

# KASB CASH FUND

# Annual

## REPORT

for the Year Ended June 30, 2010

# Report

Managed by:



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## FUND INFORMATION

**Management Company**

KASB Funds Limited  
**Registered Office:**  
 9th Floor, Trade Centre, I. I. Chundrigar Road,  
 Karachi-74200, Pakistan

**Principal Office:**  
 11th 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  
 Ms. Naz Khan - Chief Executive  
 Mr. Syed Muhammad Rehmanullah  
 Mr. Muzaffar Ali Shah Bukhari  
 Mr. Masood Karim Sheikh

**Chief Financial Officer**

Mr. Muhammad Imran Khali

**Company Secretary**

Mr. Muhammad Imran Khali

**Audit Committee**

Mr. Masood Karim Sheikh - Chairman  
 Mr. Robert John Richard Owen  
 Mr. Syed Muhammad Rehmanullah

**Trustee**

MCB Financial Services Limited (Formerly: Muslim  
 Commercial Financial Services Limited),  
 3rd Floor, Adamjee House, I.I. Chundrigar Road,  
 Karachi.

**Fund Rating**

AA+ (f) by JCR-VIS  
 (Aug 2009)

**Bankers to the Fund**

Bank Alfalah Limited  
 Standard Chartered Bank (Pakistan) Limited

**Auditors**

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

**Legal Advisor**

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

**Registrar**

Noble Computer Services (Pvt.) Limited  
 Mezzanine Floor, House of Habib Building  
 (Siddiqsons Tower) 3-Jinnah Cooperative Housing Society,  
 Main Shakra-e-Faisal Karachi-75350

**Distributors**

KASB Funds Limited  
 KASB Bank Limited  
 KASB Securities Limited  
 IGI Investment Bank Limited  
 Atlas Capital Markets (Private) Limited  
 Standard Chartered Bank (Pakistan) Limited

**Management Company Rating**

Rated AM3+ by JCR-VIS  
 (May 2010)

## MISSION STATEMENT

KASB Cash Fund aims to generate reasonable returns consistent with low risk from a portfolio constituted of high quality short term instruments including cash deposits and government securities.

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the period from July 20, 2009 to June 30, 2010

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Cash Fund (KCF, the Fund), is pleased to present the first Annual Report, together with the audited financial statements of the Fund for the period from July 20, 2009 to June 30, 2010.

**Financial Highlights**

Net Income (Rs. in Million)	37.56
Net Assets as at June 30 (Rs. in Million)	551.39
NAV per Unit as on June 30 (Rs.)*	102.3398**
Annualised yield (%)	10.08

For the period from  
July 20, 2009 to  
June 30, 2010

\* Par value of each unit is Rs. 100.  
\*\* Ex-NAV after interim distributions.

**Economic Environment**

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD18.75bn), robust workers' remittances of over USD 9 billion in FY10 (14% YOY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy and water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity.

Interest rates in the economy continue to remain firm as the central bank strictly followed a tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

**Capital Market**

Lack of liquidity for corporate debt continues to prevail as does pricing volatility. A few instruments were restructured during the quarter as most of the companies that were having financial difficulties in a lean economic patch have managed to negotiate a restructuring with their investors. Market continues to be risk averse as investors find government papers yield attractive resulting in very few trades in TFCs/Sukuks. Assets under management of the industry declined by Rs 7 billion during the year and there was a shift from income to money market and government securities funds.

**Investment Strategy**

KCF aims to provide stable and consistent returns in the money market category. The fund's focus is primarily on high credit quality (mostly AAA) instruments. Any opportunity to earn higher returns through placements in AA and above rated entities is also availed. The overall asset allocation of the fund stood at 80% for T-bills, 18% for Placements and 2% for Cash / Cash equivalent at June end.

**Fund Performance**

The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 102.3398, thus, giving an annualised yield of 10.08% since inception. The net income for the period ended June 30, 2010 was Rs. 37.56 million. While the benchmark (20% daily saving account rate + 80% 3-Month deposit rate) of the fund posted an annualized return of 7.27%, the Fund recorded an annualized return of 10.08% since inception thereby outperforming its benchmark by 2.81% while the three months return for the benchmark and the fund was recorded at 7.17% and 10.74% respectively.

As the government was the major borrower in the market, yields on the govt. papers remained higher during the coming fiscal year FY10 as well. Going forward, due to higher inflation and weaker fiscal position the SBP is expected to maintain firm monetary policy. We therefore intend to maintain higher weights in short term government papers, while managing the risk for any upward movement in interest rates.

**Income Distribution**

The Board of Directors of KASB Funds Limited approved the final dividend distribution for the period ended June 30, 2010 of Rs. 2.25 per unit. This distribution is in addition to the interim dividend of Rs. 1.50, Rs. 2.75 and Rs. 2.00 per unit distributed in the month of October 2009, February 2010 and April 2010 respectively. Therefore, the total distribution for the period ended June 30, 2010 totals to Rs. 6.50 per unit, which is equivalent to 6.5% of the par value of Rs. 100.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the period ended June 30, 2010, 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**

KCF was publicly launched on August 11 and August 12, 2009 with a fund size of Rs. 399.25 million which increased by 38.11% to close at Rs. 551.39 million. During the period, units worth Rs. 1,518.36 million were issued and units with a value of Rs. 1,000.14 million were redeemed. As on June 30, 2010, the total number of outstanding units was 5,387,839 with a value of Rs. 551.39 million.

**Code of Corporate Governance**

The Board of Directors states that:

- The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- Proper books of accounts of the Fund have been maintained.

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

## DETAILS OF PATTERN OF HOLDING (UNITS)

For the period from July 20, 2009 to June 30, 2010

As at June 30, 2010

- c) Appropriate accounting policies have been adopted for preparation of financial statements of the Fund and accounting estimates are based on reasonable and prudent judgments.
- d) Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company;
- k) The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

**Meetings of the Directors**

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2010 is disclosed in note 21 of the financial statements.

The trades (if any) in the units of the Fund carried out by the Directors, CEO, Company Secretary & CFO, and their spouses and minor children, of the Management Company are as under:

S. No	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Ms. Naz Khan	Director & Chief Executive	6,873	Nil
2.	Mr. Muhammad Imran Khalil	CFO & Company Secretary	3,822	1,887

**Pattern of Holding**

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2010, banks and financial institutions held 35.76% of the total units; individuals held 26.05% units; retirement funds held 6.04% units and 32.15% units were held by insurance companies and other corporate sector entities. Detailed pattern is also annexed.

**Future Outlook**

The country remains on the path of economic stabilization with an improvement on a number of key economic indicators. Inflationary pressures in the economy continue to prevail constraining the central bank to use monetary policy to stimulate economic growth. Fiscal deficit continues to remain a concern with massive government borrowing crowding out the private sector. Impact of the vast devastation caused by the recent floods remains to be quantified and is likely to have a negative impact on the fiscal deficit as well as the economy for at least a couple of years. The trend of global commodity prices and external bi/multilateral inflows will remain critical for the direction of the country's economy.

**Auditors**

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadi & Co. – Chartered Accountants as auditors of KASB Cash Fund for the financial year ending June 30, 2011. 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, MCB Financial Services Limited (formerly, Muslim Commercial Financial Services Limited (the Trustee) for their confidence, continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

For and on behalf of the Board

August 27, 2010  
KarachiNaz Khan  
Chief Executive

	Units held	Units held (%)
<b>Associated companies</b>		
KASB Bank Limited	833,147	15.46
KASB Securities Limited	978,794	18.17
KASB Funds Limited	114,685	2.13
KASB Bank Limited Employees' Provident Fund	12,473	0.23
<b>Directors &amp; Chief Executive</b>		
<i>Chief Executive</i>		
Ms.Naz Khan	7,267	0.13
<b>Executives</b>	3,582	0.07
<b>Individuals</b>	1,392,952	25.85
<b>Retirement Funds</b>	312,971	5.81
<b>Insurance Companies</b>	48,950	0.91
<b>Other Corporate Sector Entities</b>	1,683,018	31.24
	<b>5,387,839</b>	<b>100.00</b>

## PERFORMANCE TABLE

	<b>2010*</b>
Total net asset value as at June 30 (Rs. '000)	551,391
Net asset value per unit as at June 30 (Rs.)	102.3398
Selling price for units as at June 30 (Rs.)	103.3735
Repurchase price for units as at June 30 (Rs.)	102.3398
Final dividend distribution per unit (Rs.)	2.25
Date of final distribution	July 3, 2010
1st Interim dividend distribution per unit (Rs.)	1.50
Date of 1st Interim distribution	October 23, 2009
2nd Interim dividend distribution per unit (Rs.)	2.75
Date of 2nd Interim distribution	February 12, 2010
3rd Interim dividend distribution per unit (Rs.)	2.00
Date of 3rd Interim distribution	April 22, 2010
Highest selling price per unit (Rs.)	104.2516
Lowest selling price per unit (Rs.)	100.0000
Highest repurchase price per unit (Rs.)	103.2091
Lowest repurchase price per unit (Rs.)	100.0161
Weighted average portfolio duration	65 days

Return since inception is 10.08%

\*Launch date of the Fund is August 12, 2009.

**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 MANAGER'S REPORT

**Type & Category of Fund**

Open - end Money Market

**Inception Date**

August 12, 2009

**Investment objective**

The Fund seeks to generate reasonable returns consistent with low risk from a portfolio constituted of high quality short term instruments including cash deposits and government securities.

**Accomplishment of objective**

The fund is achieving its objective of generating regular income by investing in low duration cash deposits and government securities within the guidelines provided under NBFC rules.

**Benchmark**

20% Avg. Daily Saving A/C Rates + 80% Avg. Of 3 Months Deposit Rate of AA & Above Rated Scheduled Bank.

	KCF Return (%)	Benchmark return (%)
Since inception	10.08	7.27
1 Year	N/A	N/A
Last 6 months	10.50	7.28
Last 3 months	10.74	7.17
For the month	10.36	7.42

**Strategies and policies employed during the period**

In the presence of risk aversion in the market and the government's dire need of borrowing to finance its fiscal deficit, yields on govt. papers remained high. The fund, therefore, kept majority of its assets in Treasury bills which provide higher returns and are risk free. The opportunity to earn higher returns through placements in AA and above rated entities was also availed. Going forward, due to higher inflation and weaker fiscal position the SBP is expected to maintain tight monetary policy. We, therefore, intend to maintain higher weights in short term government papers with higher yields and also capitalize on higher short term deposit rates offered by AA and above banks.

**Asset Allocation**

	June 30, 2010 (%)
Treasury bills	80.2
Placements	18.1
Cash & cash equivalents	1.7

**Significant changes in asset allocation during the period**

The fund maintained major proportion in T-bills and remaining amount in cash & placements in AA and above rated banks. 10. Fund Performance While the benchmark (20% daily saving account rate + 80% 3-Month deposit rate) of the fund posted an annualized return of 7.27%, the Fund recorded an annualized return of 10.08% since inception thereby outperforming its benchmark by 2.81% while the three months return for the benchmark and the fund was recorded at 7.17% and 10.74% respectively.

**Review of the market(s) invested in during the period**

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD16.76bn), robust workers' remittances of over USD 8 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy & water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity

## ANNUAL FUND MANAGER'S REPORT

Interest rates in the economy continue to remain firm as the central bank strictly follows tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

While the money market remained stable during FY10, there was volatility during the last quarter where overnight REPO rates fluctuated between both ends of the interest rate corridor. Market continues to be risk averse as investors find government papers yield attractive which is also causing higher yields in the money market. Yields on T-bills and PIBs were on a general rising trend especially during the last quarter due to relentless inflationary pressure in the economy. Subsequent to year end, the SBP raised discount rate by 50bps to 13%.

**Fund performance by market(s) and by instruments**

For details, please refer to the full yearly accounts.

**Distribution**

The fund distributed Rs 8.50 during FY10, in the form of Rs 1.50 per unit as 1st interim distribution, Rs 2.75 per unit as 2nd interim distribution, Rs 2.00 per unit as 3rd interim distribution and Rs 2.25 were distributed as a final dividend on June 30, 2010.

Date of Distribution	Amount of Distribution (PKR)	NAV (PKR)	Ex-NAV of Fund (PKR)
October 23, 2009	1.50	101.6886	100.1886
February 12, 2010	2.75	103.2091	100.4591
April 22, 2010	2.00	102.3568	100.3568
July 03, 2010	2.25	102.3398	100.0898

**Significant changes in the state of affairs**

No significant change in affairs was witnessed.

**Breakdown of unit holdings by size**

Breakdown of unit holdings by size is same as in the director's report.

**Unit Splits**

There were no unit splits during the period.

**Circumstances materially affecting the interests of the unit holders**

No material impact on unit holder's interest

**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.

## REPORT OF THE TRUSTEE TO THE UNIT HOLDERS OF KASB CASH FUND

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

The KASB Cash Fund, (the Fund), an open-end fund was established under a Trust Deed dated June 8, 2009, executed between KASB Funds Limited, as the Management Company and MCB Financial Services Limited (Formerly: Muslim Commercial Financial Services Limited), as the Trustee. The scheme was authorised by Securities and Exchange Commission of Pakistan (Commission) on June 03, 2009.

KASB Funds Limited, the Management Company of KASB Cash Fund, has in all material respects, managed KASB Cash Fund during the period from July 20, 2009 to June 30, 2010 in accordance with the provisions of the following:

- i) Limitations imposed on the investment powers of the Management Company under the Constitutive Documents;
- ii) The valuation and pricing units are carried out in accordance with the requirements of the Trust Deed and the Offering Document;
- iii) The creation and cancellation of Units are carried out in accordance with the requirements of the Trust Deed and the Offering Document;
- iv) The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008; and the constitutive documents.

**Khawaja Anwar Hussain**

Chief Executive Officer  
MCB Financial Services Limited  
(formerly: Muslim Commercial Financial Services Limited)

Karachi: August 20, 2010

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the period from July 20, 2009 to June 30, 2010

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 35 of the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited ("KSE" or "the Stock Exchange"). The purpose of the Code is to establish a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. KASB Funds Limited ("the Company" or "the Management Company"), which is an Unlisted Public Limited Company, is the Management Company of KASB Cash Fund ("the Fund"). The Fund being an open-end scheme doesn't have its own Board of Directors ("the Board"). The Management Company, which manages the affairs of the Fund, has applied the principles contained in the Code to the Fund, whose Units are listed on the Stock Exchange, in the following manner:

- The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors and none of the directors represent minority shareholders.
- The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including the Management Company.
- All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- On February 12, 2010, Mr. Amir Zahoor Khan resigned from the Board of the Management Company. Mr. Muzaffar Ali Shah Bukhari was appointed in his place to duly fill the vacancy. Further, on February 19, 2010 Mr. Farid Arshad Masood resigned from the Board of the Management Company and the Board appointed Mr. Masood Karim Sheikh in his place. However, application for appointment of Mr. Masood Karim Sheikh as Director on Board of the Management Company has been filed with the Securities and Exchange Commission of Pakistan and is currently under process.
- The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Management Company.
- The Board has developed a vision/mission statement and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
- The meetings of the Board were presided over by the Chairman of the Board. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
- During the year, there was a change of the Company Secretary and the Internal Auditors; however, there was no change of Chief Financial Officer.
- The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
- The directors, CEO and executives do not hold any interest in the Units of the Fund other than that disclosed in the pattern of unit-holding.
- The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
- The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
- The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for compliance.
- The Management Company had outsourced the internal audit function to a firm of Chartered Accountants (Ernst and Young Ford Rhodes Sidat Hyder & Co.) up to March 31, 2010. However, since Ernst and Young Ford Rhodes Sidat Hyder & Co. have been appointed as the Statutory Auditors of the Management Company for the year ending December 31, 2010, the Board Audit Committee has appointed Ms. Saman Hasan Qadri as the Internal Auditor of the Management Company. The said person is conversant with the policies and procedures of the Company and involved in the Internal Audit function on a full time basis.
- The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
- 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.
- The related party transactions have been placed before the Audit Committee and approved by the Board with necessary justification for non arm's length transactions (if any) and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
- We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 27, 2010  
KarachiNaz Khan  
Chief Executive

## REVIEW REPORT TO THE UNIT HOLDERS OF KASB CASH FUND "THE FUND" ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KASB Funds Limited, "the Management Company" of the Fund to comply with the Listing Regulations of Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. 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 Management Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Management Company to comply with the Code.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2010.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Moneeza Usman Butt

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **KASB Cash Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, cash flow statement, distribution statement, statement of movement in Unit Holders' Funds for the period from 20 July 2009 to 30 June 2010 and a summary of significant accounting policies and other explanatory notes.

*Management's responsibility for the financial statements*

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 2010, and of its financial performance, cash flows and transactions for the period from 20 July 2009 to 30 June 2010 in accordance with approved accounting standards as applicable in Pakistan.

*Other matters*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Moneeza Usman Butt

## STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2010

	<i>Note</i>	2010 (Rupees in '000)
<b>ASSETS</b>		
Bank balances	4	116,911
Investments	5	442,348
Income receivable	6	207
Prepayments and other receivables	7	1,434
Preliminary expenses and floatation costs	8	2,857
<b>Total assets</b>		<b>563,757</b>
<b>LIABILITIES</b>		
Payable on redemption of units		10,212
Payable to KASB Funds Limited - Management Company	9	398
Payable to MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited) - Trustee	10	91
Payable to The Securities and Exchange Commission of Pakistan	11	270
Accrued expenses and other liabilities	12	1,395
<b>Total liabilities</b>		<b>12,366</b>
<b>Net assets</b>		<b>551,391</b>
<b>Unit holders' funds</b>		<b>551,391</b>
<b>Number of units in issue</b>		<b>5,387,839</b>
<b>Net asset value per unit</b>		<b>102.3398</b>

The annexed notes 1 to 25 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director



## INCOME STATEMENT

For the period from July 20, 2009 to June 30, 2010

	Note	For the period from July 20, 2009 to June 30, 2010 (Rupees in '000)
<b>Income</b>		
Income from government securities		21,455
Income from placements		1,808
Income from term deposit receipts		2,667
Profit on bank deposits		15,794
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	5.3	(105)
Capital loss on sale of investments		(161)
<b>Total income</b>		<u>41,458</u>
<b>Expenses</b>		
Remuneration of KASB Funds Limited - Management Company	9.1	3,283
Remuneration of MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited) - Trustee	10.1	735
Annual fee - The Securities and Exchange Commission of Pakistan	11.1	270
Transaction costs on securities		82
Settlement and bank charges		25
Legal and professional charges		275
Fees and subscription		230
Auditors' remuneration	13	408
Amortisation of preliminary expenses and floatation costs		612
Provision for Workers' Welfare Fund	14	752
Printing and other expenses		121
<b>Total expenses</b>		<u>6,793</u>
		<u>34,665</u>
Net realised element of income and capital gains included in prices of units issued less those in units redeemed		2,890
<b>Net income for the period</b>		<u><u>37,555</u></u>
<b>Earnings per unit</b>	15	

The annexed notes 1 to 25 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## STATEMENT OF COMPREHENSIVE INCOME

For the period from July 20, 2009 to June 30, 2010

	For the period from July 20, 2009 to June 30, 2010 (Rupees in '000)
Net income for the period	37,555
<b>Other comprehensive income:</b>	
Net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / diminution	1
<b>Total comprehensive income for the period</b>	<u><u>37,556</u></u>

The annexed notes 1 to 25 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## DISTRIBUTION STATEMENT

For the period from July 20, 2009 to June 30, 2010

	For the period from July 20, 2009 to June 30, 2010 (Rupees in '000)
Net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / diminution	1
Net income for the period	37,555
1st interim distribution @ Rs. 1.5 per unit as on October 23, 2009	(6,058)
2nd interim distribution @ Rs. 2.75 per unit as on February 12, 2010	(9,439)
3rd interim distribution @ Rs. 2 per unit as on April 22, 2010	(9,640)
	<u>12,419</u>
Undistributed income carried forward	<u>12,419</u>
Undistributed income carried forward	
- Realised gains	12,524
- Unrealised losses	(105)
	<u>12,419</u>

The annexed notes 1 to 25 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the period from July 20, 2009 to June 30, 2010

	For the period from July 20, 2009 to June 30, 2010 (Rupees in '000)
Net assets at the beginning of the period	-
Issue of 15,031,383 units for the period from July 20, 2009 to June 30, 2010	1,518,362
Issue of 233,641 bonus units for the period from July 20, 2009 to June 30, 2010	23,449
Redemption of 9,877,186 units for the period from July 20, 2009 to June 30, 2010	(1,000,136)
	<u>541,675</u>
Element of income and capital gains included in prices of units issued less those in units redeemed:	
- amount representing accrued income and realised capital gains-transferred to the Income Statement	(2,890)
- amount representing unrealised appreciation in fair value of investments-reported in Other Comprehensive Income	(1)
	<u>(2,891)</u>
Distribution during the period:	
- Issue of bonus units	(23,449)
- Dividend	(1,500)
	<u>(24,949)</u>
Capital loss on sale of investments	(161)
Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	(105)
Other net income for the period	37,821
Net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation in fair value of investments	1
Net income (including net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / diminution)	37,556
Net assets at the end of the period	<u>551,391</u>
	<u>(Rupees)</u>
Net asset value per unit as at beginning of the period	<u>100.0000</u>
Net asset value per unit as at end of the period	<u>102.3398</u>

The annexed notes 1 to 25 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

*Amendments to IFRIC 14: Prepayment of a Minimum Funding Requirement (effective for period beginning on or after July 01, 2011). IFRIC 14, IAS 19 –The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.*

The International Accounting Standards Board made certain amendments to existing standards as part of its second and third annual improvements project. The effective dates for these amendments vary by standards.

**2.3 Basis of measurement**

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

**2.4 Functional and presentation currency**

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

**2.5 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

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

*Investments stated at fair value*

The management company has determined fair value of certain investments by using quotations obtained from the PKRV sheet on the Reuters page. 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 the assets balances.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been applied in the preparation of these financial statements. During the year, IAS 1 (revised) has become effective. The revised standard introduces the statement of comprehensive income, which may be presented as one statement (i.e. the statement of comprehensive income) or two separate statements (i.e. income statement and statement of comprehensive income). The Fund has elected to present two statements.

**3.1 Financial instruments**

The Fund classifies its financial instruments in the following categories:

*a) Financial instruments as '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.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held-for-trading or a derivative.

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

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

*b) Available-for-sale*

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

*c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

*d) Financial liabilities*

Financial liabilities, other than those as '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 instrument.

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 as 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs on financial instrument 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 as '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.

**Fair value measurement principles**

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

**Securities under repurchase / resale agreements**

Transactions of purchase under resale (reverse-repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

**Impairment**

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

The subsequent decrease in impairment loss is recognised in Income Statement.

**Derecognition**

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

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

**Offsetting of financial instruments**

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

**3.2 Unit Holders' Funds**

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

**3.3 Issue and redemption of units**

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

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

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

**3.5 Provisions**

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

**3.6 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 of the IPO period as per the Trust Deed of the Fund.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

**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.

**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 the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Funds' unit holders.

**Deferred**

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

However, the Fund intends to avail the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no deferred tax asset or liability or current tax has been recognised in these financial statements.

**3.9 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the Income Statement in the period in which they arise.
- Income on government securities is recognised on an accrual basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

**3.10 Expenses**

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

**3.11 Cash and cash equivalents**

Cash and cash equivalents comprise of deposit 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 BANK BALANCES**

	2010 (Rupees in '000)	
In deposit accounts	4.1	16,911
In term deposit accounts	4.2	100,000
		<u>116,911</u>

4.1 These deposit accounts carry profit at the rate of 5% to 10.5% per annum.

4.2 This term deposit receipt carries profit at the rate of 12.5% per annum maturing on August 10, 2010.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

5. INVESTMENTS 2010  
(Rupees in '000)

At fair value through profit or loss  
- Fixed income and other debt securities

5.2 442,348

5.1 The cost of the above investments as at June 30, 2010 amounted to Rs. 442.453 million.

5.2 Fixed income and other debt securities -'at fair value through profit or loss'- designated on initial recognition - Government Securities

Issue date	Profit/ mark-up rate %	-----Number of certificates-----				As at June 30, 2010	Market value as at June 30, 2010
		As at July 20, 2009	Purchases during the period	Sales during the period	Maturities during the period		
(Rupees in '000)							
<b>Treasury bills</b>							
<b>1 Year</b>							
February 26, 2009	-	-	2,000	-	2,000	-	-
March 12, 2009	-	-	1,000	-	1,000	-	-
March 26, 2009	-	-	1,000	-	1,000	-	-
April 9, 2009	-	-	500	-	500	-	-
April 23, 2009	-	-	900	-	900	-	-
June 18, 2009	-	-	250	250	-	-	-
<b>6 Months</b>							
September 10, 2009	-	-	2,000	-	2,000	-	-
December 3, 2009	-	-	700	-	700	-	-
April 8, 2010	12.24	-	500	-	-	500	46,422
April 22, 2010	12.26	-	700	-	-	700	67,482
May 20, 2010	12.08	-	1,150	1,050	-	100	9,553
June 3, 2010	12.17	-	280	-	-	280	26,627
June 17, 2010	12.28	-	750	-	-	750	70,999
						<u>2,330</u>	<u>223,083</u>
<b>3 Months</b>							
February 25, 2010	-	-	1,740	-	1,740	-	-
March 11, 2010	-	-	750	500	250	-	-
March 25, 2010	-	-	2,200	-	2,200	-	-
April 8, 2010	12.08	-	500	-	-	500	49,984
April 22, 2010	12.15	-	1,800	-	-	1,800	144,848
May 20, 2010	-	-	850	850	-	-	-
June 3, 2010	-	-	500	500	-	-	-
June 17, 2010	12.06	-	250	-	-	250	24,433
						<u>2,550</u>	<u>219,265</u>
						<u>4,880</u>	<u>442,348</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

5.3 Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' For the period  
from July 20,  
2009 to June 30,  
2010  
(Rupees in '000)

Fair value of investments	442,348
Less: Cost of investments	<u>(42,453)</u>
	<u>(105)</u>

5.4 Fixed income and other debt securities - 'available for sale' - Government Securities

Issue date	Profit/ mark-up rate %	-----Number of certificates-----				As at June 30, 2010	Market value as at June 30, 2010
		As at July 20, 2009	Purchases during the period	Sales during the period	Maturities during the period		
(Rupees in '000)							
<b>Treasury bills</b>							
<b>6 Months</b>							
April 23, 2009	-	-	2,250	-	2,250	-	-
May 7, 2009	-	-	2,050	-	2,050	-	-
<b>3 Months</b>							
September 10, 2009	-	-	2,000	-	2,000	-	-
<b>2010</b>							
<b>(Rupees in '000)</b>							
<b>6. INCOME RECEIVABLE</b>							
Income accrued on term deposit receipts							103
Income accrued on bank deposits							<u>104</u>
							<u>207</u>
<b>7. PREPAYMENTS AND OTHER RECEIVABLES</b>							
Receivable from KASB Islamic Income Fund							720
Receivable from KASB Liquid Fund							44
Prepaid brokerage							6
Others							<u>664</u>
							<u>1,434</u>
<b>8. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>							
Preliminary expenses and floatation costs							3,469
Less: Amortisation during the period							<u>(612)</u>
Balance as at June 30							<u>2,857</u>
<b>9. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY</b>							
Management fee payable							9.1 378
Sales loan payable							<u>20</u>
							<u>398</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

9.1 Under the provisions of Non Banking Finance Companies and Notified Entities 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. The Management Company has charged its remuneration at the rate of 1.25 percent per annum and 0.80 percent per annum of the average annual net assets of the Fund for the period from July 20, 2009 to April 5, 2010 and April 6, 2010 to June 30, 2010 respectively.

10. **PAYABLE TO MCB FINANCIAL SERVICES LIMITED (FORMERLY: MUSLIM COMMERCIAL FINANCIAL SERVICES LIMITED) - TRUSTEE** 2010  
(Rupees in '000)

Trustee fee	10.1	91
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10.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed at the higher of Rs. 0.7 million or 0.2 % per annum on amount upto Rs.1.0 billion of average daily net assets of the Fund and Rs. 2.0 million plus 0.1 % per annum on amount exceeding Rs. 1.0 billion of average daily net assets of the Fund.

11. **PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN** 11.1 270

11.1 As per Schedule II of the NBFC Regulations 2008, a money market fund is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Scheme.

12. **ACCRUED EXPENSES AND OTHER LIABILITIES**

Auditors' remuneration	303	
Credit rating fee payable	200	
Brokerage payable	31	
Others	861	
		1,395

13. **AUDITORS' REMUNERATION**

Audit fee	13.1	316
Other certifications and services		68
Out of pocket expense		24
		408

13.1 Audit fee includes services for audit of annual financial statements and limited review of condensed interim financial information.

14. **PROVISION FOR WORKERS' WELFARE FUND**

In pursuance of the order passed by the Honorable High Court of Sind against the constitutional petition filed by Mutual Funds Association of Pakistan (MUFAP), the Management Company recorded provision for WWF for the year ended June 30, 2010 amounting to Rs. 0.752 million in these financial statements. However, subsequent to the period end, Ministry of Labor has issued certain clarifications regarding applicability of WWF on mutual funds and the matter is currently under review and discussion.

15. **EARNINGS PER UNIT**

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

16. **TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company, KASB Securities Limited, KASB Modaraba and New Horizon Exploration and Production Limited being the companies under common management, MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited) being the Trustee, other Funds managed by the management company (including KASB Stock Market Fund, KASB Balanced Fund, KASB Islamic Income Fund, KASB Liquid Fund and KASB Capital Protected Gold Fund) and directors, key management personnel and officers of the Management Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

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

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

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

16.1 **Transactions**

**KASB Funds Limited**

		From July 20, 2009 to June 30, 2010 (Rupees in '000)
Remuneration		3,283
Sales load		448
Investment in the Fund: 614,685 units for the period from July 20, 2009 to June 30, 2010		61,737
Redemption from the Fund: 519,503 units for the period from July 20, 2009 to June 30, 2010		52,737
Bonus units: 33,190 units for the period from July 20, 2009 to June 30, 2010		3,332
Transfer in the Fund: 1,000,000 units for the period from July 20, 2009 to June 30, 2010		100,362
Transfer out of the Fund: 500,000 units for the period from July 20, 2009 to June 30, 2010		50,096
Units pledged with KASB Bank Limited: 500,000 units for the period from July 20, 2009 to June 30, 2010		50,373

**KASB Funds Limited Employees' Provident Fund**

Investment in the Fund: 24,761 units for the period from July 20, 2009 to June 30, 2010		2,527
Redemption from the Fund: 12,473 units for the period from July 20, 2009 to June 30, 2010		1,277
Bonus units: 186 units for the period from July 20, 2009 to June 30, 2010		19

**KASB Bank Limited**

Investment in the Fund: 787,190 units for the period from July 20, 2009 to June 30, 2010		78,961
Redemption from the Fund: 500,000 units for the period from July 20, 2009 to June 30, 2010		50,200
Conversion in the Fund: 500,000 units for the period from July 20, 2009 to June 30, 2010		50,000
Transfer in the Fund: 500,000 units for the period from July 20, 2009 to June 30, 2010		50,096
Transfer out of the Fund: 1,000,000 units for the period from July 20, 2009 to June 30, 2010		100,362
Dividend paid		1,500

**KASB Securities Limited**

Brokerage		52
Investment in the Fund: 1,471,339 units for the period from July 20, 2009 to June 30, 2010	16.3	150,000
Redemption from the Fund: 512,043 units for the period from July 20, 2009 to June 30, 2010		51,960
Bonus units: 19,498 units for the period from July 20, 2009 to June 30, 2010		1,957

**MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited) - Trustee**

Remuneration		735
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## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

	From July 20, 2009 to June 30, 2010 (Rupees in '000)
<b>Directors and Officers of the Management Company</b>	
Investment in the Fund: 70,262 units for the period from July 20, 2009 to June 30, 2010	7,124
Redemption from the Fund: 306,234 units for the period from July 20, 2009 to June 30, 2010	<u>31,020</u>
Bonus units: 1,363 units for the period from July 20, 2009 to June 30, 2010	<u>137</u>
Conversion in the Fund: 301,866 units for the period from July 20, 2009 to June 30, 2010	<u>30,289</u>
Conversion out of the Fund: 38,116 units for the period from July 20, 2009 to June 30, 2010	<u>3,826</u>
Transfer in the Fund: 98 units for the period from July 20, 2009 to June 30, 2010	<u>10</u>
<b>16.2 Balances</b>	<b>2010</b>
	<b>(Rupees in '000)</b>
<b>KASB Funds Limited</b>	
Receivable from the Management Company	<u>664</u>
Payable to the Management Company	<u>398</u>
Units held: 628,373 units	<u>64,308</u>
<b>KASB Funds Limited Employees' Provident Fund</b>	
Units held: 12,473 units	<u>1,277</u>
<b>KASB Bank Limited</b>	
Units held: 287,190 units	<u>29,391</u>
<b>KASB Securities Limited</b>	
Brokerage payable	<u>9</u>
Units held: 978,794 units	<u>100,170</u>
<b>MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited) - Trustee</b>	
Payable to the Trustee	<u>91</u>
<b>KASB Islamic Income Fund</b>	
Receivable from KASB Islamic Income Fund	<u>720</u>
<b>KASB Liquid Fund</b>	
Receivable from KASB Liquid Fund	<u>44</u>
<b>Directors and Officers of the Management Company</b>	
Units held: 29,239 units	<u>2,992</u>
<b>16.3</b>	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.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

- 17. RISK MANAGEMENT**
- The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by investment committee under policies approved by Board of Directors.
- The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.
- The Fund's activities expose it to a variety of financial risks such as:
- Market risk;
  - Credit risk; and
  - Liquidity risk.
- Market risk**
- Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.
- The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP).
- Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.
- Currency risk**
- Currency risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.
- Interest rate risk**
- Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and future cash flows.
- The Fund is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. The Fund holds investment in government securities carrying fixed interest rates that expose the Fund to fair value interest rate risk.
- As at June 30, 2010 the investment in securities exposed to interest rate risk is detailed in note 5.2 to the financial statements
- Sensitivity analysis for fixed rate instruments**
- In case 100 basis points increase in rates notified by Financial Market Association on June 30, 2010 with all other variables held constant, the net income for the period and net assets would be lower by Rs. 0.83 million. In case of 100 basis points decrease in rates notified by Financial Market Association on June 30, 2010 with all other variables held constant, the net income for the period and net assets would be higher by Rs. 0.83 million.
- The composition of the Fund's investment portfolio and rates announced by Financial Market Association is expected to change overtime. Accordingly, the sensitivity prepared as of June 30, 2010 is not necessarily indicative of the impact on Fund's net assets of future movement in interest rates.
- Yield / interest rate sensitivity position for financial instruments reported on Statement of Assets and Liabilities is based on the earlier of contractual repricing or maturity date.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

The Fund's market rate of return sensitivity related to financial assets and financial liabilities can be determined from the following:

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	June 30, 2010				Total
		Exposed to MROR Risk			Not exposed to MROR Risk	
		Up to three months	More than three months and up to one year	More than one year		
(Rupees in '000)						
<b>Financial assets</b>						
Bank balances	5 - 12.5	116,911	-	-	-	116,911
Investments	12.06 - 12.28	219,265	223,083	-	-	442,348
Income receivable		-	-	-	207	207
Prepayments and other receivables		-	-	-	1,434	1,434
		<u>336,176</u>	<u>223,083</u>	<u>-</u>	<u>1,641</u>	<u>560,900</u>
<b>Financial liabilities</b>						
Payable on redemption of units		-	-	-	10,212	10,212
Payable to KASB Funds Limited - Management Company		-	-	-	398	398
Payable to MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited) - Trustee		-	-	-	91	91
Accrued expenses and other liabilities		-	-	-	643	643
		<u>-</u>	<u>223,083</u>	<u>-</u>	<u>11,344</u>	<u>11,344</u>
<b>On-balance sheet gap 2010</b>		<u>336,176</u>	<u>223,083</u>	<u>-</u>	<u>(9,703)</u>	<u>549,556</u>

**Credit risk**

Credit risk is the risk that a counter party 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 arises primarily from bank balances, income receivable and deposits.

The Fund's maximum exposure to credit risk (before collateral and other credit enhancements) at June 30, 2010 is represented by carrying amount of bank balances in statement of assets and liabilities.

The Fund's cash and cash equivalents are held with commercial banks and financial institutions having credit rating ranging from AAA to AA based on ratings assigned by a reputable credit rating agency.

As at June 30, 2010 there is no concentration of credit risk to any individual issuer / counter party, apart from investment in government securities to which the Fund believes it has no material credit exposure.

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund. Units of the Fund are redeemable on demand at the holder's option.

The Fund's approach to managing liquidity is to have sufficient liquidity to meet its liabilities including estimated redemption of units as and when due without incurring undue losses or risk damages to the Fund's reputation.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

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

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis. The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

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

	June 30, 2010			
	Up to three months	More than three months and upto one year	More than one year	Total
	(Rupees in '000)			
Payable on redemption of units	10,212	-	-	10,212
Payable to KASB Funds Limited - Management Company	398	-	-	398
Payable to MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited) - Trustee	91	-	-	91
Accrued expenses and other liabilities	643	-	-	643
	<u>11,344</u>	<u>-</u>	<u>-</u>	<u>11,344</u>

**Unit Holders' Funds risk management**

As a result of the ability to issue and repurchase/ redeem units except for core investors, the Unit Holders' Funds can vary depending on the demand for redemptions, and subscription to the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and repurchase / redemption of units, except for Rs. 50 million at the time of launching of the Fund.

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

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

The Fund measures fair value 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.

The fair value of investment in government securities are included within level 2 of the fair value hierarchy as mentioned above, as the inputs used for the valuation are based on observable market data.



## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

## 19. PATTERN OF UNHOLDING

Category	Number of unit holders	Investment amount	Percentage of total investment
	2010 (Numbers)	2010 (Rupees in '000)	2010 (%)
Individuals	144	142,921	25.92
Associated companies & Directors	7	199,191	36.12
Retirement Funds	6	32,030	5.81
Others	7	177,249	32.15
<b>Total</b>	<b>164</b>	<b>551,391</b>	<b>100.00</b>

## 20. LIST OF TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker Name	2010 (Percentage)
KASB Securities Limited	60.02
Iqon Securities (Pvt.) Limited	15.40
JS Global Capital Limited	7.89
Invisor Securities (Pvt.) Limited	7.26
First Capital Securities Corporation Limited	5.48
Elixer Securities Pakistan Limited	1.71
Atlas Capital Market (Pvt.) Limited	0.75
BMA Capital Management Limited	0.75
Alfalsh Securities (Pvt.) Limited	0.37
Global Securities Pakistan Limited	0.37

## 21. DATES, NAMES OF PERSONS ATTENDING EACH MEETING OF THE BOARD OF DIRECTORS

Name of the Person	Designation	Meetings	
		Total	Attended
Mr. Robert John Richard Owen	Chairman	8	8
Mr. Amir Zahoor Khan	Director*	5	5
Mr. Farid Arshad Masood	Director**	7	6
Ms. Naz Khan	Chief Executive & Director	8	8
Mr. Syed Muhammad Rehmanullah	Director	8	8
Mr. Muhammad Imran Khalil	Chief Financial Officer & Company Secretary	8	8
Mr. Irfan Saleem Awan	Company Secretary***	3	3
Mr. Mirza Mahmood-ul-Hassan	Company Secretary****	4	4

\* Mr. Amir Zahoor has resigned from the Board in the meeting held on February 12, 2010 and Mr. Muzaffar Ali Shah Bukhan was appointed Director after SECP granted approval on March 05, 2010.

\*\* Mr. Farid Arshad Masood resigned from the Board on February 19, 2010.

\*\*\*Mr. Irfan Saleem Awan resigned on October 01, 2009.

\*\*\*\*Mr. Mirza Mehmood-ul-Hasan resigned on June 10, 2010 and Mr. Muhammad Imran Khalil was appointed as Company Secretary on June 11, 2010 at his place.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from July 20, 2009 to June 30, 2010

## Dates of the meetings of the Board of Directors

Subsequent to the launch of the Fund following meetings were held:

Thirty-third meeting	July 21, 2009
Thirty-fourth meeting	August 25, 2009
Thirty-fifth meeting	October 23, 2009
Thirty-sixth meeting	November 20, 2009
Thirty-seventh meeting	February 12, 2010
Thirty-eighth meeting	February 19, 2010
Thirty-ninth meeting	April 22, 2010

## 22. DETAILS OF MEMBERS OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	B.A (U.S.A)	17
Muhammad Faisal Potrik	Chief Investment Officer	MBA	10
Mir Taimur Ali	Fund Manager	CFA , ACCA	07
Muhammad Kashif Masood	Representative of Risk Management & Compliance	M Sc.(Economics)	03

## 22.1 Details of other funds managed by the Fund Manager

KASB Liquid Fund and KASB Islamic Income Fund under the management of KASB Funds Limited.

## 23. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved the final dividend distribution of Rs. 2.25 per unit for the period ended June 30, 2010 amounting to Rs.12.123 million in total in their meeting held on July 3, 2010.

## 24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 27, 2010 by the Board of Directors of the Management Company.

## 25. GENERAL

The accounting period of the Fund started on July 20, 2009, therefore, there are no comparative figures to report in respect of income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' funds, cash flow statement and notes to the financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

