

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, EQUITY/INCOME MARKET CONDITIONS, INTEREST RATE MOVEMENTS, SECTOR/STOCK FUNDAMENTALS ETC.

KASB ASSET ALLOCATION FUND

(formerly KASB Balanced Fund)

ANNUAL REPORT
June 30, 2012

CONTENTS

| | |
|---|----|
| Fund Information | 2 |
| Mission Report | 3 |
| Report of the Directors of the Management Company | 4 |
| Details of Pattern of Holding (Units) | 7 |
| Performance Table | 8 |
| Annual Fund Managers' Report | 9 |
| Trustee Report To The Unit Holders | 11 |
| Statement of Compliance With The Code Of Corporate Governance | 12 |
| Review Report To The Unit Holders of KASB Asset Allocation Fund "The Fund" on Statement of Compliance With Best Practices of Code of Corporate Governance | 13 |
| Independent Auditors' Report To The Unit Holders | 14 |
| Statement of Assets and Liabilities | 15 |
| Income Statement | 16 |
| Statement of Comprehensive Income | 17 |
| Distribution Statement | 18 |
| Statement of Movement in Unit Holders' Fund | 19 |
| Cash Flow Statement | 20 |
| Notes to the Financial Statements | 21 |

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. Muzaffar Ali Shah Bukhari

Chief Financial Officer

Syed Adnan Abdali

Company Secretary

Syed Adnan Abdali

Audit Committee

Mr. Robert John Richard Owen

Mr. Qaiser P. Mufti

Mr. Muzaffar Ali Shah Bukhari

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 Short Term

3 Star by Long Term

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

Bawany & 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, 2012

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Asset Allocation Fund (KAAF, the Fund), is pleased to present the Fifth Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2012.

Financial Highlights

| | FY 2012 | FY 2011 | Increase / (Decrease) (%) |
|---|---------|----------|---------------------------|
| Net Income / (loss) (Rs. in million) | 3.179 | (31.260) | 110.17 |
| Net Assets as at June 30 (Rs. in million) | 364.837 | 357.767 | (1.98) |
| NAV per Unit as on June 30 (Rs.) * | 38.97 | 38.07 | 2.69 |
| Return (%) | 5.25 | (5.72) | 191.78 |

* Par value of each unit is Rs. 100.

Economic Environment

Pakistan's economy proved to trudge along on its now too familiar irregular path during financial year 2012 as well. Its financial woes continued to trouble its economic managers who struggled unsuccessfully to contain its fiscal deficit within the revised target of 5.5% and also to build on a current account surplus of 0.11% achieved in FY11. Instead, it registered a whopping consolidated fiscal deficit of 8.5% (including a one off subsidy amounting to 1.9% of GDP), and a current account deficit of 1.9% of GDP continued subsidies, discretionary developmental expenditures and increasing cost of debt servicing.

The country has yet been unable to craft its way out of the quagmire of electricity and gas shortages which have bogged economic growth for some time now (GDP grew by a trivial 3.7% as against 4.1% last year). Energy shortages are increasing leading to lower production and consequently hampering exports and increasing imports, while rising unemployment and rapid deterioration in the overall quality of life is giving way to wide spread social unrest.

Amid an inconclusive end to the IMF program in Sep-11 and a worsening external account, Pakistan's forex reserves lost the attained stability gained in FY11. The first tranche of repayments of the Stand-By Arrangement loan to the IMF was also made in Feb-2012. As a result, the PKR lost 9.9% in FY12 against the USD and exerted further pressure on the reserves (Rs 14.6bn) already dwindling due to a higher oil import bill due to increasing reliance on thermal electricity and a bulging current account deficit.

However, all is not dark on the horizon as positives are also visible in improved tax collection and extension of record run of remittances (USD 13bn) which have enormously helped in narrowing the current account deficit to 1.9%. Further, CPI inflation averaged 11.1% in FY12, remaining well within the government's inflation target of target of 12% for the year. This decline in headline inflation, caused due to improved supply and high base effect coupled with a restraint in government borrowing, led the Central Bank to cut the policy rate by 200bps, which will boost private credit off take.

Capital & Commodities Market

The domestic equity market ended the year with a modest return of 10.4%, after recording a loss of 9% in the first half, thus outperforming most of its regional peers in the period. The drastic change in fortunes was caused by the introduction of the CGT relief package which promised numerous benefits to the investors, including freezing of CGT rates at current levels, calculation and collection of CGT by a central body (NCCPL), doing away with withholding tax on sale and the investor being absolved of the answerability of the source of the invested funds in the market.

Sector ally, cements were the main performers of the market, broadly outperforming the index owing to hefty increase in sector profitability owing to higher cement prices, substantial growth in volumes and reduction in costs due to lower coal prices and innovative cost reduction strategies, in addition to reduction in finance cost in a decreasing interest rate environment.

On the fixed income side, the continuous challenges faced by the economy have rendered repayment ability of the companies weaker. Therefore, the investors remained over cautious and refrained from investing further in corporate debts which resulted in very low activity in the TFC market. Thus 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 the lean economic patch have managed to negotiate restructuring agreements with its investors. The Market continues to be risk averse as investors find yields of government papers attractive, resulting in very few trades in TFCs/Sukuk. Both primary and secondary market of govt. papers remained active throughout the year as the govt. remained the biggest borrowers in the economy and liquidity from commercial banks was diverted mainly to this channel.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2012

Investment Strategy

KAAF aims to achieve the objective of generating regular income together with capital appreciation. The fund aims to maximize total returns and outperform the benchmark.

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. 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.

Fund Performance

For the year ended June 30, 2012 the Fund earned a return of 5.25% as against the benchmark return of 6.72% and the Net Asset Value per unit of the fund at the close of the year stood at Rs. 38.97. The net income for the year ended June 30, 2012 was Rs 3.179 million.

Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 0.35 per unit to the unit holders of the Fund for the year ended June 30, 2012.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the year ended June 30, 2012, as reduced by capital gains whether realized or unrealized, therefore, its income will not be subject to income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Sale and redemption of units

The fund size of KAAF was Rs. 357,767 million on June 30, 2011. During the year, units worth Rs. 7,863 million were issued and units with a value of Rs. 9,152 million were redeemed. As on June 30, 2012, the total number of outstanding units was 9,363,152 with a value of Rs. 364,837 million.

Code of Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Karachi Stock Exchange.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

The Board of Directors states that:

- a) The Financial Statement prepared by the Management Company, present fairly the state of affairs of the fund and result of its operations, cash flows and movement in unit holders fund;
- b) Proper books of accounts of the Fund have been maintained during the year;
- 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 comprising of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinances, 1984, the requirement 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, 2006 (the NBFC Regulations 2006) 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 Rules, 2003 the NBFC Regulations, 2006, and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Regulations 2006 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 going concern;
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations, except for the following:
 - i) Dissemination of 'Code of Conduct'; and
 - ii) Formation of Human Resource and Remuneration (HR&R) Committee (however, the same has been formed subsequent to yearend);
- h) Statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements;
- 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; hence no disclosure has been made in the Directors' Report of the Management Company.
- k) The detailed pattern of unit holding, as required by the Code of Corporate Governance is enclosed.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2012

- i) The Management Company has planned to conduct orientation course for its directors, where necessary, in the near future to appraise them with their duties and responsibilities;

As detailed in note no.1 of these financial statements of 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, 2012 is disclosed in note 25.3 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.

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2012 associated companies held 69.14% out of total units; banks and financial institutions held 23.92% units; individuals held 1.88% units and 5.06% units held by other entities. Detailed pattern is also annexed.

Future Outlook

The improvement in relations and realization of pending funds is expected to augur well for the economy. However, higher discretionary spending and subsidies keeping in view election year considerations will serve to keep the nozzle tight on fiscal pressures.

The SBP, in a surprise act, curtailed the policy rate by 150bps in the latest monetary policy review during August 2012 to support the private sector credit effected the decision on the basis of subdued headline inflation numbers during FY13. The average headline inflation for FY13 currently stands at 9.3% which again raises the hopes of a further cut in the policy rate going forward.

Auditors

The Audit Committee of the Board of Directors recommended the appointment of M/s A.F. Ferguson & Co. - Chartered Accountants in place of M/s KPMG Taseer Hadi & Co. - Chartered Accountants as auditors of KASB Asset Allocation Fund for the financial year ending June 30, 2013. 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) and the management of Karachi Stock Exchange for their continued cooperation, guidance and support. The Directors also appreciate the efforts put in by the management team.

For and on behalf of the Board

Amer Maqbool
Chief Executive

October 04, 2012
Karachi

DETAILS OF PATTERN OF HOLDING (UNITS)

As at June 30, 2012

| | Units held | |
|---|------------------|---------------|
| | Numbers | Percentage |
| Associated Companies | | |
| KASB Bank Limited | 6,473,552 | 69.14 |
| Individuals | 176,153 | 1.88 |
| Banks and Financial Institutions | 2,239,693 | 23.92 |
| Other Corporate Entities | 473,754 | 5.06 |
| | 9,363,152 | 100.00 |

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 balanced

2. Inception Date

December 31, 2007

3. Investment objective

The Fund seeks to generate regular income together with long term capital appreciation by investing in both the income 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 (please insert the return comparison chart, if necessary)

| | KAAF Return | Benchmark return |
|-----------------|--------------------|-------------------------|
| Since inception | -14.41% | 28.21% |
| FY 2012 | 5.25% | 6.72% |
| CY 2012 | 19.24% | 10.56% |
| For June 12 | 1.43% | 0.23% |

7. Strategies and policies employed during the period

Due to continued liquidity pressure in the markets and risk aversion by the participants, corporate debt market remained highly depressed resulting in trades of only govt. backed TFCs/Sukuks and top rated banking instruments with few exceptions. In presence of very few buyers, the prices of majority of corporate TFCs continued to remain depressed during the year. The Fund remained focused in offloading the TFCs and to restructure the non-performing corporate debt. As a result most of instruments held in the Fund with credit concerns were 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, 2012)

| Asset Allocation | 30th June 2012 | 30th June 2011 |
|--------------------------|-----------------------|-----------------------|
| Other Equity Investments | 8.23% | 6.64% |
| Chemicals | 3.73% | 3.17% |
| Commercial Banks | 10.49% | 16.71% |
| Oil & Gas | 26.03% | 17.37% |
| Personal Goods | 0.72% | 13.81% |
| Non-Life Insurance | - | 5.36% |
| Food Producers | 6.92% | - |
| Placements | 8.69% | 7.65% |
| TFCs & Sukuks | 8.20% | 4.81% |
| Cash & Other Assets | 26.90% | 24.68% |

9. Significant changes in asset allocation during the period

As compared to the beginning of the year, the Fund's exposure to TFC & Sukuks was increased as a result of redemptions received by the Fund, while the allocation of Cash & Other Assets within the portfolio increased to 27% 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 -14.41% against benchmark return of 28.21%. It has recorded a return of 5.25% in FY12 against benchmark return of 6.72% for the period.

ANNUAL FUND MANAGERS' REPORT

The AUM of the fund were PKR 378 million (NAV per unit: Rs 38.07 on June 30, 2011 and at the end of the period the AUM of the fund stood at PKR 375 million (NAV per unit: Rs 40.07).

11. Review of the market(s) invested in during the period

Pakistan's economic performance proved to be a mixture of sorts during the period under review. GDP growth was recorded at 3.7%, while fiscal deficit stood at 8.5% of GDP (including a one off subsidy amounting to 1.9% of GDP). The current account ran into a deficit of 1.9% of GDP, as against a surplus of 0.11% last year, even though foreign remittances continued on their growth trajectory and attained a high level of \$13 billion during the year. Though tax targets were met, the SBP printed a mammoth amount of PKR 1.6 trillion to bridge the fiscal gap.

On the positive side, CPI inflation was recorded at an average of 11.1% during the year, remaining well within the government's inflation target of target of 12%. Keeping in view these trends in inflation, the central bank reduced the policy rate by 200 basis points to boost the private credit off take amidst high fiscal deficit and resulting printing of money. However, the private sector continues to be crowded out due to the high government borrowing needs, liquidity constraints in the market, and risk aversion by lenders amid high propensity of banks to lend to the government.

The equity market also fared nominally during the period under review, as the broader KSE -100 registered a return of 10.45%. While the first half of the year gave a return of negative 9.19%, the second half proved to be a table turner as the introduction of the CGT relief package which promised numerous benefits to the investors (including freezing of CGT rates at current levels, calculation and collection of CGT by a central body (NCCPL), and doing away with withholding tax on sale and the investor being absolved of the answerability of the source of the invested funds in the market) caused investors to flock back to the bourses, also causing average trading volumes to increase to 130mn shares, up 37% from last year. Only four IPOs were conducted throughout FY12.

Lack of liquidity for corporate debt continues to prevail amid pricing volatility. A few instruments were restructured during the period under review 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

The Fund distributed PKR 0.035 per unit (Par Value of PKR 50) for the year ended June 30, 2012.

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 companies were not able to pay off the fund's lending on time. 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 in-practice pricing mechanism severely affected Fund returns. In addition, marked to market impacts of secondary market trades have 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

We, Central Depository Company of Pakistan Limited, being the Trustee of KASB Asset Allocation Fund (the Fund) are of the opinion that KASB Funds Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 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 18, 2012

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2012

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 Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The Board of Directors (the Board) of KASB Funds Limited (the Management Company), an unlisted public company, manages the affairs of KASB Asset Allocation Fund (the Fund). The Fund being a unit trust open end scheme does not have its own Board of Directors. The Management Company has applied the principles contained in the Code to the Fund, whose units are listed as a security on the Exchange, in the following manner:

1. The Management Company encourages representation of independent non-executive directors. At present, the Board includes:

| Category | Names |
|-------------------------|---|
| Independent Directors | Mr. Qaisar P. Mufti Mr. Robert C. Richard Owen |
| Executive Director | Mr. Amer Maqbool |
| Non-Executive Directors | Mr. Muzaffar Ali Shah Bukhari |

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them are serving as a director in more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.
4. Mr. Syed Muhammad Rehmanullah has not been re-elected on Board at elections held in October 2011.
5. The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non-executive directors have been taken by the Board.
7. The meetings of the Board were presided over by the Chairman and 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.
8. The Management Company has planned to conduct an orientation course for its directors, in the near future to apprise them of their duties and responsibilities.
9. The Board has approved the appointments of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit including the remuneration and terms and conditions of employment.
10. The Directors' report relating to the Fund for the year ended June 30, 2012 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
12. The Directors, CEO, and executives do not hold any interest in the units of the Fund other than disclosed in the pattern of unit-holding.
13. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee who is an independent director.
15. The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
16. The board has set up an effective internal audit function which comprises of personnel who are considered suitably qualified and experienced for the purpose and are conversant with policies and procedures of the company.
17. 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 (ICAP), 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 the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
18. 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.
19. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
20. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
21. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transaction that were made on terms equivalent to those that prevail in the arm's length transactions only if such term can be substantiated.
22. We confirm that all other material principles contained in the Code have been complied with except for:
 - * the development of Code of Conduct towards which reasonable progress is being made by the Management Company to seek compliance by the end of next accounting year; and
 - * the formation of Human Resource and Remuneration Committee which has been formed on October 04, 2012.

For and on behalf of the Board

Amer Maqbool
Chief Executive Officer

Karachi, October 4, 2012

**REVIEW REPORT TO THE UNIT HOLDERS ON KASB ASSET ALLOCATION 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 ("Statement of Compliance") 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 Limited, 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulations 35 notified by the Karachi Stock Exchange Limited requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed 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 2012.

We draw attention to paragraph 22 of the annexed Statement of Compliance which highlights that the requirements of clauses (v)(a) and (xxv) of the Code of Corporate Governance 2012 with respect to the formulation of Code of Conduct and formation of Human Resource and Remuneration Committee have not been complied with. However, the Board of Directors of the Management Company has formed the Human Resource and Remuneration Committee in their meeting held on 4 October 2012.

Date: 4 October 2012.

Karachi

**KPMG Taseer Hadi & Co.
Chartered Accountants**

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of KASB Asset Allocation Fund ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2012, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in Unit Holders' Fund and cash flow statement for the year ended 30 June 2012, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the 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 2012, 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.

Emphasis of matter

We draw attention to note 15 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 0.064 million in aggregate is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

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: 4 October 2012

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2012

| | Note | 2012 | 2011 |
|---|------|------------------------------|------------------|
| | | ----- (Rupees in '000) ----- | |
| Assets | | | |
| Balances with bank | 4 | 115,743 | 67,659 |
| Receivable against sale of investments | | 412 | 768 |
| Certificates of investment - net of provision | 5 | 28,845 | 31,687 |
| Receivable against lending under Margin Trading System | 6 | 3,632 | - |
| Investments | 7 | 244,388 | 268,647 |
| Dividend and profit receivable | 8 | 1,679 | 1,601 |
| Deposits and prepayments | 9 | 3,056 | 3,072 |
| Preliminary expenses and floatation costs | 10 | 321 | 961 |
| Total assets | | 398,076 | 374,395 |
| Liabilities | | | |
| Payable against purchase of investments | | 29,611 | 13,407 |
| Payable to KASB Funds Limited - Management Company | 11 | 969 | 32 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 12 | 63 | 65 |
| Payable to Securities and Exchange Commission of Pakistan | 13 | 326 | 382 |
| Accrued expenses and other liabilities | 14 | 2,270 | 2,742 |
| Total liabilities | | 33,239 | 16,628 |
| Net assets | | 364,837 | 357,767 |
| Unit holders' funds | | 364,837 | 357,767 |
| Contingencies and commitments | 15 | | |
| | | (Number of units) | |
| Number of units in issue | 16 | 9,363,152 | 9,397,631 |
| | | (Rupees) | |
| Net asset value per unit | | 38.97 | 38.07 |

The annexed notes 1 to 26 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, 2012

| | Note | 2012 | 2011 |
|---|------|---------------|-----------------|
| ----- (Rupees in '000)----- | | | |
| Income | | | |
| Income from term finance and sukuk certificates | | 4,849 | 10,148 |
| Income from government securities | | 1,627 | - |
| Income from lending under Margin Trading System | | 249 | - |
| Income from certificates of investment | | - | 3,744 |
| Dividend income | | 10,694 | 10,299 |
| Profit on bank deposits | | 12,280 | 7,200 |
| Capital (loss) / gain on sale of investments | | (12,791) | 23,557 |
| Reversal of provision against non-performing placements | 17 | 9,792 | - |
| Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' | | 5,693 | 7,572 |
| Total income | | 32,393 | 62,620 |
| Expenses | | | |
| Remuneration of KASB Funds Limited - Management Company | 11.1 | 10,297 | 8,292 |
| Sindh sales tax on management fee | 11.2 | 1,347 | - |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 12.1 | 700 | 829 |
| Annual fee - Securities and Exchange Commission of Pakistan | | 326 | 382 |
| Transaction cost on securities | | 1,574 | 3,737 |
| Bank charges | | 80 | 351 |
| Professional charges | | 643 | 521 |
| Fees and subscription | | 580 | 168 |
| Auditors' remuneration | 18 | 459 | 449 |
| Amortisation of preliminary expenses and flotation costs | | 640 | 640 |
| Printing and other expenses | | 120 | 130 |
| Provision against non-performing placements | | - | 21,550 |
| Provision against non-performing investments | 7.8 | 4,046 | 41,016 |
| Provision against non-performing certificates of investment | 5 | 2,842 | 7,922 |
| Provision for doubtful income receivable | | 5,946 | 5,941 |
| Total expenses | | 29,600 | 91,928 |
| | | 2,793 | (29,408) |
| Net realised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | | 386 | (1,852) |
| Net income / (loss) for the year | | 3,179 | (31,260) |
| Earnings / (loss) per unit | 19 | | |

The annexed notes 1 to 26 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, 2012

| | 2012 | 2011 |
|---|------------------------------|-----------------|
| | ----- (Rupees in '000) ----- | |
| Net income / (loss) for the year | 3,179 | (31,260) |
| Other comprehensive income | | |
| Net unrealised appreciation in fair value of investments classified as 'available for sale' during the year | 7.7 5,546 | 8,733 |
| Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised appreciation | (266) | 786 |
| Other comprehensive income for the year | 5,280 | 9,519 |
| Total comprehensive income for the year | <u>8,459</u> | <u>(21,741)</u> |

The annexed notes 1 to 26 form an integral part of these financial statements.

**For KASB Funds Limited
(Management Company)**

Chief Executive

Director

**For KASB Funds Limited
(Management Company)**

Chief Executive

Director

DISTRIBUTION STATEMENT

For the year ended June 30, 2012

| Note | 2012 | 2011 |
|--|------------------------------|------------------|
| | ----- (Rupees in '000) ----- | |
| Accumulated losses - brought forward | | |
| - Realised (losses) / gains | (38,832) | 29,862 |
| - Unrealised losses | (87,550) | (96,271) |
| | <u>(126,382)</u> | <u>(66,409)</u> |
| Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | (266) | 786 |
| Net income / (loss) for the year | 3,179 | (31,260) |
| Distributions to unit holders of the Fund | | |
| Final distribution @ Rs. Nil per unit for the year ended June 30, 2011 (2010: Rs. 2.75 per unit) | | |
| - Issue of bonus units | - | (3,556) |
| - Cash dividend | - | (25,943) |
| | - | (29,499) |
| Accumulated losses - carried forward | <u>(123,469)</u> | <u>(126,382)</u> |
| Accumulated losses - carried forward | | |
| - Realised losses | (2,514) | (38,832) |
| - Unrealised losses | (120,955) | (87,550) |
| | <u>(123,469)</u> | <u>(126,382)</u> |

The annexed notes 1 to 26 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, 2012

| Note | 2012 | 2011 |
|---|------------------------------|----------------|
| | ----- (Rupees in '000) ----- | |
| Net assets at beginning of the year | 357,767 | 462,688 |
| Contributions and redemptions by the unit holders | | |
| Issue of 222,246 units (2011: 36,811 units) | 7,883 | 1,531 |
| Issue of Nil bonus units (2011: 88,062 units) | - | 3,556 |
| Redemption of 256,725 units (2011: 1,454,262 units) | (9,152) | (59,834) |
| | (1,269) | (54,747) |
| 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 | (386) | 1,852 |
| - amount representing unrealised (income) / loss and capital (gains) / losses - transferred to Distribution Statement | 266 | (786) |
| | (120) | 1,066 |
| Total comprehensive income for the year | | |
| Net income / (loss) for the year (excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gain) | 10,277 | (62,389) |
| Capital (loss) / gain for the year | (12,791) | 23,557 |
| Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' | 5,693 | 7,572 |
| Net unrealised appreciation in fair value of investments classified as 'available for sale' during the year | 5,546 | 8,733 |
| 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 | (266) | 786 |
| | 8,459 | (21,741) |
| Distributions to unit holders of the Fund | | |
| Final distribution nil for the year ended June 30, 2011 (2010: Rs. 2.75 per unit) | - | (3,556) |
| - Issue of bonus units | - | (25,943) |
| - Cash dividend | - | (29,489) |
| Net assets as at the end of the year | <u>364,837</u> | <u>357,767</u> |
| | (Rupees) | |
| Net asset value per unit as at the beginning of the year | <u>38.07</u> | 43.13 |
| Net asset value per unit as at the end of the year | <u>38.97</u> | 38.07 |

The annexed notes 1 to 26 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, 2012

| | 2012 | 2011 |
|--|------------------------------|-----------------|
| | ----- (Rupees in '000) ----- | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income / (loss) for the year | 3,179 | (31,260) |
| <i>Adjustments for non cash and other items:</i> | | |
| Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' | (5,693) | (7,572) |
| Provision against non-performing investments | 4,046 | 41,016 |
| (Reversal) / provision against non-performing placements | (9,792) | 21,550 |
| Provision against non-performing certificates of investment | 2,842 | 7,922 |
| Provision for doubtful income receivable | 5,946 | 5,941 |
| Net realised element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed | (386) | 1,852 |
| Amortisation of preliminary expenses and floatation costs | 640 | 640 |
| | <u>(2,397)</u> | <u>71,349</u> |
| Decrease / (increase) in assets | | |
| Receivable against sale of investments | 356 | 694 |
| Placements | 9,792 | (22,050) |
| Certificates of investment | - | (7,921) |
| Receivable against lending under Margin Trading System | (3,632) | - |
| Investments | 31,452 | 82,100 |
| Dividend and profit receivable | (6,024) | (8,085) |
| Deposits and prepayments | 16 | (4,555) |
| | <u>31,960</u> | <u>40,173</u> |
| Increase / (decrease) in liabilities | | |
| Payable against purchase of investments | 16,204 | 12,384 |
| Payable to KASB Funds Limited - Management Company | 937 | (586) |
| Payable to Central Depository Company of Pakistan Limited - Trustee | (2) | (20) |
| Payable to Securities and Exchange Commission of Pakistan | (56) | (62) |
| Accrued expenses and other liabilities | (472) | 814 |
| | <u>16,611</u> | <u>12,530</u> |
| Net cash generated from operating activities | <u>46,174</u> | <u>124,052</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividend paid | - | (25,943) |
| Net payments from sale and redemption of units | (1,269) | (58,303) |
| Net cash used in financing activities | <u>(1,269)</u> | <u>(84,246)</u> |
| Net increase in cash and cash equivalents during the year | <u>44,905</u> | <u>39,806</u> |
| Cash and cash equivalents at beginning of the year | <u>67,659</u> | <u>59,113</u> |
| Cash and cash equivalents at end of the year | <u>115,743</u> | <u>67,659</u> |

The annexed notes 1 to 26 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, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Asset Allocation 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 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). The Fund has been assigned 'Asset Allocation' category under the categorization criteria issued by SECP.

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 long term ranking of 3 star and normal ranking of 1 star to the Fund.

During the year, the SECP 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 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.

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, 2003, 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. However, the amendments or interpretations did not have any material effect on the financial statements of the Fund.

Standards, interpretations and amendments to published approved accounting standards 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:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after July 1, 2012.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32: Financial Instruments: Presentation) effective for annual periods beginning on or after January 1, 2014.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7: Financial Instruments: Disclosures) effective for annual periods beginning on or after January 1, 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

- Annual Improvements 2009 - 2011 effective for annual period beginning on or after January 1, 2013. The new cycle of improvements contain amendments to five standards. However, those amendments do not have any effect on the financial statements of the Fund.

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. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 assumption and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year as well as critical judgements in applying accounting policies that have the most significant effect on the amounts 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 active market valuation done by Mutual Fund Association of Pakistan and The Karachi Stock Exchange Limited. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore can not be determined with precision.

Other assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

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, 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. 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. The financial instruments classified as loans and receivables are subsequently measured at amortized cost less provision for impairment, if any.

Fair value measurement principles

Basis of valuation of equity securities

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. The Circular 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 issued by SECP.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

Basis of valuation of Government Securities

The fair value of the investments in government securities is determined by reference to the quotations obtained from active market valuation done by Financial Markets Association of Pakistan.

Securities under repurchase / resale agreements and lending under margin trading system

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.

Transactions of purchase under Margin Trading System (MTS) of marketable securities are entered into contracted rates for specified periods of time. Securities purchased under MTS are not recognized in the Statement of Assets and Liabilities however, the amount paid under the agreements are recognized as receivable in respect of MTS. Profit is recognized on accrual basis using the effective interest rate method. Cash releases are adjusted against the receivable as reduction in the amount of receivable. The maximum maturity of a MTS contract is 60 days out of which 25% exposure will be automatically released at expiry of every 15th day from the date of contract.

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.

A financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of assets and that loss events had an impact on the future cashflows of that assets and that can be estimated reliably.

An impairment loss in respect of financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cashflows discounted at the asset's original effective interest rate.

In the case of equity investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the accumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in Income Statement) is removed from Unit holders' Fund and recognised in the Income Statement. Impairment losses recognised on equity instruments are not reversed through the Income Statement.

Any subsequent decrease in impairment loss on debt securities classified as "available for sale" is recognised in 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 rights to the cash flows from the financial assets expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred on in which the Fund neither transfers nor retain substantially all the risks and rewards of ownership and does not retain control of the financial assets.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

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.

The 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

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, lending under margin trading system 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, Trustee fee and SECP annual fee are recognized in the Income Statement on an accrual basis.

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 BANK

In saving account:

| | 2012 | 2011 |
|-----|------------------------------|---------------|
| | ----- (Rupees in '000) ----- | |
| 4.1 | <u>115,743</u> | <u>67,659</u> |

4.1 This saving account carries mark-up at the rate of 10.5% per annum (2011: 5.0% to 12.0% per annum).

5. CERTIFICATES OF INVESTMENT - NET OF PROVISION

Due to continuous delays in payments by the counter party, the Fund has recognised provision amounting to Rs. 2.8 million (2011: 7.9 million) 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 including evaluation of settlement options offered by the counterparty.

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. RECEIVABLE AGAINST LENDING UNDER MARGIN TRADING SYSTEM

This represents amount receivable against transactions entered under Margin Trading System and carries profit ranging between 14.57% to 20% per annum with maturity at the option of financee subject to maximum of 60 days. Fair value of collateral as at June 30, 2012 held against the receivable is Rs. 4,297 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

7. INVESTMENTS

'At fair value through profit or loss'

Held for trading

- Quoted equity securities

2012 2011
----- (Rupees in '000) -----

7.1 214,389 249,585

Designated on initial recognition

- Fixed income and other debt securities

7.2 - 4,707

Advance Against pre Initial Public Offer investment

7.3 - 254,272

'Available for sale'

- Fixed income and other debt securities

7.4 29,999 14,375

244,388 268,647

The cost of the above investments as at June 30, 2012 amounted to Rs. 394,886 million (2011: Rs. 421,163 million).

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

Market value as a

As at July 1, 2011 Purchases during the year Bonus issued during the year Sales during the year As at June 30, 2012 June 30, 2012 percentage of total investments

(Rupees in '000)

SHARES OF LISTED COMPANIES

- Fully paid up ordinary shares of Rs. 10 each unless otherwise stated

Commercial Banks

| | | | | | | | |
|---------------------------|---------|---------|--------|---------|---------|--------|------|
| MCB Bank Limited | 104,652 | 192,964 | 10,009 | 173,755 | 134,070 | 22,289 | 9.17 |
| NIB Bank Limited | 206,597 | 300,000 | - | 206,597 | 300,000 | 597 | 0.24 |
| SIB Bank Limited | - | 616,503 | - | - | 616,503 | 1,301 | 0.53 |
| Bank AL Habib Limited | - | 247,422 | 15,000 | - | 262,422 | 7,471 | 3.06 |
| Bank Alfalah Limited | - | 60,000 | - | - | 60,000 | 1,026 | 0.42 |
| Ascent Bank Limited | - | 325,000 | - | - | 325,000 | 4,410 | 1.80 |
| National Bank of Pakistan | 148,750 | 192,500 | - | 303,750 | 37,500 | 1,633 | 0.67 |
| United Bank Limited | 601,451 | - | - | 601,451 | - | - | - |
| Allied Bank Limited | 455 | 25,000 | - | 25,455 | - | - | - |

Construction and Materials (Cement)

| | | | | | | | |
|-----------------------------------|---------|---------|---|---------|---------|--------|-------|
| Lucky Cement Limited | 73,470 | 401,650 | - | 347,665 | 227,455 | 20,246 | 10.74 |
| Attock Cement Pakistan Limited | 178,195 | 10,000 | - | 178,195 | 10,000 | 814 | 0.33 |
| Kohat Cement Company Limited | - | 73,500 | - | - | 73,500 | 2,959 | 1.21 |
| D. G. Khan Cement Company Limited | - | 175,000 | - | 175,000 | - | - | - |

Automobile and Parts

| | | | | | | | |
|----------------------------------|--------|---|---|--------|---|---|---|
| Pak Suzuki Motor Company Limited | 62,734 | - | - | 62,734 | - | - | - |
|----------------------------------|--------|---|---|--------|---|---|---|

Chemicals

| | | | | | | | |
|------------------------------------|--------|-----------|--------|-----------|---------|-------|------|
| Falima Fertilizer Company Limited | - | 1,302,645 | - | 1,009,400 | 283,245 | 7,234 | 2.96 |
| Engro Corporation Limited | 69,520 | 184,500 | 21,840 | 240,860 | 35,000 | 3,564 | 1.46 |
| Fauji Fertilizer Bin Qasim Limited | - | 105,000 | - | 105,000 | - | - | - |
| Fauji Fertilizer Company Limited | (1) | 210,400 | - | 210,411 | - | - | - |

Media

| | | | | | | | |
|---------------------|---------|---|---|---------|---|---|---|
| Hum Network Limited | 604,853 | - | - | 604,853 | - | - | - |
|---------------------|---------|---|---|---------|---|---|---|

Leasing Companies

| | | | | | | | |
|---------------------|-------|---------|---|---|---------|-------|------|
| SME Leasing Limited | 7.1.2 | 604,575 | - | - | 604,575 | 4,858 | 2.03 |
|---------------------|-------|---------|---|---|---------|-------|------|

General Industrials

| | | | | | | | |
|------------------|--------|-------|---|--------|---|---|---|
| EcolPack Limited | 17,000 | - | - | 17,000 | - | - | - |
| Packages Limited | - | 9,560 | - | 9,560 | - | - | - |

Non Life Insurance

| | | | | | | | |
|-----------------------------------|---------|---|---|---------|---|---|---|
| Adamjee Insurance Company Limited | 294,933 | - | - | 294,933 | - | - | - |
|-----------------------------------|---------|---|---|---------|---|---|---|

Financial Services

| | | | | | | | |
|-------------------------------------|---------|---------|---|---------|---------|-------|------|
| Next Capital Limited | - | 250,000 | - | - | 250,000 | 2,278 | 0.93 |
| Jahangir Stockist & Company Limited | 250,317 | - | - | 250,317 | - | - | - |

Food Producers

| | | | | | | | |
|---------------------|---|---------|---|---|---------|--------|-------|
| Engro Foods Limited | - | 396,402 | - | - | 396,402 | 25,546 | 10.45 |
|---------------------|---|---------|---|---|---------|--------|-------|

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

| Name of the investee company | (Number of shares) | | | | As at June 30, 2012 | Market value as at June 30, 2012 | Market value as a percentage of total investments | |
|--|--------------------|---------------------------|------------------------------|-----------------------|---------------------|----------------------------------|---|-------|
| | As at July 1, 2011 | Purchases during the year | Bonus issued during the year | Sales during the year | | | | |
| (Rupees in '000) | | | | | | | | |
| Oil and Gas | | | | | | | | |
| Pakistan Oilfields Limited | 7.1.1 | 58,094 | 151,220 | - | 140,500 | 68,814 | 25,251 | 10.33 |
| Pakistan Petroleum Limited | 7.1.1 | 86,028 | 94,118 | 6,500 | 97,500 | 89,146 | 16,785 | 6.87 |
| Pakistan State Oil Company Limited | | 64,129 | 260,327 | - | 225,529 | 99,427 | 23,449 | 9.59 |
| National Refinery Limited | | - | 106,412 | - | 43,840 | 62,572 | 14,479 | 5.92 |
| Oil & Gas Development Company Limited | | 2,382 | 150,467 | - | 52,382 | 100,467 | 16,119 | 6.60 |
| Attock Refinery Limited | | 50,000 | 168,500 | - | 218,500 | - | - | - |
| Attock Petroleum Limited | | - | 8,822 | - | 8,822 | - | - | - |
| Personal Goods (Textile) | | | | | | | | |
| Nishat Mills Limited | 7.1.1 | 161,908 | 128,532 | - | 235,000 | 55,500 | 2,641 | 1.08 |
| Ibrahim Fibres Limited | | 833,640 | - | - | 833,640 | - | - | - |
| Nishat (Chemicals) Limited | | 272,665 | - | - | 272,665 | - | - | - |
| Electricity | | | | | | | | |
| Nishat Ghuman Power Limited | | - | 1,570,527 | - | 1,472,527 | 98,000 | 1,453 | 0.69 |
| The Hub Power Company Limited | | 4,458 | 690,000 | - | 649,458 | 45,000 | 1,885 | 0.72 |
| Kot Addu Power Company Limited | | 212,275 | - | - | 212,275 | - | - | - |
| Nishat Power Limited | | 175,000 | 1,288,500 | - | 1,443,500 | - | - | - |
| Fixed Line Telecommunication | | | | | | | | |
| Pakistan Telecommunication Company Limited 'A' | | 298,625 | 300,000 | - | 598,625 | - | - | - |
| | | | | | | 214,399 | | |

7.1.1 Investments include quoted equity securities with market value as at June 30, 2012 aggregating to Rs. 22.873 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.

7.1.2 The Fund has received shares of the following companies in settlement of the amount due against placement as fully explained in note 17 to these financial statements:

| Name of the Company | Number of Shares |
|---------------------|------------------|
| SME Leasing Limited | 804,575 |
| NIB Bank Limited | 300,000 |
| Silk Bank Limited | 818,503 |

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 | As at July 1, 2011 | Purchases during the year | Sales during the year | As at June 30, 2012 | Market / carrying value as at June 30, 2012 | Market / carrying value as a percentage of total investments |
|---|--------------------|---------------------------|-----------------------|---------------------|---|--|
| (Number of certificates) | | | | | | |
| (Rupees in '000) | | | | | | |
| Term Finance Certificates | | | | | | |
| Agritech Limited - II | 7.2.1 | 1,000 | - | 1,000 | - | - |
| Agritech Limited - V | 7.2.1 | - | 148 | 148 | - | - |
| Pakistan Mobile Communications Limited - II | | 1,000 | - | 1,000 | - | - |
| Sukuk Certificates | | | | | | |
| New Allied Electronics Industries (Private) Limited - I | 7.2.2 | 160,000 | - | 160,000 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

- 7.2.1** 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 has only paid profit amounting to Rs. 2.462 million and has defaulted on payment of principal amounting to Rs. 3.497 million. The Fund has recognised full provision against its investment in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount. On January 9, 2012, AL has issued term finance certificate carrying profit at the rate of 11% per annum against its defaulted coupon. The fund has carried such term finance certificates at nil value.

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.

- 7.2.2** This represents sukuk certificates of New Allied Electronics Industries (Private) Limited (NAEIL). The investment in NAEIL is secured against collaterals. On October 25, 2008, owing to financial difficulties, NAEIL has only paid profit amounting to Rs. 2.113 million and has defaulted on repayment of principal amounting to Rs. 3.125 million. The Fund has recognised full provision against the investment and related profit in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable 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.

- 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 | As at July 1, 2011 | Purchases during the year | | Sales during the year | | As at June 30, 2012 | Carrying value as at June 30, 2012 | Carrying value as a percentage of total investments |
|------------------------------|--------------------------|--------------------------------------|---|-----------------------|---|---------------------------|---|---|
| | | ----- (Number of certificates) ----- | | | | | | |
| Dewan Cement Limited | 7.3.1 | 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. In view of default by the borrower, the Fund has recognized full provision against its investment and has suspended accrual of markup thereagainst 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 company for the entire exposure and unrecognized markup and other charges etc.

- 7.4 Fixed income and other debt securities - 'available for sale'**

| Name of the investee company | As at July 1, 2011 | Purchases during the year | | Sales during the year | | As at June 30, 2012 | Market value as at June 30, 2012 | Market value as a percentage of total investments |
|--|--------------------------|--------------------------------------|-------|-----------------------|---|---------------------------|---|---|
| | | ----- (Number of certificates) ----- | | | | | | |
| Term Finance Certificates | | | | | | | | |
| Agritech Limited - II | 7.2.1 | 5,000 | - | - | - | 5,000 | - | - |
| Agritech Limited - V | 7.2.1 | - | 887 | - | - | 887 | - | - |
| Sukuk Certificates | | | | | | | | |
| Security Leasing Corporation Limited | 7.4.1 | 9,500 | - | - | - | 9,500 | 10,892 | 4.46 |
| Maple Leaf Cement Factory Limited - I | 7.4.2 | - | 7,400 | - | - | 7,400 | 19,107 | 7.82 |
| Maple Leaf Cement Factory Limited - II | | - | 278 | 278 | - | - | - | - |
| | | | | | | | 29,099 | |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

- 7.4.1** These Sukuk certificates were restructured in March 2011. According to 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. The Fund has recognised provision amounting to Rs. 4.5 million against the investment in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount. 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 installments 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 installments starting from March 19, 2010.
- 7.4.2** This represents investment in sukuk certificates of Maple Leaf Cement Factory Limited. On August 4, 2011, the Fund has purchased these certificates from a Fund, under common management, at a mutually agreed rate. These certificates were classified as non-performing by MUFAP on September 19, 2011. During the year, owing to financial difficulties, Maple Leaf Cement Factory Limited has defaulted in the payment of interest due on September 3, 2011, December 3, 2011, March 3, 2012 and June 3, 2012. The Fund has made provision amounting to Rs. 4.05 million against its investment and suspended further accruals of markup there against in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

7.5 SIGNIFICANT TERMS AND CONDITION OF TERM FINANCE AND SUKUK CERTIFICATES

Significant terms and conditions of Term Finance Certificates outstanding as at June 30, 2012 are as follows:

| Name of security | Remaining principal (per TFC) | Mark-up rate (per annum) | Issue date | Maturity date |
|---|-------------------------------|--------------------------|-------------------|-------------------|
| Agritech Limited - II | 2,897 | 6 months KIBOR + 1.75% | January 14, 2008 | January 14, 2015 |
| Agritech Limited - V | 4,998 | 11% | July 1, 2011 | July 01, 2017 |
| New Allied Electronics Industries (Private) Limited - I | 313 | 3 months KIBOR + 2.6% | July 27, 2007 | July 27, 2012 |
| Security Leasing Corporation Limited | 1,622 | 1 month KIBOR + 2% | June 1, 2007 | June 01, 2012 |
| Maple Leaf Cement Factory Limited - I | 4,989 | 3 months KIBOR + 1% | December 03, 2007 | December 03, 2018 |

7.6 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The Securities and Exchange Commission of Pakistan vide Circular no. 7 of 2009 dated March 6, 2009, requires all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Board of Directors of the Management Company has approved the category of the fund as "Asset Allocation scheme", in accordance with the said Circular. As per the offering document, the Fund is required to invest in securities having atleast investment grade rating (credit rating of BBB and above).

At the time of purchase, the below investments were in compliance of the said circular (i.e. investment grade) and were subsequently downgraded due to default in payments of principal and mark-up due on respective coupon dates.

However, as at June 30, 2012 the Fund is non-compliant with the above mentioned requirement, the details of which are as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

| Name of non-compliant investment* | Name of Company | Value of investment before provision | Provision held, if any | Value of investment after provision | Percentage of net assets | Percentage of gross assets |
|--|---|--------------------------------------|------------------------|-------------------------------------|--------------------------|----------------------------|
| | | (Rupees in '000) | | | | |
| <i>'at fair value through profit or loss':</i> | | | | | | |
| Investment in debt securities | AgriTech Limited - II | 2,897 | 2,897 | - | - | - |
| Investment in debt securities | Dewan Cement Limited | 50,000 | 50,000 | - | - | - |
| Investment in debt securities | AgriTech Limited - V | 740 | 740 | - | - | - |
| Investment in debt securities | New Allied Electronics Industries (Private) Limited - I | 50,000 | 50,000 | - | - | - |
| <i>'available for sale'</i> | | | | | | |
| Investment in debt securities | AgriTech Limited - II | 17,383 | 17,383 | - | - | - |
| Investment in debt securities | AgriTech Limited - V | 4,433 | 4,433 | - | - | - |
| Investment in debt securities | Security Leasing Corporation Limited | 15,411 | 4,519 | 10,892 | 2.99 | 2.74 |
| Investment in debt securities | Maple Leaf Cement Factory Limited - I | 36,021 | 17,814 | 19,107 | 5.24 | 4.40 |
| Placements | Saudi Pak Leasing Company Limited | 31,500 | 31,500 | - | - | - |
| Certificates of investment | Invest Capital Investment Bank Limited | 49,600 | 49,600 | - | - | - |

Furthermore, as per Regulation 55 (9) an Asset Management Company shall not invest more than twenty five per cent of total net assets of the Collective Investment Scheme in securities of any one sector as per classification of the stock exchange. As detailed note 7.1, the Funds investment in Oil and Gas sector exceeded the specified limit.

7.7 Net unrealised appreciation in fair value of investments classified as 'available for sale'

| | 2012 | 2011 |
|--|----------------------------|----------|
| | ---- (Rupees in '000) ---- | |
| Fair value of investments | 29,999 | 14,375 |
| Less: cost of investments | (58,526) | (44,401) |
| | (28,526) | (30,026) |
| Net unrealised diminution in fair value of investments classified as 'available for sale' at beginning of the year | 30,026 | 8,733 |
| Provision against non-performing 'available for sale' investments | 7.42 4,046 | 30,026 |
| | 34,072 | 38,759 |
| | 5,546 | 8,733 |

7.8 Movement in provision against debt securities

| | | |
|--|--------|--------|
| Opening balance | 91,016 | 50,000 |
| Provision against non-performing investment classified as 'at fair value through profit or loss' during the year | - | 4,995 |
| Provision against non-performing investments classified as 'available for sale' during the year | 4,046 | 36,021 |
| | 4,046 | 41,016 |
| Closing balance | 95,062 | 91,016 |

8. DIVIDEND AND PROFIT RECEIVABLE

| | | |
|--|-------|-------|
| Dividend receivable | 116 | 649 |
| Income accrued on bank deposits | 1,525 | 818 |
| Income accrued on lending tender Margin Trading System | 38 | - |
| Income accrued on term finance and sukuk certificates | - | 134 |
| | 1,679 | 1,601 |

9. DEPOSITS AND PREPAYMENTS

| | | |
|---|-----------|-------|
| Deposit with National Clearing Company of Pakistan Limited | 9.1 2,750 | 2,750 |
| Deposit with Central Depository Company of Pakistan Limited | 9.2 100 | 100 |
| Prepaid fee - National Clearing Company of Pakistan Limited | 206 | 222 |
| | 3,056 | 3,072 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

- 9.1 This represents deposit with National Clearing Company of Pakistan Limited in respect of trading of listed securities.
- 9.2 This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.

10. PRELIMINARY EXPENSES AND FLOATATION COSTS

| | | | |
|---|--|------------|------------|
| Preliminary expenses and floatation costs | | 961 | 1,601 |
| Less: Amortisation during the year | | (640) | (640) |
| | | <u>321</u> | <u>961</u> |

11. PAYABLE TO KASB FUNDS LIMITED - MANAGEMENT COMPANY

| | | | |
|---|------|------------|-----------|
| Management fee payable | 11.1 | 835 | 32 |
| Sindh sales tax payable on management fee | 11.2 | 134 | - |
| | | <u>969</u> | <u>32</u> |

- 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 3 percent per annum with effect from July 1, 2011, of the average annual net assets of the Fund. The remuneration is paid to the Management Company monthly in arrears.
- 11.2 During the current year, the provincial government of Sindh levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company through enactment of Sindh Sales Tax Act, 2011 effective from July 1, 2011.
- 11.3 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 51,295 additional units were issued during the year to type 'B' unit holders at a value of Rs. 1.876 million. (36,309 additional units were issued during the year ended June 30, 2011 at a value of Rs. 1,511 million.) The management has discontinued such practice from June 11, 2012 in compliance with the Circular 20 of 2012 issued by SECP prohibiting the sharing of management fee in any form with unit holders.

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

| | | | |
|----------------------|------|-----------|-----------|
| Remuneration payable | 12.1 | 60 | 60 |
| CDS charges payable | | 3 | 5 |
| | | <u>63</u> | <u>65</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

- 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 billion of average daily net assets of the Fund and Rs. 2 million plus 0.1% per annum on amount exceeding Rs. 1 billion of average daily net assets of the Fund.

13. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, 2008, an 'asset allocation scheme' is required to pay an amount equal to 0.095% of the average annual net assets of the Fund, as annual fee to the SECP.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

| | 2012 | 2011 |
|-------------------------------------|--------------------------|--------------|
| | --- (Rupees in '000) --- | |
| Auditors' remuneration payable | 335 | 335 |
| Professional charges payable | 210 | 120 |
| Credit rating fee payable | 110 | 100 |
| Provision for Workers' Welfare Fund | 627 | 627 |
| Others | 15 | - |
| | <u>988</u> | <u>1,560</u> |
| | <u>2,270</u> | <u>2,742</u> |

15. CONTINGENCIES AND COMMITMENTS

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 Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an adjudication.

Subsequent to the year ended June 30, 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 requesting the court to dismiss the petition. 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 Court.

During the year 2011, the Honourable High Court of Lahore vide their order in respect of writ petition no. 8763/2011 has declared amendments introduced through Finance Act 2006 and 2008 to the Workers' Welfare Ordinance, 1971 as unconstitutional. A writ petition in the High Court of Sindh at Karachi was filed to impugn the amendments made to the Workers' Welfare Ordinance, 1971 vide Finance Act 2008. The case is contested vigorously by certain mutual funds. Management expect that the constitutional petition pending in the Court on the subject will be decided in the favours of the Fund. Accordingly, the management has suspended further accrual of charge from July 1, 2010 amounting to Rs. 0.064 million and as a matter of abundant caution has not reversed earlier charge amounting to Rs. 0.627 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

16. NUMBER OF UNITS IN ISSUE

| | 2012 | 2011 |
|---|-------------------|------------------|
| | ----- Units ----- | |
| Units in issue at beginning of the year | 9,397,631 | 10,727,020 |
| Sales during the year | 222,246 | 36,811 |
| Bonus units issued | - | 88,062 |
| Redemption during the year | (256,725) | (1,454,262) |
| Total units in issue at the end of the year | <u>9,363,152</u> | <u>9,397,631</u> |

Face value of the unit is Rs. 50 each.

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

| | | 2012 | 2011 | 2012 | 2011 |
|----------------|------|-------------------|------------------|------------------------------|----------------|
| | | ----- Units ----- | | ----- (Rupees in '000) ----- | |
| Type 'A' Units | 16.1 | 2,147,708 | 2,182,187 | 83,686 | 83,076 |
| Type 'B' Units | 16.2 | 7,215,444 | 7,215,444 | 281,151 | 274,691 |
| | | <u>9,363,152</u> | <u>9,397,631</u> | <u>364,837</u> | <u>357,767</u> |

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

16.2 Type 'B' units are meant for the core investors. (Refer note 11.3)

17. REVERSAL OF PROVISION AGAINST NON-PERFORMING PLACEMENTS

On August 26, 2008, the Fund had invested an amount of Rs. 50 million in letter of placement with Saudi Pak Leasing Company Limited (SPLCL) out of which Rs. 19 million has been paid by the borrower on various dates. Owing to continuous default in repayment of remaining principal by SPLCL, the Fund has recognized full provision against the outstanding principal amounting to Rs. 31 million in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. On December 28, 2011, the Fund has entered into settlement agreement with SPLCL. As per the settlement agreement, the SPLCL will discharge its liability to the extent of Rs. 127.536 million representing the settlement towards amount due to the Fund and KASB Income Opportunity Fund (connected person). The said discharge will be made by transferring shares of Silk Bank Limited, NIB Bank Limited and SME Leasing Limited from SPLCL to the Fund, down payment of Rs. 3.085 million in cash and the remaining balance will be paid at monthly instalment of Rs. 1 million and Rs. 0.750 million respectively commencing from January 2012. SPLCL has been making payments in accordance with the restructured agreement and so far the Fund has received payments amounting to Rs. 3,642 million in cash and Rs. 6.15 million in form of equity shares of aforesaid entities. Consequently, the Fund has recognised reversal of earlier provision to the extent of Rs. 9.792 million in these financial statements.

18. AUDITORS' REMUNERATION

| | 2012 | 2011 |
|-----------------------------------|------------------------------|------------|
| | ----- (Rupees in '000) ----- | |
| Audit fee | 275 | 275 |
| Half yearly review | 80 | 75 |
| Other certifications and services | 60 | 60 |
| Out of pocket expense | 44 | 39 |
| | <u>459</u> | <u>449</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

19. EARNINGS PER UNIT

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

20. 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 NBFC Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The Fund is also exempt from the provisions of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Since the management intends to distribute the income earned by the Fund during the year to unit holders in the manner explained above, consequently, no provision for taxation has been made in these financial statements.

21. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Related parties / connected persons 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 Invest (Private) Limited, KASB Finance (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 being the Trustee of the Fund, other Funds managed by the Management Company (including KASB Stock Market Fund, KASB Income Opportunity Fund, KASB Islamic Income Opportunity Fund, KASB Cash Fund, Crosby Dragon Fund, Crosby Phoenix Fund and AMZ Plus Income Fund) and directors, key management personnel and officers of the Management Company.

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

21.1 Transactions with related parties / connected persons during the year:

| | 2012 | 2011 |
|---|------------------------------|-------|
| | (Rupees in '000) | |
| KASB Funds Limited | | |
| Remuneration expense | 10,297 | 8,292 |
| KASB Bank Limited | | |
| Bank charges | 9 | 4 |
| Profit accrued on bank deposits | 12,235 | 7,200 |
| Additional units: 35,514 units (2011: 24,931 units) | 1,299 | 1,030 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

| KASB Securities Limited | | 2012 | 2011 |
|--|------|-----------------------------|----------------|
| | | ----- (Rupees in '000)----- | |
| Brokerage expense | 21.3 | <u>118</u> | <u>542</u> |
| KASB Islamic Income Opportunity Fund | | | |
| Purchase of sukuk certificates: 7,678 units (2011: Nil units) | | <u>27,530</u> | <u>-</u> |
| Central Depository Company of Pakistan Limited - Trustee | | | |
| Remuneration | 12.1 | <u>700</u> | <u>829</u> |
| CDS charges | | <u>40</u> | <u>78</u> |
| 21.2 Balances with related parties / connected persons at year end: | | 2012 | 2011 |
| | | ----- (Rupees in '000)----- | |
| KASB Funds Limited | | | |
| Payable to the Management Company | 11 | <u>969</u> | <u>32</u> |
| KASB Bank Limited | | | |
| Bank balance | | <u>115,743</u> | <u>67,119</u> |
| Profit receivable on bank deposits | 21.4 | <u>1,525</u> | <u>818</u> |
| Units held: 6,473,552 units (2011: 6,438,038 units) | | <u>252,274</u> | <u>245,096</u> |
| KASB Securities Limited | | | |
| Brokerage payable | 21.3 | <u>27</u> | <u>78</u> |
| Central Depository Company of Pakistan Limited - Trustee | | | |
| Payable to the Trustee | 12 | <u>63</u> | <u>65</u> |
| Security deposit | | <u>100</u> | <u>100</u> |

21.3 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.

21.4 The rate of return on this deposit is 10.5% per annum (2011: 12.0% per annum).

22. FINANCIAL 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 the Board of Directors.

The Fund primarily invests in fixed income instrument, money, stock and debt market instruments and government securities with an objective of optimizing the return to unit holders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

22.1 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 prices, such as interest rates, equity prices and foreign exchange rate. The objective of market risk management is to manage market risk exposure within acceptable parameters, while optimising the return.

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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds fixed and floating rate debt securities that expose the fund to cash flow and fair value interest rate risk due to fluctuations in prevailing levels of market interest rates.

As at June 30, 2012 the investment in debt securities exposed to interest rate risk is detailed in Note 7.2, 7.3 and 7.4 to these financial statements.

a) Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in KIBOR on June 30, 2012 with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 0.054 million (2011: Rs. 0.01 million). The fluctuation in interest of 100 basis points is reasonably possible in current economic environment.

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, 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

b) Sensitivity analysis for fixed rate instruments

In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan on June 30, 2012, with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.014 million (2011: Rs. Nil). The fluctuation in interest of 100 basis points is reasonably possible in current economic environment.

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2012 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Investments in placements and certificates of investment are carried at amortised cost and not exposed the Fund to interest rate risk.

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the parameters provided in its constitutive documents and circular issued by the SECP. The Fund manages the risk by limiting exposure to any single investee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

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 June 30, 2012 is presented in Note 7.1 to these financial statements.

In case of 5% increase / decrease in prices of equity securities quoted at Karachi Stock Exchange Limited, the net income for the year, other comprehensive income and net assets attributable to unit holders would have been higher / lower by Rs. 10.577 million (2011: Rs. 12.478 million).

The composition of the Fund's investment portfolio is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2012 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 Limited.

22.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in financial loss to the Fund. It principally arises from balances with banks, receivable from sale of investment, dividend and profit receivables and deposits with central clearing companies.

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. However, for testing an investment for impairment the management does not consider the value of collaterals or other credit enhancements and follow the guidelines provided by the SECP in terms of Circular 1 of 2009 and other clarification circulars issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. 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.

Exposure to credit risk

The Fund's maximum credit exposure, without taking into account collateral and other credit enhancement, of the balance sheet date is represented by the respective carrying amount of relevant financial asset i.e. balances with bank, deposits with central clearing companies, placements, certificates of investments and dividend and profit receivable in Statement of Assets and Liabilities. The credit exposure arises from investment in debt securities is detailed in note 7.2, 7.3 and 7.4 to these financial statements.

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. 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.

Balances with bank

As at June 30, 2012 the Fund kept surplus liquidity with bank having credit rating of BBB. The rating to respective bank is assigned by reputable credit rating agencies. The rating of the banks is monitored by the Fund Manager and Investment Committee.

Investment in fixed income securities

Investment in treasury bills does not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan and the management does not expect to incur any credit loss on such investments.

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 a provision is recognised as per the criteria specified in accordance with provisioning policy of the Fund approved by Board of Directors of the

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

Management Company. The management does not take into account the collateral value while considering investment for impairment testing. Hence the collateral held is assumed to have zero financial effect in mitigating credit risk. The management regards the credit worthiness of the borrower more important than the value of collateral and would be used as force majeure in extremely difficult situation where recovery is appeared to be unlikely from customary measures like restructuring or negotiations.

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

| | 2012 | 2011 |
|----------------|--------|-------|
| AA- | - | 9.27 |
| Non-performing | 100.00 | 90.73 |

Deposits and prepayments

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties.

Past due and impaired assets

None of the above financial assets were considered to be past due or impaired in 2012 and 2011 except for the exposures and the provisions there against as provided in note 7.6. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment and follows the circulars issued by the SECP for the purpose of making provision against non performing exposures and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

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.

22.3 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 SECP. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represent the continuous obligation of the Fund for redemption by its holders.

Management of liquidity risk

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. For the purpose of making redemptions, the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to 15% of the net assets up to 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

The Board of Directors of the Management Company is empowered to impose a redemption gate should redemption level exceed 10% of the net assets value of the Fund in any redemption period. The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis. The aim of the monitoring is to ascertain the amount available for investment and also ensure sufficient liquidity is maintained to meet redemption requests by analysing the historical redemption requests received by the Management Company.

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

| | June 30, 2012 | | | 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 | 29,611 | - | - | 29,611 |
| Payable to KASB Funds Limited - Management Company | 969 | - | - | 969 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 63 | - | - | 63 |
| Accrued expenses and other liabilities | 1,643 | - | - | 1,643 |
| | 32,286 | - | - | 32,286 |
| | June 30, 2011 | | | |
| | Up to three months | More than three months and upto one year | More than one year | Total |
| | (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 |

22.4 Unit Holders' Funds risk management

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations 2008, to maintain minimum fund size to Rs. 100 million by July 1, 2012. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holder's funds are to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption. In accordance with the risk management policies, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

23. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

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, 2012 | Level 1 | Level 3 |
|---|------------------|---------|
| | (Rupees in '000) | |
| 'At fair value through profit or loss' | | |
| <i>Held for trading</i> | | |
| - Quoted equity securities | 214,389 | - |
| 'Available for sale' | | |
| - Fixed income and other debt securities | - | 29,999 |
| June 30, 2011 | Level 1 | Level 3 |
| | (Rupees in '000) | |
| '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 |

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.

24. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved a final dividend distribution of Rs. 0.035 per unit for the year ended June 30, 2012 amounting to Rs. 0.328 million in total in their meeting held on July 5, 2012. The financial statements for the year ended June 30, 2012 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

25. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers / dealers by percentage of commission paid, meetings of the Board of Directors of the Management Company and details of members of the Investment Committee are as follows:

25.1 Pattern of unitholding

| Category | No. of unit holders | | Investment amount | | Percentage of total investment | |
|--------------------------------|---------------------|-----------|--------------------------|----------------|--------------------------------|---------------|
| | 2012 (Numbers) | 2011 | 2012 (Rupees in '000) | 2011 | 2012 (%) | 2011 |
| Individuals | 7 | 7 | 6,864 | 4,525 | 1.88 | 1.26 |
| Associated companies | 1 | 1 | 252,243 | 245,096 | 69.14 | 68.51 |
| Banks / Financial Institutions | 1 | 2 | 87,270 | 86,971 | 23.92 | 24.31 |
| Retirement Funds | - | 1 | - | 3,141 | - | 0.88 |
| Others | 1 | 1 | 18,460 | 18,034 | 5.06 | 5.04 |
| | 10 | 12 | 364,837 | 357,767 | 100.00 | 100.00 |

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

| Broker Name | 2012 (Percentage) |
|---|-------------------------------|
| | Foundation Securities Limited |
| Pearl Securities Limited | 13.88 |
| Fortuna Securities Limited | 12.32 |
| KASB Securities Limited | 8.97 |
| Habib Metropolitan Finance Services Limited | 7.98 |
| Invest & Finance Securities Limited | 6.37 |
| Invisor Securities (Private) Limited | 6.04 |
| Arif Habib Limited | 5.82 |
| Al habib Capital Market (Private) Limited | 4.09 |
| Standard Capital Securities (Private) Limited | 3.58 |
| | 2011 (Percentage) |
| Next Capital Limited | 24.68 |
| KASB Securities Limited | 17.21 |
| Global Securities Pakistan Limited | 10.27 |
| Foundation Securities Limited | 9.85 |
| Fortuna Securities Limited | 9.80 |
| Elxir Securities Pakistan (Private) Limited | 7.20 |
| Taurus Securities 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, 2012

25.3 Meeting of Board of Directors of Management Company

| Name of the person | Designation | Meetings | | |
|--------------------------------|------------------------------|----------|----------|---------------|
| | | Total | Attended | Leave granted |
| Mr. Robert John Richard Owen | Chairman | 10 | 10 | - |
| Mr. Syed Muhammad Rehmanullah* | Director | 4 | 4 | - |
| Mr. Muzaffar Ali Shah Bukhari | Director | 10 | 7 | 3 |
| Mr. Qaisar P. Mufti | Director | 10 | 10 | - |
| Mr. Amer Maqbool | Chief Executive and Director | 10 | 10 | - |

*Mr. Syed Muhammad Rehmanullah was not re-elected on Board at elections held in October 2011.

Dates of the meetings of the Board of Directors

The 50th, 51st, 52nd, 53rd, 54th, 55th, 56th, 57th, 58th and 59th Board meetings were held on July 04, 2011, August 03, 2011, August 19, 2011, September 15, 2011, October 28, 2011, February 15, 2012, March 16, 2012, April 02, 2011, April 27, 2012 and May 18, 2012 respectively.

25.4 Details of Members of Investment Committee

| Name | Designation | Qualification | Experience (Years) |
|-------------------|--------------------------|---------------|--------------------|
| Amer Maqbool | Chief Executive Officer | MBA | 16 |
| Jamshed Khan | Chief Investment Officer | BSc (Hons.) | 14 |
| Hussain Khoja | Fund Manager | ACCA | 09 |
| Syed Adnan Abdali | Chief Financial Officer | ICMA | 08 |
| Shehzad Mubashir | Research Analyst | MBA | 05 |

25.4.1 Details of other funds managed by the Fund Manager

KASB Income Opportunity Fund & AMZ Plus Income Fund under the management of KASB Funds Limited.

26. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on _____ by the Board of Directors of the Management Company.