policy is to manage price risk through diversification and selection of securities within specified limits set by internal risk management guidelines.

The Fund manages the risk by limiting exposure to any single investee company and to a particular sector as per the risk management parameters.

A summary analysis of investments by industry sector, the percentage in relation to Fund's total investment as at 30 June 2011 is presented in Note 7.1

In case of 5% increase / decrease in prices of equity securities quoted at Karachi Stock Exchange, the net income for the year, other comprehensive income and net assets attributable to unit holders would have been higher / lower by Rs. 12.478 million (2010: Rs. 7.323 million). Previously, the management has used correlation with KSE 30 index to ascertain the effect of change in prices of quoted equity securities on Fund's net loss, other comprehensive loss and net assets attributable to unit holders.

The analysis above assumes that all other variables remains unchanged. The composition of the Fund's investment portfolio is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2011 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of prices quoted on Karachi Stock Exchange.

There is no sensitivity effect on 'unit holders' funds' as the Fund has no quoted equity securities classified as 'available for sale'.

Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re purchase transactions or other arrangements to fulfill their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

The maximum exposure to credit risk before any credit enhancements at June 30 is the carrying amount of the financial assets as set out below:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	2011	2010
	----(Rupees in '000)----	
Bank balances	67,659	59,113
Placements	-	22,050
Certificates of investment	31,687	39,608
Investments in fixed income and other debt securities	19,082	173,757
Dividend and profit receivable	1,601	9,686
Deposits and prepayments	3,072	7,627
	123,101	311,841

None of the above financial assets were considered to be past due or impaired in 2011 and 2010 except for the exposures and the provisions there against as provided in note 5, 6, 7.2.2, 7.2.3, 7.3.1 and 7.4.1. The management company follows Circular 1 of 2009 containing criteria for provisioning of non-performing debt securities issued by SECP for the purpose of making provision against non-performing debt securities. Further management company has devised provisioning policy duly approved by the Board of Directors of the management company to make provision over and above required by the said circular and for those exposures not covered by the said circular. For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated except stated otherwise.

Settlement risk

Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

Bank balances

The Fund kept surplus liquidity with banks having credit rating from AAA to A-. The rating of the banks is monitored by the Fund Manager and Investment Committee.

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. Details of the provisioning against doubtful exposures are provided in note 5, 6, 7.2.2, 7.2.3, 7.3.1 and 7.4.1.

The analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates, Sukuk Certificates, Placements and Certificates of Investment as at June 30:

Debt Securities by rating category

	2011	2010
	%	
AA	-	-
A+	9.27	35.77
AA-	-	13.83
A-	-	16.38
Below investment grade	90.73	26.65
Un-rated / Non-rated	-	7.37

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

Concentration of credit risk

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 credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by The Securities and Exchange Commission of Pakistan (SECP).

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

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

	June 30, 2011			Total
	Up to three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable against purchase of investments	13,407	-	-	13,407
Payable to KASB Funds Limited - Management Company	32	-	-	32
Payable to Central Depository Company of Pakistan Limited - Trustee	65	-	-	65
Accrued expenses and other liabilities	2,115	-	-	2,115
	15,619	-	-	15,619

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	June 30, 2010			Total
	Up to three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable against purchase of investments	1,023	-	-	1,023
Payable to KASB Funds Limited - Management Company	617	-	-	617
Payable to Central Depository Company of Pakistan Limited - Trustee	80	-	-	80
Accrued expenses and other liabilities	1,306	-	-	1,306
	3,026	-	-	3,026

Units of the Fund are redeemable on demand at the holder's option, however, the Fund does not anticipate significant redemption of units

Unit Holders' Funds risk management

As a result of the ability to issue and repurchase/ redeem units except for core investors, the Unit Holders' Funds can vary depending on the demand for redemptions, and subscription to the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and repurchase / redemption of units.

The Fund's objectives in managing the unit holders' fund are to ensure a stable base to maximize return to all investors and also to manage liquidity risk arising from redemptions.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the Statement of Assets and Liabilities are carried at fair value . The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

June 30, 2011	Level 1 (Rupees in '000)	Level 3
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	249,565	-
<i>Designated on initial recognition</i>		
-Fixed income and other debt securities	-	4,707
'Available for sale'		
- Fixed income and other debt securities	-	14,375

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

June 30, 2010

	Level 1 ----- (Rupees in '000)-----	Level 3 ----- (Rupees in '000)-----
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	153,259	-
<i>Designated on initial recognition</i>		
- Fixed income and other debt securities	-	124,655
'Available for sale'		
- Fixed income and other debt securities	-	49,102

The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

23. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers, meetings of the Board of Directors of the management company and members of the Investment Committee are as follows:

23.1 Pattern of unitholding

Category	No. of unit holders		Investment amount		Percentage of total investment	
	2011	2010	2011	2010	2011	2010
	----- (Numbers)-----		----- (Rupees in '000)-----		----- (%)-----	
Individuals	7	35	4,525	14,907	1.26	3.22
Associated companies	1	1	245,096	276,616	68.51	59.78
Banks / Financial Institutions	2	2	86,971	129,905	24.31	28.08
Non Banking Finance Companies	-	1	-	2,446	-	0.53
Retirement Funds	1	3	3,141	8,396	0.88	1.81
Public Limited Companies	-	-	-	-	-	-
Others	1	3	18,034	30,418	5.04	6.56
	12	45	357,767	462,688	100.00	100.00

23.2 List of top ten brokers / dealers by percentage of commission paid

Broker Name	2011 (Percentage)
Next Capital Limited	24.68
KASB Securities Limited.	17.21
Global Securities Pakistan Limited	10.27
Foundation Securities Limited	9.85
Fortune Securities Limited	9.80
Elixir Securities Pakistan (Private) Limited	7.20
Taurus Securities Pakistan Limited	6.38
M.R.A. Securities Private Limited	5.04
Ismail Iqbal Securities (Pvt) Ltd.	4.86
First Capital Equities Limited	4.71

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	2010 (Percentage)
Broker Name	
KASB Securities Limited.	16.26
Fortune Securities Limited	11.56
Foundation Securities Limited	9.94
Live Securities (Private) Limited	9.52
Global Securities Pakistan Limited	7.24
Elixir Securities Pakistan (Private) Limited	6.83
Taurus Securities Pakistan Limited	6.03
JS Global Capital Limited	4.17
Alfalsh Securities (Private) Limited	4.07
Invest Capital Investment Bank Limited	3.98

23.3 Dates, names of persons attending each meeting of the board of directors

Name of the person	Designation	Meetings		
		Total	Attended	Leave granted
Mr. Robert John Richard Owen	Chairman	10	10	-
Mr. Syed Muhammad Rehmanullah	Director	10	10	-
Mr. Muzaffar Ali Shah Bukhari	Director	10	10	-
Mr. Qaisar P. Mufti	Director	1	1	-
Mr. Masood Karim Shaikh*	Director	4	2	-
Mr. Amer Maqbool	Chief Executive and Director	1	1	-
Ms. Naz Khan**	Chief Executive and Director	2	2	-
Mr. Muhammad Imran Khalil	Chief Financial Officer	10	10	-
Mr. Mansoor Ali	Company Secretary	3	3	-
Mr. Muhammad Kashif Masood***	Company Secretary	1	1	-

*Mr. Masood Karim Shaikh resigned from the Board on January 17, 2011 and Mr. Qaisar P. Mufti was appointed Director after SECP granted approval on April 22, 2011.

**Ms. Naz Khan resigned from the Board on August 31, 2010 and Mr. Muhammad Imran Khalil was appointed as Director and Chief Executive after SECP granted approval on September 29, 2010. Subsequently, Mr. Amer Maqbool was appointed as Director and Chief Executive in place of Mr. Muhammad Imran Khalil after SECP granted approval on June 3, 2011.

***Mr. Muhammad Kashif Masood was appointed as Company Secretary in place of Mr. Muhammad Imran Khalil in the Board meeting held on October 2, 2010. Mr. Muhammad Kashif Masood resigned on December 29, 2011. Thereafter, Mr. Mansoor Ali was appointed as Company Secretary in Board meeting held on February 17, 2011.

Dates of the meetings of the Board of Directors

The 40th, 41st, 42nd, 43rd, 44th, 45th, 46th, 47th, 48th and 49th Board meetings were held on July 03, 2010, August 27, 2010, October 02, 2010, October 28, 2010, November 26, 2010, January 17, 2011, February 17, 2011, March 31, 2011, April 25, 2011 and June 06, 2011 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

23.4 Details of Members of Investment Committee

Name	Designation	Qualification	Experience (Years)
Amer Maqbool	Chief Executive Officer	MBA	15
Khurram Bashir	Fund Manager	M.Sc.(Eco. & Finance)	06
Shehzad Mubashir	Research Analyst	MBA	04

Subsequent to the year end, owing to scheme of acquisition and simultaneous merger of KASB Funds Limited with Crossby Asset Management (Pakistan) Limited, the Investment Committee has been reconstituted and recomposed as follows:

Amer Maqbool	Chief Executive Officer	MBA	15
Jamshed Khan	Chief Investment Officer	BSc (Hons.)	13
Hussin Khoja	Fund Manager	ACCA	08

23.4.1 Details of other funds managed by the Fund Manager

KASB Stock Market Fund under the management of KASB Funds Limited.

24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 15, 2011 by the Board of Directors of the Management Company.