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THE INVESTMENT OBJECTIVE OF THE PORTFOLIO IS TO PROVIDE AN EFFICIENT INVESTMENT MEDIUM WHEREBY INVESTORS CAN PARTICIPATE IN A PORTFOLIO THAT WILL SEEK TO GENERATE HIGH LEVEL OF CURRENT INCOME, AS WELL AS THE POTENTIAL FOR CAPITAL GROWTH.

THE STRATEGY WILL INCLUDE TAKING POSITIONS BOTH IN SHORT AND LONG TERM AVENUES BY TAKING ACTIVE TRADING AS WELL AS PASSIVE HOLD APPROACHES

KASB INCOME OPPORTUNITY FUND

(formerly KASB Liquid Fund)

ANNUAL REPORT
June 30, 2014

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FUND INFORMATION

Management Company

KASB Funds Limited

Registered Office:

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

Principal Office

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

UAN: (92-21) 111 535 535

Fax: (92-21) 3263 9188

URL: www.kasbfunds.com

Audit Committee

Mr. Qaiser P. Mufti (Chairman)

Mr. Robert John Richard Owen

Mr. Muzaffar Ali Shah Bukhari

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman

Mr. Khuldoon Bin Latif - Chief Executive

Mr. Qaiser P. Mufti

Mr. Muzaffar Ali Shah Bukhari

Chief Financial Officer / Company Secretary

Syed Adnan Abdali

Human Resources and Remuneration Committee

Mr. Muzaffar Ali Shah Bukhari (Chairman)

Mr. Qaiser P. Mufti

Mr. Robert John Richard Owen

Trustee

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

Fund Rating

BBB (f)

Bankers to the Fund

KASB Bank Limited

Burj Bank Limited

ABL Bank Limited

Auditors

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

Legal Advisor

Bawaney & Partners

Room No. 404, 4th Floor, Beaumont Plaza,

6-cl-10, Beaumont Road, Civil Lines,

Karachi-75530

Registrar

KASB Funds Limited

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

Distributors

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Standard Chartered Bank (Pakistan) Limited

Management Company Rating

Rated AM3

MISSION STATEMENT

The Funds aims to provide an efficient investment medium whereby investors can participate in portfolio that will seek to generate high level of current income, as well as the potential for capital growth.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2014

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Income Opportunity Fund (KIOF, the Fund), is pleased to present the Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2014.

Financial Highlights

| | FY 2014 | FY 2013 | Increase / (Decrease) (%) |
|---|----------|----------|---------------------------|
| Net Income (Rs. in million) | 108,553 | 88,534 | 40.02 |
| Net Assets as at June 30 (Rs. in million) | 597,386 | 556,723 | 40.67 |
| NAV per Unit as on June 30 (Rs.)** | 70.7320* | 60.1650* | (9.43) |
| Return (%) | 22.18 | 18.04 | 3.14 |

* Ex-NAV after final distribution.

** Per value of each unit is Rs. 100.

Economic Environment

On macroeconomic view, Pakistan's inflation remained on a higher side with Consumer Price Index (CPI) stood at 8.62% for the FY 2014 against 7.36% for FY 2013. The rise in inflation attributed to additional tax levies and sharp increase in food prices. During the period under review the current account deficit increased to more than USD 2.1Bn as compared USD 1.2Bn in FY 2013. Pakistan's overall Balance of Payment recorded a surplus of USD 3.843Bn on the back of USD 2Bn received through Eurobonds auction, USD 1.5Bn through international aid and partial payment received from 3G/4G auction. Real GDP growth picked up to 4.14% in FY2014 as compared to 3.7% during FY2013. Pakistan's Large Scale Manufacturing (LSM) sector recorded a growth of 3.95% over its preceding year.

With increase in energy shortage, the industrial sector productivity moved downwards, hampering exports and increasing imports.

The forex reserves showed a handsome increase of 37.45% from USD 10.286Bn to USD 14.139Bn during the period ending FY 2014.

Money Market Review

With headline inflation stood at 8.62% for the year ending 2014 the State Bank of Pakistan (SBP) decided to raise the discount rate by 100bps from 9% to 10%. During the period under review, the Government of Pakistan (GOP) borrowed PKR 6.46Tn through Tbill auctions with last cut off yield standing at 9.9564%, 9.9685%, 9.99% for 3 Months, 6 Months and 12 Months respectively. Furthermore GOP also borrowed a total of PKR 1.91Tn through PIB auctions with last cut off yield standing at 12.0970%, 12.5505%, 12.9980% and 13.007% for 3 Year, 5 Year, 10 Year and 20 Year respectively.

Capital Markets

The equity market ended the year with an impressive 41% return mainly due to better political environment, economic recovery and improved corporate results. During the period under review foreign investors were net buyers amounting to USD 262mn. With corporate earnings showing a growth of 16% YoY the stock market looked attractive for year ending FY 2014.

Investment Strategy

KIOF seeks to generate long term capital appreciation and income, from portfolio that is substantially constituted of equity and equity related securities. The fund aims to maximize total returns and outperform the benchmark.

The Fund strives to invest 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, 2014 the Fund earned a return of 22.18% as against the benchmark return of 9.83% and the Net Asset Value per unit of the fund at the close of the period stood at Rs. 70.732. The net income for the year ended June 30, 2014 is Rs 108,553 million.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2014

Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 123.798 million to the unit holders of the Fund for the year ended June 30, 2014.

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, 2014, 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 KIOF was Rs. 556.723 million on June 30, 2013. During the year, units worth Rs. 581.399 million were issued and units with a value of Rs. 582.371 million were redeemed. As on June 30, 2014, the total number of outstanding units was 8,445,908 with a value of Rs. 597.396 million.

Code of Corporate Governance

The Board of Directors states that:

- a) The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- b) Proper books of accounts of the Fund have been maintained.
- c) Appropriate accounting policies have been 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 Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, 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, 2014 is disclosed in note 26.3 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, 2014, individuals held 31.19% out of the total units; associated companies held 56.01% units; Retirement Funds held 2.48% units and 10.32% units held by other entities. Detailed pattern is also annexed.

Future Outlook

Lowered subsidies, appreciated Pak Rupee, and stable CPI outlook are expected to lead the country towards positive direction. The outlook of external account for FY 2015 seems stable as inflows will add to the foreign reserves. However, almost \$ 2Bn is scheduled to be repaid to IMF in FY 2014-15. Therefore a close watch on the foreign reserves will be important.

Going forward the Government of Pakistan in view of the fiscal side should plan and implement a strategy which will enable them to fulfill their tax targets.

The equity market returns is expected to remain in double digits as corporate earnings growth is likely to maintain its ongoing momentum due to structural reforms on macro level. However political and natural risks will be key elements to keep an eye on.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2014

Auditors

The Board of Directors, on recommendation of Board Audit Committee approved re-appointment of M/s KPMG Taseer Hadi & Co. - Chartered Accountants as auditors of KASB Income Opportunity Fund for the financial year ending June 30, 2015.

Acknowledgement

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

For and on behalf of the Board

August 13, 2013
Karachi

Khaldoon Bin Latif
Chief Executive



PERFORMANCE TABLE

| | FY 2014 | FY 2013 | FY 2012 | FY 2011 |
|---|-------------|-------------|-------------|-------------|
| | 597,395,806 | 558,695,595 | 379,979,485 | 368,876,271 |
| | 70.732 | 80.4491 | 67.8793 | 52.9664 |
| Selling price for units as of June 30 | 70.732 | 80.4491 | 67.8793 | 56.5754 |
| Repurchase price for units as of June 30 | 70.732 | 80.4491 | 67.8793 | 52.9664 |
| highest selling price | 80.4016 | 80.4491 | 67.8793 | 87.03 |
| highest repurchase price | 78.5332 | 80.4491 | 67.8793 | 87.03 |
| lowest selling price | 70.2893 | 66.7825 | 51.8691 | 56.08 |
| lowest repurchase price | 70.2223 | 66.7825 | 51.8691 | 52.97 |
| Distributions: | | | | |
| <i>Interim</i> | | | | |
| 1st | 7.25 | NIL | NIL | NIL |
| 2nd | 7 | NIL | NIL | NIL |
| Final | NIL | 10 | 0.3 | NIL |
| Average annual return of the Collective Investment Scheme: | | | | |
| For the period of one year | 22.18% | 19.04% | 27.95% | -38.11% |
| For the period of two years | 45.45% | 52.56% | -20.69% | -45.74% |
| For the period of three years | 86.40% | -5.58% | -30.81% | -44.79% |
| Since Inception (date of launch) | 27.26% | 4.16% | -12.50% | -31.73% |
| Weighted average portfolio duration (in case of income and money market fund) | 320 days | 109 days | 602 days | 43 days |
| total return of the Collective Investment Scheme, breakdown into: | | | | |
| Capital growth | 0.35% | 18.96% | 28.16% | -38.11% |
| Income distributions | 21.83% | 0.09% | -0.21% | 0.00% |

Disclaimer:

Past Performance is not necessarily inductive 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-Ended Income

2. Inception Date

May 09, 2006

3. Investment objective

The investment objective of the portfolio is to provide an efficient investment medium whereby investors can participate in a portfolio that will seek to generate high level of current income, as well as the potential for capital growth.

4. Accomplishment of objective

The fund is achieving its objective of generating regular income by investing in fixed income instruments within the guidelines provided under NBFC rules.

5. Benchmark

6 Month KIBOR

6. Performance Return

| | KIOF Return | Benchmark return |
|-----------------|-------------|------------------|
| Since inception | 3.34% | 12.06% |
| 1 Year | 22.18% | 9.83% |
| Last 6 months | 19.39% | 10.16% |
| Last 3 months | 39.42% | 10.14% |
| For the month | 103.29% | 10.17% |

7. Strategies and policies employed during the period

With easing of liquidity pressure in cement sector, TFCs/Sukuks pertaining to the sector showed outperformance resulting in major prepayments. However trades mainly concentrated towards govt. backed TFCs/Sukuks and top rated banking instruments. The fund remained focused on restructuring non-performing corporate debt. As a result most of instruments held in the fund with credit concerns have been restructured during the year.

8. Weighted Asset allocation (June 30, 2014)

| Asset Allocation | June 30, 2014 | June 30, 2013 |
|-----------------------|---------------|---------------|
| TFCs & Sukuks | 16.61% | 20.02% |
| Cash | 21.40% | 51.44% |
| Placement with NBFCs | 1.55% | 2.75% |
| Equities | 6.90% | 12.00% |
| Margin Trading System | 17.32% | 8.77% |
| T-Bills | Nil | Nil |
| Others/(Payable) | 12.84% | 5.02% |

9. Significant changes in asset allocation during the period

As compared to the last year the fund's overall exposure towards TFCs / Sukuk investments declined to 16.61% from 20.02% mainly due to outperformance of some cement sector TFCs/Sukuks resulting in major prepayments, full provision of defaulted TFCs/Sukuks and recoveries from some Non performing TFCs/Sukuk. During the year the Fund increased its exposure in Margin Trading System (MTS) from 8.77% to 17.32%.to achieve better return for its unit holders. Further, exposure in equity scripts was also reduced from 12% to 6.9% due to price revaluation. These equity scripts were received by the fund (KIOF) as a result of its merger with AMZ Plus Income Fund and one of the script against restructuring of one of the debt instrument.

10. Fund Performance

The Fund managed to give a return of 22.18% per annum against benchmark return of 9.83% per annum mainly due to restructuring of some of the Non Performing assets. Going forward the returns look to increase from performance of a few troubled debt instruments which have been restructured.

The AUM of the fund were PKR 556.72. million (NAV per unit: Rs 80.1650) on June 30, 2013 and at the end of the period the AUM of the fund stood at PKR 377 million (NAV per unit: Rs 71.0999).

ANNUAL FUND MANAGERS' REPORT

For the year ended June 30, 2014

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

On macroeconomic view, Pakistan's inflation remained on a higher side with Consumer Price Index (CPI) stood at 8.62% for the FY 2014 against 7.36% for FY 2013. During the period under review the current account deficit increased to more than USD 2.1Bn as compared USD 1.2Bn in FY 2013. Pakistan's overall Balance of Payment recorded a surplus of USD 3.843Bn on the back of USD 2Bn received through Eurobonds auction, USD 1.5Bn through international aid and partial payment received from 3G/4G auction.

Real GDP growth picked up to 4.14% in FY2014 as compared to 3.7% during FY2013. Pakistan's Large Scale Manufacturing (LSM) sector recorded a growth of 3.95% over its preceding year.

With increase in energy shortage, the industrial sector productivity moved downwards consequently hampering exports and increasing imports.

State Bank of Pakistan (SBP) raised the discount rate by 100Bps from 9% to 10%. The forex reserves showed a handsome increase of 37.45% from USD 10.266Bn to USD 14.139Bn for the period ending FY 2014.

12. Fund performance by market(s) and by instruments

For details, please refer to the full yearly accounts.

13. Distribution

The Fund distributed Rs 14.25 during FY14, as per the following details:

| Date of Distribution | Amount of Distribution (PKR) |
|----------------------|------------------------------|
| 31-Dec-13 | 7.25 |
| 26-Jun-14 | 7 |

14. Significant changes in the state of affairs

No significant change in affairs were witnessed.

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.

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 INCOME OPPORTUNITY 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 Income Opportunity 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, 2014 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.

We would like to draw unit holders' attention towards the fact that profit accrual and principal redemption against certain debt securities has not been accounted for as per the criteria defined under directives issued by SECP. In addition, during the period instances of control weaknesses have been witnessed which have already been highlighted to the Management Company for necessary action.

Muhammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi, October 31, 2014



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2014

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 Stock Exchange 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 Income Opportunity 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:

- 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 |
| Non-Executive Directors | Mr. Muzaffar Ali Shah Bukhari |
| Executive Directors | Mr. Khaldoon Bin Latif |

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

- The directors have confirmed that none of them are serving as a director in more than seven listed companies, including KASB Funds Limited (excluding the listed subsidiaries of listed holding companies where applicable).
- 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.
- During the year Mr. Amer Maqbool resigned as Chief Executive Officer of the Company and appointment of Mr. Khaldoon Bin Latif as Chief Executive Officer in compliance of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, and Non-Banking Finance Companies and Notified Entities Regulations, 2008.
- The Management Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
- 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.
- 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.
- 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.
- The Management Company has conducted an orientation course for its directors to apprise them of their duties and responsibilities.
- During the year, there was no change of the Company Secretary and Chief Financial Officer (CFO).
- During the year, there was no change of Internal Auditors of the Company which is outsourced to firm of Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
- The Directors' report relating to the Fund for the year ended June 30, 2014 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 the 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 those disclose in pattern of unit holders of the Fund
- The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
- 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.
- 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.
- The Board has formed a Human Resource and Remuneration committee. It comprises of three members including the Chairman of the Committee who is a non-executive director.
- 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.
- 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.
- The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- 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).
- Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
- We confirm that all other material principles enshrined in the the Code have been complied with.

For and on behalf of Board of Directors

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE 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 no.35 (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. The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not. Management Company has not place related party transactions before Audit Committee.

Following instances of non-compliance with the requirements of the Code were observed which are not stated in the Statement of Compliance:

- i. Regulation 35 (v) (a) requires the board of directors of a listed company shall ensure that professional standards and corporate values are put in place that promote integrity for the board, senior management and other employees in the form of a Code of Conduct, defining therein acceptable and unacceptable behaviours. The board shall take appropriate steps to disseminate Code of Conduct throughout the company along with supporting policies and procedures and these shall be put on the company's website. However, the Management Company has not placed Code of Conduct on its website.
- ii. Regulation 35 (v) (e) requires board of directors to put in place a mechanism for an annual evaluation of the board's own performance. However, the Board of Directors has not put in place mechanism for its annual performance evaluation.
- iii. Regulation 35 (v) (g) requires the board of directors to define the level of materiality, keeping in view the specific circumstances of the company and the recommendations of any technical or executive subcommittee of the board that may be set up for the purpose. However, the Board of Directors has not defined materiality level.
- iv. Regulation 35 (xxv) requires the names of members of the committees of the board shall be disclosed in annual report. However, we noted that name of members of Human Resource and Remuneration Committee is not disclosed in annual report.

Based on our review, except for the above instances of non-compliance, 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 2014.

Date: August 13, 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of KASB Income Opportunity Fund ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2014, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 statement of financial position as at 30 June 2014, 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.

Report on Other Legal and Regulatory Requirements

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, 2006.

Date: 13 August 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2014

| | Note | 2014 | 2013 |
|--|------|-----------------------------|------------------|
| | | ----- (Rupees in '000)----- | |
| Assets | | | |
| Balances with banks - saving accounts | 4 | 151,206 | 291,177 |
| Lending under Margin Trading System | 5 | 142,713 | 38,096 |
| Certificate of Musharaka | 8 | 67,000 | - |
| Income receivable | 7 | 31,178 | 34,260 |
| Investments | 8 | 249,011 | 186,814 |
| Advance against Pre Initial Public Offer | 9 | 15,395 | - |
| Placements | 10 | - | - |
| Term Finance Facility | 11 | 32,883 | - |
| Receivable against loan | 12 | 4,818 | 7,942 |
| Receivable against lease facility | 13 | - | - |
| Deposits, prepayments and other receivables | 14 | 12,740 | 5,751 |
| Total assets | | 706,944 | 564,040 |
| Liabilities | | | |
| Payable to Management Company of the Fund | 15 | 2,555 | 1,149 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | 16 | 187 | 76 |
| Payable to the Securities and Exchange Commission of Pakistan - Annual fee | 17 | 456 | 335 |
| Accrued expenses and other liabilities | 18 | 106,350 | 5,757 |
| Total liabilities | | 109,548 | 7,317 |
| Net assets | | 597,396 | 556,723 |
| Unit holders' funds | | 597,396 | 556,723 |
| (Number of units) | | | |
| Number of units in issue | | 8,445,908 | 6,944,710 |
| (Rupees) | | | |
| Net assets value per unit | | 70.7320 | 80.1650 |

The annexed notes 1 to 27 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, 2014

| Note | 2014 | 2013 |
|--|------------------------------|----------------|
| | ----- (Rupees in '000) ----- | |
| Income | | |
| Income from term finance and sukuk certificates | 17,381 | 37,692 |
| Income from government securities | 7,141 | 655 |
| Income from term deposit receipts | 1,351 | 1,346 |
| Income from certificates of musharaka | 3,273 | 3,996 |
| Income from Margin Trading System | 16,417 | 185 |
| Profit on bank deposits | 15,463 | 9,478 |
| Capital gain on sale of investments - net | 27,642 | 11,518 |
| Reversal of provision against non-performing sukuk certificates | 8.5.6 9,049 | 24,140 |
| Reversal of provision of principal against non-performing exposures | 8.5.5 4,618 | 13,623 |
| Reversal of provision against non-performing placements and term finance facility | 71 45,258 | 26,500 |
| Gain on partial settlement of term finance certificates | - | 41,867 |
| Receipt on sale of non-performing exposures | - | 5,553 |
| Liabilities written back | - | 1,630 |
| Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' - held for trading | 8.2 & 8.3 (228) | - |
| Total income | 147,365 | 178,183 |
| Expenses | | |
| Remuneration of Management Company of the Fund - including taxes and duties thereon | 15 16,062 | 10,481 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 16 1,034 | 755 |
| Annual fee - Securities and Exchange Commission of Pakistan | 17 456 | 335 |
| Provision for Workers' Welfare Fund | 18.7 1,275 | 1,150 |
| Transaction cost on securities | 1,447 | 175 |
| Settlement and bank charges | 72 | 30 |
| Legal and professional charges | 236 | 374 |
| Fees and subscription | 232 | 280 |
| Auditors' remuneration | 19 615 | 593 |
| Printing and other expenses | 313 | 193 |
| Provision against DHA Golf Club Platinum Membership Cards | - | 2,698 |
| Provision against non-performing investments classified as 'at fair value through profit or loss' - held for trading | - | 17,609 |
| Provision against non-performing investment classified as 'available for sale' | - | 30,973 |
| Provision against term finance facility | - | 45,787 |
| Impairment of equity securities classified as 'available for sale' | 8.4 15,100 | 1,700 |
| Total expenses | 36,841 | 113,133 |
| | 110,524 | 65,050 |
| Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | (1,970) | 3,484 |
| Net income for the year before taxation | 108,553 | 68,534 |
| Taxation | 20 - | - |
| Net income for the year after taxation | 108,553 | 68,534 |
| Earnings per unit | 21 | |

The annexed notes 1 to 27 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, 2014

| | 2014 | 2013 |
|---|------------------------------|---------------|
| | ----- (Rupees in '000) ----- | |
| Net income for the year | 108,553 | 68,534 |
| Other comprehensive income | | |
| <i>Items that are or may be reclassified subsequently to income statement</i> | | |
| Net unrealised appreciation in fair value of investments classified as 'available for sale' | 31,646 | 15,687 |
| Impairment of equity investment classified as 'available for sale' | 8.4 (15,100) | (1,700) |
| Other comprehensive income for the year | 16,546 | 13,987 |
| Total comprehensive income for the year | <u>125,099</u> | <u>82,521</u> |

The annexed notes 1 to 27 form an integral part of these financial statements.

Chief Executive

For KASB Funds Limited
(Management Company)

Director

DISTRIBUTION STATEMENT

For the year ended June 30, 2014

| Note | 2014 | 2013 |
|---|------------------------------|-----------|
| | ----- (Rupees in '000) ----- | |
| Accumulated losses brought forward | | |
| Realised loss | (228,807) | (303,804) |
| Unrealised loss | - | 2,172 |
| | (228,807) | (301,632) |
| Net income for the year after taxation | 108,553 | 68,534 |
| Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | (1,042) | 5,970 |
| | 107,511 | 74,504 |
| Distributions to the unit holders of the Fund | | |
| Final Distribution at the rate of Re. 0.3 per unit for the year ended June 30, 2013 (June 30 2012: Re. 0.3 per unit) [Date of Distribution: July 4, 2013] | | |
| - Issue of 453,079 bonus units (2013: 1,982 bonus units) | (31,919) | (134) |
| - Cash distribution | (37,528) | (1,545) |
| Interim distributions during the year | | |
| - Issue of 1,102,311 bonus units (2013: Nil units) | (75,901) | - |
| - Cash distribution | (47,897) | - |
| | (193,245) | (1,679) |
| Accumulated losses carried forward | (314,541) | (228,807) |
| Accumulated losses carried forward: | | |
| Realised loss | (314,313) | (228,807) |
| Unrealised loss | (228) | - |
| | (314,541) | (228,807) |

The annexed notes 1 to 27 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 year ended June 30, 2014

| | Note | 2014 | 2013 |
|--|------|------------------------------|----------------|
| | | ----- (Rupees in '000) ----- | |
| Net assets at beginning of the year | | 556,723 | 379,979 |
| Issue of 8,040,264 units (2013: 5,575,349 units) | | 581,399 | 401,723 |
| Issue of 1,565,291 bonus units (2013: 1,862 units) | | 107,821 | 134 |
| Redemption of 8,094,457 units (2013: 4,230,493 units) | | (582,371) | (302,471) |
| | | 106,849 | 99,386 |
| Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | | | |
| - amount representing accrued (income) / loss and realised capital (gains) / losses - transferred to the Income Statement | | 1,970 | (3,484) |
| - amount representing unrealised capital (gains) / losses - transferred to Distribution Statement | | (1,042) | (5,970) |
| | | 928 | (9,454) |
| Net income (excluding net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments) | | 81,139 | 57,016 |
| Capital gain on sale of investments - net | | 27,642 | 11,518 |
| Net unrealised diminution in fair value of investments classified as at 'fair value through profit or loss' - held for trading | | (228) | - |
| | | 108,553 | 68,534 |
| Net unrealised appreciation in fair value of investments classified as 'available for sale' | | 31,646 | 15,687 |
| Impairment of equity investment classified as 'available for sale' | 8.4 | (15,100) | (1,700) |
| Net unrealised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amounts representing unrealised appreciation / (diminution) | | 1,042 | 5,970 |
| Distributions to the unit holders of the Fund | | | |
| Final Distribution at the rate of Re. 0.3 per unit for the year ended June 30, 2013 (June 30 2012: Re. 0.3 per unit) (Date of Distribution: July 4, 2013) | | | |
| - Issue of 453,079 bonus units (2013: 1,982 bonus units) | | (31,919) | (134) |
| - Cash distribution | | (37,528) | (1,545) |
| Interim distributions during the year | 25 | | |
| - Issue of 1,102,311 bonus units (2013: Nil units) | | (75,901) | - |
| - Cash distribution | | (47,897) | - |
| | | (193,245) | (1,679) |
| Net assets as at end of the year | | 597,396 | 556,723 |
| | | (Rupees) | |
| Net asset value per unit as at beginning of the year | | 80.1650 | 67.8793 |
| Net asset value per unit as at end of the year | | 70.7320 | 80.1650 |

The annexed notes 1 to 27 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, 2014

| | 2014 | 2013 |
|--|------------------------------|----------------|
| | ----- (Rupees in '000) ----- | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year | 108,553 | 68,534 |
| Adjustments for non cash and other items: | | |
| Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' - held for trading | 228 | - |
| Provision against DHA Golf Club Platinum Membership Cards | - | 2,698 |
| Provision against non-performing investments classified as 'at fair value through profit or loss' | - | 17,609 |
| Provision against non-performing investment classified as 'available for sale' | - | 30,973 |
| Provision against term finance facility | - | 45,787 |
| Impairment of equity securities classified as 'available for sale' | 15,100 | 1,700 |
| Provision for Workers' Welfare Fund | 1,275 | - |
| Liabilities written back | - | (1,630) |
| Gain on partial settlement of term finance certificates | - | (41,867) |
| Reversal of provision against non-performing placements and term finance facility | (45,258) | (26,500) |
| Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed | 1,970 | (3,484) |
| | 81,868 | 93,820 |
| (Increase) / decrease in assets | | |
| Lending under Margin Trading System | (104,617) | (38,096) |
| Certificate of Musharaka | (67,000) | - |
| Certificate of Investment | - | 13,448 |
| Income receivable | 3,082 | (16,021) |
| Investments | (60,978) | 79,264 |
| Advance against Pre Initial Public Offer | (15,395) | - |
| Placements | 12,375 | 26,500 |
| Term Finance Facility | - | 8,050 |
| Receivable against loan | 3,124 | (7,942) |
| Deposits, prepayments and other receivables | (6,989) | (5,526) |
| | (236,398) | 59,677 |
| Increase in liabilities | | |
| Payable to Management Company of the Fund | 1,406 | 418 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | 111 | 17 |
| Payable to the Securities and Exchange Commission of Pakistan - Annual Fee | 121 | 41 |
| Accrued expenses and other liabilities | 99,318 | 3,159 |
| | 100,956 | 3,635 |
| Net cash (used in) / generated from operating activities | (53,574) | 157,132 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividend paid | (85,425) | (1,545) |
| Receipts from issuance of units | 581,399 | 401,723 |
| Payments on redemption of units | (582,371) | (302,471) |
| Net cash (used in) / generated from financing activities | (96,397) | 97,707 |
| Net (decrease) / increase in cash and cash equivalents during the year | (139,971) | 254,839 |
| Cash and cash equivalents at beginning of the year | 291,177 | 36,338 |
| Cash and cash equivalents at end of the year | 151,206 | 291,177 |

The annexed notes 1 to 27 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, 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Income Opportunity Fund ("the Fund" or "KIOF") was established under a Trust Deed executed between KASB Funds Limited ("KFL") as Management Company and Central Depository Company of Pakistan Limited ("CDC") as Trustee. The Trust Deed was executed on February 20, 2006 and the Fund was approved by the Securities and Exchange Commission of Pakistan (SECP) on March 17, 2006 in accordance with the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The Fund has been assigned 'Aggressive Fixed Income' 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. During the year license issued by the SECP to management company to undertake asset management services expired for which management has applied for its renewal. The renewal is pending for approval by SECP. Management considers that irrespective of renewal of license, the Fund's net assets value remain unaffected.

The SECP vide letter no. SCD/PR&DD/AMOW/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 JCR-MS has assigned management quality rating of AM3 to the Management Company and BBB-(f) stability rating to the Fund.

The Fund is an open end fund and is listed on the Karachi Stock Exchange Limited. The objective of the Fund is to provide an efficient investment medium whereby levels of risk and high liquidity by investors can participate in a portfolio that will seek to generate high level of current income, as well as the potential for capital growth. On November 30, 2012 AMZ Plus Income Fund (APIF) has been merged into KASB Income Opportunity Fund (KIOF).

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 except as detailed in note 8.5.8. However, currently the change of title to the assets pertaining to AMZ Plus Income Fund is in progress.

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 New Standards, amendments to standards 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 except increase in disclosures, if any.

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

A number of new Standards, amendments to Standards and interpretations are effective for annual periods beginning on or after July 1, 2014. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 1, 2014).
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after January 1, 2014).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

2.3 Basis of measurement

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

2.4 Functional and presentation currency

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

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value & derivative financial instruments The management company has determined fair value of certain investments by using quotations active market valuation done by Mutual Fund Association of Pakistan and Financial Markets Association of Pakistan or using quotation from stock exchange. 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 except stated otherwise.

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

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

b) 'Available for sale'

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

c) Loans and receivables

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

d) Financial liabilities

Financial liabilities, other than those 'at fair value through profit or loss', are measured at amortized 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 Quoted equity securities

The fair value of a security listed on a stock exchange, local or foreign as the case may be, or 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 through circulars by SECP.

The Circulars also specify 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 issued by SECP.

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. The fair value of the investments in GoP Ijarah sukuk certificates is determined by using the market rates from 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 year ended June 30, 2014

Lending under margin trading system

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 / lending under 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 receivables / lending under MTS. 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 asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of asset and that loss events had an impact on the future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. In case of an investment in an equity security, a significant or prolong decline in fair value below its cost is objective evidence of impairment. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

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 or 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

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.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV to the Second Schedule of the Income Tax Ordinance, 2001.

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 and current tax has been recognised in these financial statements.

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase transactions, lending under margin trading system, term finance facilities 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

3.12 Other assets

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

3.13 Dividend distributions and appropriations

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

4. BALANCES WITH BANKS - SAVING ACCOUNTS

This saving accounts carries mark-up ranging from of 9% to 10% per annum (2013: 5% to 9% per annum).

5. LENDING UNDER MARGIN TRADING SYSTEM

This represents receivable against Margin Trading System and carries profit rate ranging from 0.23% to 16% . It will mature at the option of financee subject to maximum of 60 days.

6. CERTIFICATE OF MUSHARAKA

This represents certificates of musharaka with KASB Modaraba, carrying profit ranging from 9.9% to 10% per annum with maturity 73 to 84 days.

7. INCOME RECEIVABLE

Income accrued on:

| | 2014 | 2013 |
|---------------------------------------|----------------------------|---------------|
| |(Rupees in '000)..... | |
| - Bank deposits | 1,683 | 1,793 |
| - Certificate of musharaka | 273 | - |
| - Term finance and sukuk certificates | 23,208 | 32,321 |
| - Government securities | 5,055 | - |
| - Margin Trading System | 959 | 146 |
| | <u>31,178</u> | <u>34,260</u> |

8. INVESTMENTS

'At fair value through profit or loss' - held for trading

| | | | |
|--|-----|----------------|---|
| - Government securities | 8.2 | 98,236 | - |
| - Fixed income and other debt securities | 8.3 | 37,964 | - |
| | | <u>136,200</u> | - |

'Available for sale'

| | | | |
|---|-----|----------------|----------------|
| - Quoted Equity Securities | 8.4 | 36,916 | 41,544 |
| - Unquoted Equity Securities | 8.4 | 6,700 | 21,800 |
| - Fixed income and other debt securities | 8.5 | 64,049 | 113,302 |
| - Unquoted Preference Shares | 8.6 | 5,146 | 4,567 |
| | | <u>112,811</u> | <u>181,213</u> |
| - DHA Golf Club Platinum Membership Cards | | - | 5,601 |
| | | <u>249,011</u> | <u>186,814</u> |

8.1 The cost of the above investments as at June 30, 2014 amounted to Rs. 670.86 million (2013: Rs. 630.86 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

8.2 Government securities - 'at fair value through profit or loss' - held for trading

| Tenor | Face value | | | Balance as at June 30, 2014 | | | Market value as a percentage of net assets | Market value as a percentage of total investments |
|---|--------------------|---------------------------|------------------------------------|-----------------------------|----------------|---------------|--|---|
| | As at July 1, 2013 | Purchases during the year | Sales / Maturities during the year | As at June 30, 2014 | Carrying value | Market value | | |
| ----- Rupees in '000 ----- | | | | | | | | |
| Treasury Bills | | | | | | | | |
| 12 Months - Treasury Bills | - | 380,000 | 380,000 | - | - | - | - | 0.00% |
| 8 Months - Treasury Bills | - | 170,000 | 170,000 | - | - | - | - | 0.00% |
| 3 Months - Treasury Bills | - | 315,000 | 315,000 | - | - | - | - | 0.00% |
| Pakistan Investment Bonds (PIBs) | | | | | | | | |
| 5 Years - PIBs | - | 234,000 | 234,000 | - | - | - | - | 0.00% |
| 3 Years - PIBs | - | 140,000 | - | 100,000 | 98,065 | 98,235 | (712) | 16.44% |
| | | | | | 98,065 | 98,235 | (802) | - |

8.3 Fixed income and other debt securities - 'at fair value through profit or loss' - held for trading

Certificates have a face value of Rs. 5,000 each unless stated otherwise:

| Name of the Investor Company | Number of certificates | | | Balances as at June 30, 2014 | | | Market value as a percentage of net assets | Outstanding principal value as a percentage of total debt issue |
|---|------------------------|---------------------------|-----------------------|------------------------------|----------------|---------------|--|---|
| | As at July 01, 2013 | Purchases during the year | Sales during the year | As at June 30, 2014 | Carrying value | Market value | | |
| ----- (Rupees in '000) ----- | | | | | | | | |
| Term Finance Certificates - Listed | | | | | | | | |
| Pace Pakistan Limited | 8.3.1 | 1,000 | - | 1,000 | - | - | - | 0.00% |
| Trust Investment Bank Limited - III | 8.3.1 | 10,000 | - | 10,000 | - | - | - | 0.00% |
| Saudi Pak Leasing Company | 8.3.1 | - | 15,000 | - | 14,622 | 14,622 | - | 2.45% |
| Sukuk Certificates - Unlisted | | | | | | | | |
| B R R Gas Distribution Modaraba | - | 1,727 | - | 1,727 | 22,716 | 22,342 | 604 | 2.91% |
| | | | | | 37,338 | 37,964 | 604 | |

8.3.1 Securities listed below have been classified as non-performing in accordance with the provisioning Circulars issued by the Securities and Exchange of Pakistan and the Fund's provisioning policy for non-performing exposure. Accordingly, the market values stated above have been arrived at after taking into account provisions as under:

| | Outstanding balance | Provision recognized during the year | As at June 30, 2014 | |
|-------------------------------------|---------------------|--------------------------------------|---------------------|--------------------|
| | | | Provision held | Net carrying value |
| ----- (Rupees in '000) ----- | | | | |
| Pace Pakistan Limited | 4,993 | - | (4,993) | - |
| Trust Investment Bank Limited - III | 18,742 | - | (18,742) | - |
| Saudi Pak Leasing Company | 40,721 | - | - | 40,721 |

8.3.2 On August 14, 2011, Pace Pakistan Limited has defaulted on account of payment of profit and principal due amounting to Rs. 0.391 million and Rs. 0.001 million respectively. However, the amount of principal has been subsequently paid by the borrower. The Fund has recognized full provision against the outstanding principal amounting to Rs. 4,993 million and accrued profit amounting to Rs. 0.391 million. Moreover, the Fund has suspended further accrual of profit there against in accordance with the provisioning policy of the Fund 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 mark-up and other charges etc.

8.3.3 On October 2, 2012, Trust Investment Bank Limited has defaulted on account of payment of profit and principal due amounting to Rs. 1,280 million and Rs. 6,247 million respectively. The security has been classified as non-performing by the Mutual Funds Association of Pakistan on October 18, 2012. The Fund has recognized full provision against the outstanding principal amounting to Rs. 18,742 million and has suspended further accrual of mark-up there against in accordance with the provisioning policy of the Fund 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 mark-up and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

- 8.3.4** On April 13, 2014, Saudi Pak Leasing Company has defaulted on account of payment of profit and principal due amounting to Rs. 0.211 million and Rs. 0.6 million respectively. The security has been classified as non-performing by the Mutual Funds Association of Pakistan on April 30, 2014. The Fund has not recognized provision against the outstanding principal but has suspended further accrual of mark-to-market against in accordance with the provisioning policy of the Fund 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 mark-up and other charges etc.

8.4 Equity Securities - (Face value of Rs. 10 per share) - 'Available for sale'

| Name of the Investee Company | Number of shares | | | | Balances as at June 30, 2014 | | | | Carrying value as a percentage of net assets |
|-----------------------------------|---------------------|--|-----------------------|---------------------|------------------------------|--------------|------------|----------------------------|--|
| | As at July 01, 2013 | Received in settlement during the year | Sales during the year | As at June 30, 2014 | Carrying cost | Market value | Impairment | Appreciation/ (Diminution) | |
| (Rupees in '000) | | | | | | | | | |
| Quoted Equity Securities | | | | | | | | | |
| Agritech Limited | 8.4.1 | 3,587,809 | - | 3,587,600 | 41,544 | 36,916 | - | (4,628) | 6.18% |
| Unquoted Equity Securities | | | | | | | | | |
| Tricon Developers Limited | 8.4.2 | 2,000,000 | - | 2,000,000 | 21,800 | 6,700 | (15,100) | - | 1.12% |
| | | | | | 63,344 | 43,616 | (15,100) | (4,628) | |

- 8.4.1** As more fully explained in note 8.5.2, this represent shares received in partial settlement of outstanding payment / redemption obligation by Azgard Nine Limited (ANL). As per Circular 7 of 2009 issued by the Securities and Exchange Commission of Pakistan (SECP) an "aggressive fixed income scheme" shall not invest / hold equity securities. However, SECP vide its letter no. SCD/AMCW/DD-ZRK/KFL/137 /2012 dated May 16, 2012 has granted exemption to the Fund from holding such equity securities received in settlement of such exposures and has directed to mark to market underlying shares as per the requirement of accounting standards. Currently these shares are held by Pak Brunel Investment Company Limited as beneficial owner on behalf of the Fund in terms of Shareholder's Investment Agreement dated July 26, 2012.

The above ordinary shares of Agritech Limited are subject to sale lock-in for a period of 5 years in terms of the Share Purchase Agreement (SPA) between the ANL and various lenders including the Fund. However, as per the SPA, the sales restriction is not applicable to transactions between the lenders of ANL.

- 8.4.2** These represents ordinary shares of Tricon Developers Limited (TDL) received from Trust Investment Bank Limited in settlement of its Preference Shares in terms of the settlement deed executed on November 20, 2012. These shares were transferred into the Fund from AMZ Plus Income Fund following the merger of the Funds as detailed in note 1 to these financial statements at carrying value of Rs 23.5 million as on the effective date of the merger. As per Circular 7 of 2009 issued by the SECP an "aggressive fixed income scheme" shall not invest or hold equity securities. Further Regulation 55(3) of the NBFC Regulations 2008 prohibits investing in unlisted equity securities. However, the Securities and Exchange Commission of Pakistan vide its letter no. SCD/AMCW/MF/DD-ZRK/APIF/333/2012 dated November 12, 2012 has granted exemption to the Fund for holding such shares in its portfolio. As per Regulation 66 (J) of Non-Banking Finance Companies and Notified Entities Regulations, 2008 a security not listed or quoted on a stock exchange, other than Government Securities or debt security, shall be valued at investment price or its break-up value as per last audited accounts, whichever is lower. During the year the Fund has valued its investment in TDL at the breakup value of Rs. 3.35 per share based on the latest available audited financial statements of the investee company for the year ended June 30, 2013. The decline of Rs. 15.1 million in investment value has been recognised as impairment in income statement.

8.5 Fixed income and other debt securities - 'Available for sale'

Term Finance Certificates and Sukuk Certificates

| Name of the Investee Company | Number of certificates | | | | Balances as at June 30, 2014 | | | Market Value as a percentage of net assets | Rebidding potential value as a percentage of total debt issue |
|--|------------------------|--|---------------------------------|---------------------|------------------------------|--------------|----------------------------|--|---|
| | As at July 01, 2013 | Purchased / received in settlement during the year | Sales / Matured during the year | As at June 30, 2014 | Carrying cost | Market value | Appreciation/ (Diminution) | | |
| (Rupees in '000) | | | | | | | | | |
| Term Finance Certificates - Issued | | | | | | | | | |
| Auss Hotels Limited | 19,750 | 1,013 | - | 20,763 | 20,000 | 22,800 | (1,700) | 4.56% | 1.03% |
| Azgard Nine Limited | 44,430 | - | - | 44,430 | - | - | - | 0.00% | 7.10% |
| Azgard Nine Limited - Issue - II | 14,385 | - | - | 14,385 | - | - | - | 0.00% | 2.00% |
| Jahangir Siddiqui Company Limited | 7,530 | - | 7,530 | - | - | - | - | 0.00% | 0.00% |
| New Allied Islamic Industries (Private) Limited | 13,330 | - | - | 13,330 | - | - | - | 0.00% | 3.00% |
| Saudi Pak Leasing Company Limited | 7,999 | - | - | 7,999 | 5,780 | 5,716 | (64) | 0.58% | 7.49% |
| Agritech Limited - Issued | 1,432 | - | - | 1,432 | - | - | - | 0.00% | 1.91% |
| Sukuk Certificates - Issued | | | | | | | | | |
| Edice Builders Limited | 7,380 | - | 7,380 | - | - | - | - | 0.00% | 0.00% |
| Gripe Housing Limited | 5,185 | - | 5,185 | - | - | - | - | 0.00% | 1.38% |
| Maple Leaf General Fining Limited - (Folio No: 5.5) | 20,180 | - | 11,985 | 8,195 | 17,411 | 25,116 | (8,205) | 4.71% | 0.48% |
| New Allied Electronics Industries (Private) Ltd - I | 10,330 | - | - | 10,330 | - | - | - | 0.00% | 1.38% |
| New Allied Electronics Industries (Private) Limited - I | 295,857 | - | - | 295,700 | - | - | - | 0.00% | 10.47% |
| New Allied Electronics Industries (Private) Limited - II | 8,430 | - | - | 8,430 | - | - | - | 0.00% | 5.62% |
| Society Leasing Corporation Limited | 500 | - | 500 | - | 382 | 330 | (152) | 0.01% | 0.00% |
| Wohal General Company Limited (Folio No: 2.5.10) | 20,330 | - | - | 20,330 | - | - | - | 0.00% | 0.00% |
| Agritech Limited - Issued - V | 8,470 | - | - | 8,470 | - | - | - | 0.00% | 2.00% |
| | | | | | 27,892 | 36,866 | (8,450) | | |
| | | | | | 22,674 | 26,046 | (3,621) | | |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

8.5.1 Securities listed below have been classified as non-performing in accordance with the provisioning Circulars of the SECP and the Fund's provisioning policy for non-performing exposure. Accordingly, the market values stated above have been arrived at after taking into account provisions as under:

| | | | | Outstanding balance | Provision recognized during the year | As at June 30, 2014 | |
|--|-------|------------|--------|------------------------|---|---------------------|-----------------------|
| | | | | | | Provision held | Net carrying value |
| ----- (Rupees in '000) ----- | | | | | | | |
| Azgard Nine Limited | TFC | Refer Note | 8.5.2 | 177,458 | - | (177,458) | - |
| Azgard Nine Limited - Issue - V | TFC | Refer Note | 8.5.3 | 72,975 | - | (72,975) | - |
| New Allied Electronics Industries (Private) Limited | TFC | Refer Note | 8.5.4 | 27,479 | - | (27,479) | - |
| Eden Housing Limited | Sukuk | Refer Note | 8.5.5 | 9,722 | - | (9,722) | - |
| New Allied Electronics Industries (Private) Limited - I | Sukuk | Refer Note | 8.5.7 | 10,000 | - | (10,000) | - |
| New Allied Electronics Industries (Private) Limited - I | Sukuk | Refer Note | 8.5.8 | 80,000 | - | (80,000) | - |
| New Allied Electronics Industries (Private) Limited - II | Sukuk | Refer Note | 8.5.9 | 42,183 | - | (42,183) | - |
| Agritech Limited | Sukuk | Refer Note | 8.5.11 | 38,115 | - | (38,115) | - |
| Agritech Limited - 5th Issue | TFC | Refer Note | 8.5.12 | 7,260 | - | (7,260) | - |
| Saudi Pak Leasing Company | TFC | Refer Note | 8.5.13 | 15,805 | - | - | 15,805 |
| | | | | | | | 15,805 |

8.5.2 On June 4, 2010, Azgard Nine Limited (ANL) has defaulted on account of payment of principal and profit amounting to Rs. 22.18 million and Rs. 16.22 million respectively. The Fund has recognized full provision against its investment and accrued profit in terms of provisioning policy of the Fund and applicable SECP Circulars.

The Fund along with other lenders, entered into Share Transfer and Debt Swap Agreement dated April 12, 2012 as amended by the First Supplemental Share Transfer and Debt Swap Agreement dated July 26, 2012 with Azgard Nine Limited (ANL) whereby ANL has agreed to transfer its shareholding in Agritech Limited (AGL) to existing lenders / creditors in partial settlement of outstanding payment / redemption obligations. Accordingly, ANL has transferred 3,587,600 ordinary shares of AGL, in partial settlement of its obligations towards the Fund, to Pak Brunel Investment Company Limited who holds these shares as beneficial owner on behalf of the Fund. Pak Brunel Investment Company Limited holds such shares in terms of Shareholders' Investment Agreement dated July 26, 2012. The Fund has recognized those shares at prevailing market rate and recognized Rs 41.867 million as gain on partial settlement last year. Further, on June 28, 2012, ANL has further issued term finance certificates amounting to Rs. 72.975 million in settlement of its outstanding obligation. The Fund has carried those certificates at Nil value as explained in note 8.5.3.

8.5.3 As more fully explained in note 8.5.2, this represent term finance certificates amounting to Rs. 72.975 million received in partial settlement of outstanding payments / redemptions by Azgard Nine Limited (ANL) in terms of Investment Agreement dated June 28, 2012. The Fund has carried these certificates at Nil value. These certificates are interest free and repayment was to commence from March 31, 2014. However, no payment in this respect has been received by the Fund.

8.5.4 On November 15, 2008, New Allied Electronics Industries (Private) Limited (NAEIL) defaulted on account of payment of mark-up and principal due amounting to Rs. 2.41 million and Rs. 5.42 million respectively. However, subsequently the Fund received partial payments against the outstanding mark-up. The Fund has recognized full provision against its investment and accrued profit in terms of provisioning policy of the Fund 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 mark-up and other charges etc.

8.5.5 On December 29, 2011, Eden Housing Limited (EHL) has defaulted on account of payment of mark-up and principal amounting to Rs. 0.69 million and Rs. 1.22 million respectively. However, both principal and profit due was subsequently paid by EHL. The Fund has recognized full provision against its investment and has suspended further accrual of mark-up there against such term finance certificates. During the year, the Fund has received an amount of Rs. 4.618 million against defaulted amount and recognised it as reversal. 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 mark-up and other charges etc.

8.5.6 Owing to financial difficulties, Maple Leaf Cement Factory Limited (MLCFL) has defaulted in payment of interest due on September 3, 2011, December 3, 2011, March 3, 2011 and June 3, 2012. On June 13, 2012 MLCFL has entered into restructuring agreement with its lender and according to the agreement MLCFL will pay quarterly payments starting from September 3, 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

During the year, the Fund has received all the amount as per restructured agreement from MLCPL and has reversed the provision amounting to Rs. 9.049 million. Further the investment has been classified as performing by Mutual Fund Association of Pakistan (MUFAP) on June 28, 2014.

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

- 8.5.7** On October 25, 2008, New Allied Electronics Industries (Private) Limited (NAEIL) had paid full mark-up amounting to Rs. 0.42 million, however, no payment was made against the principal due amounting to Rs. 0.63 million. The Fund has recognized full provision against its investment and has suspended further accrual of mark-up there against in accordance with the provisioning policy of the Fund and applicable SECP Circulars. During the year, different asset management companies, including the management company of the Fund has filed a legal suit for recovery of exposure against the borrower. 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 mark-up and other charges etc.

- 8.5.8** This represents the term finance certificates of New Allied Electronics Industries (Private) Limited (NAEIL) which were transferred from AMZ Plus Income Fund (APIF) to the Fund on effective date of the merger. These certificates were held by APIF at Nil value. On November 20, 2012, APIF has received further 64,000 certificates of NAEIL from Trust Investment Bank Limited (TIBL) in settlement of its investment in Preference Shares of TIBL. These certificates are also carried at Nil value and has been transferred to the Fund on the effective date of the merger. However, these certificates are not yet transferred in the name of the Fund which is currently in process. During the year, certain asset management companies, including management company of the Fund has filed a legal suit for recovery of exposure against the borrower. 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 mark-up and other charges etc.

- 8.5.9** On December 3, 2008, New Allied Electronics Industries (Private) Limited (NAEIL) had defaulted on payment of mark-up amounting to Rs. 3.25 million. However, subsequently the Fund had received partial payments against the accrued mark-up. The Fund has recognized full provision against its investment and accrued profit in terms of provisioning policy of the Fund 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 mark-up and other charges etc.

- 8.5.10** On September 14, 2011, Kohat Cement Company Limited has entered into a restructuring agreement according to which the payment of interest for first four quarters commencing September 20, 2011 will be deferred and retired through payments made from quarter beginning September 20, 2014 to the quarter ending June 20, 2016. The investment has been classified as performing by Mutual Fund Association of Pakistan (MUFAP). During the year, the borrower has paid entire outstanding principal as per restructuring agreement. The deferred mark-up will be paid by June 20, 2017.

- 8.5.11** On May 3, 2011 the Fund acquired 8,470 sukuk of Agritech Limited from KASB Islamic Income Opportunity Fund, a related party. Agritech Limited had defaulted in payment of mark up due on August 6, 2010 and was classified as non-performing at the time of acquisition by the Fund. The amount of investment has been fully provided by the Fund in accordance with the provisioning policy of the Fund and applicable SECP Circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

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

- 8.5.12** On March 22, 2013 the Fund acquired 1,452 Term Finance Certificates of Agritech Limited from KASB Islamic Income Opportunity Fund, a related party. Agritech Limited had defaulted in payment of mark up and was classified as non-performing on January 17, 2011. The amount of investment has been fully provided by the Fund in accordance with the provisioning policy of the Fund and applicable SECP Circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

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

- 8.5.13** On April 13, 2014, Saudi Pak Leasing Company has defaulted on account of payment of profit and principal due amounting to Rs. 0.0842 million and Rs. 0.240 million respectively. The security has been classified as non-performing by the Mutual Funds Association of Pakistan on April 30, 2014. The Fund has not recognized provision against the outstanding principal but has suspended further accrual of mark-up there against in accordance with the provisioning policy of the Fund 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 mark-up and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

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8.6 Unquoted Preference Shares - (Face value of Rs. 10 per share) - 'Available for sale'

| Name of the Investee Company | Number of shares | | | Balance as at June 30, 2014 | | | Market value as a percentage of net assets | | |
|--------------------------------------|---------------------|--|-----------------------|-----------------------------|---------------|--------------|--|----------------------------|-------|
| | As at July 01, 2013 | Transferred from APF (Refer to Note 1) | Sales during the year | As at June 30, 2014 | Carrying cost | Market value | | Appreciation/ (Diminution) | |
| ----- (Rupees in '000) ----- | | | | | | | | | |
| First Dawood Investment Bank Limited | 8.6.1 | 3,044,380 | - | - | 3,044,380 | 4,567 | 5,146 | 578 | 0.86% |

8.6.1 These are 5 years convertible, cumulative, non-voting, non participatory, callable preference shares carrying fixed dividend of 4% per annum on a cumulative basis payable annually. Call option for redemption of preference shares can be exercised by the borrower after two years from the date of issuance of preference shares at par value. A conversion option is also available to the Fund for conversion of preference shares into ordinary shares of First Dawood Investment Bank Limited (FDIBL) at par value exercisable at any time after the date of issuance of preference shares until the exercise of call option. Furthermore, the issuer, upon receiving the conversion notice from the investor, has an option to call the preference shares along with cumulative dividend.

The Fund has received these preference shares in settlement of defaulted amount by the borrower amounting to Rs. 30.44 million against initial investment in unsecured placement with FDIBL. These preference shares are non performing and were transferred into the Fund from AMZ Plus Income Fund following the merger of the two Funds at carrying value of Rs. 4.567 million as on the effective date of the merger.

These preference shares have been valued at break-up value of Rs. 1.69 per share of FDIBL as per the audited accounts for the year ended June 30, 2013 in line with Regulation 66(j) of Non-Banking Finance Companies and Notified Entities Regulations, 2008 and as per the discussion of the management of the Fund with SECP.

8.7 Non-Compliance Investments

As at June 30, 2014, the Fund is non-compliant in respect of the following investments:

| Name of Non-Compliant Investment | Type of Investment | Value of Investment before provision | Provision held if any | Value of Investment after Provision | % of Net assets based on carrying | % of Gross assets | |
|---|--------------------|--------------------------------------|-----------------------|-------------------------------------|-----------------------------------|-------------------|-----------------|
| | | | | | | | (Rupees in 000) |
| Tricon Developers Limited | 8.7.1 | Unquoted ordinary shares | 21,800 | 15,100 | 6,700 | 1.12% | 0.96% |
| AgriTech Limited | 8.7.2 | Quoted ordinary shares | 36,816 | - | 36,816 | 6.18% | 5.22% |
| First Dawood Investment Bank Limited | 8.7.3 | Preference Shares | 5,146 | - | 5,146 | 0.86% | 0.73% |
| Trust Investment Bank Limited | 8.7.4 | Receivable against lease facility | 41 | 41,089 | (41,059) | -6.87% | -5.81% |
| New Allied Electronics Industries (Private) Limited - I | | Term Finance Certificate | 90,000 | 90,000 | - | 0.00% | 0.00% |
| KASB Modaraba | 8.7.4 | Certificate of Musharaka | 67,000 | - | 67,000 | 11.22% | 9.48% |
| Security Leasing Corporation Limited (SLCL) | 8.7.5 | Term Finance Certificate | 225 | - | 225 | 0.04% | 0.03% |

8.7.1 The SECP vide its letter no. SCD/AMCW/MF/DD-ZRK/APIF/333/2012 dated November 12, 2012 has granted exemption from holding such shares and lease portfolio in the Fund's portfolio.

8.7.2 The SECP vide its letter no. SCD/AMCW/DD-ZRK/KFL/137/2012 dated May 16, 2012 has granted exemption from holding such shares in the Fund's portfolio.

8.7.3 The SECP vide its letter no. SCD/AMCW/KASB/340/2012 has granted exemption for merger which includes transfer of First Dawood from AMZ Plus Income Fund.

8.7.4 During the year, the Fund has invested in Certificate of Musharaka of KASB Modaraba (connected person) without Board approval and has taken exposure of said certificates more than 10% of the net assets, resulted in non-compliance with Regulations 59(1) and 55(5) of Non-Banking Finance Companies, 2008.

8.7.5 As per Circular 7 of 2009, weighted average time to maturity of the net assets shall not exceed 5 years and this condition shall not apply to securities issued by Federal Government. However, the Fund has an investment in TFC of SLCL having weighted average maturity of 7 years, resulted in non compliance with the requirement of aforementioned Circular.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

8.8 SIGNIFICANT TERMS AND CONDITIONS OF TERM FINANCE AND SUKUK CERTIFICATES

Significant terms and conditions of Term Finance and Sukuk Certificates outstanding as at June 30, 2014 are as follows:

| Name of security | Remaining principal (Per TFC/ Sukuk) | Mark-up rate (per annum) | Issue date | Maturity date |
|--|--|--------------------------|--------------------|--------------------|
| Pace Pakistan Limited | 4,493 | 6 month KIBOR + 2% | February 15, 2008 | February 15, 2017 |
| Trust Investment Bank Limited | 1,874 | 6 month KIBOR + 1.85% | July 04, 2008 | July 04, 2013 |
| B.R.R Guardian Modaraba | 3,578 | 6 month KIBOR + 1.30% | June 07, 2008 | December 07, 2016 |
| Agritech Limited - TFC V Issue | 5,000 | 11.00% | July 1, 2011 | July 1, 2017 |
| Avani Hotels Limited | 1,384 | 1 year KIBOR + 2.5% | April 30, 2009 | October 30, 2014 |
| Kohat Cement Limited | - | 6 month KIBOR + 2.5% | December 20, 2007 | December 20, 2015 |
| Security Leasing Corporation Limited | 1,284 | 1 month KIBOR + 2% | June 01, 2007 | January 19, 2022 |
| Eden Builders Limited | - | 3 month KIBOR + 2.3% | September 08, 2008 | March 08, 2014 |
| Jahangir Siddiqui and Company Limited | - | 6 month KIBOR + 1.7% | July 04, 2007 | July 04, 2013 |
| New Allied Electronics Industries Limited TFC | 2,114 | 3 month KIBOR + 3% | May 15, 2007 | May 15, 2011 |
| New Allied Electronics Industries Limited Sukuk I | 313 | 3 month KIBOR + 2.2% | July 27, 2007 | July 27, 2012 |
| New Allied Electronics Industries Limited Sukuk II | 4,905 | 6 month KIBOR + 2.2% | December 03, 2007 | December 03, 2012 |
| Azgard Nine Limited | 3,997 | 6 month KIBOR + 2.25% | December 04, 2007 | 4 December 2014 |
| Agritech Limited | 4,500 | 6 month KIBOR + 2% | August 06, 2008 | August 06, 2015 |
| Maple Leaf Cement Factory Limited - I | 4,489 | 3 month KIBOR + 1% | December 03, 2007 | December 03, 2018 |
| Eden Housing Limited | 1,875 | 6 month KIBOR + 2.5% | March 31, 2008 | September 29, 2014 |
| Saudi Pak Leasing Company Ltd. | 2,715 | 6 month KIBOR + 1.5% | March 13, 2008 | March 13, 2017 |

9. ADVANCE AGAINST PRE INITIAL PUBLIC OFFER INVESTMENTS

| Name of the investee Company | Number of certificates | | | | As at June 30, 2014 | |
|---------------------------------------|-----------------------------|--|-----------------------|---------------------|---------------------|---------------|
| | As at July 01, 2013 | Purchased / Received in settlement during the year | Sales during the year | As at June 30, 2014 | Carrying Cost | Market value |
| | ----- (Rupees in 000) ----- | | | | | |
| Dewan Cement Limited | 9.1 | 30,000 | - | - | 30,000 | - |
| Dewan Cement Limited | 9.2 | 10,000 | - | - | 10,000 | - |
| Pakistan Mobile Communication Limited | 9.3 | - | 3,079 | - | 3,079 | 15,395 |
| | | | | <u>43,079</u> | <u>15,395</u> | <u>15,395</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

- 9.1 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 mark-up there against 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 mark-up and other charges etc.

- 9.2 On November 20, 2012, AMZ Plus Income Fund (APIF) has entered into settlement agreement with Trust Investment Bank Limited (TIBL) whereby TIBL has transferred its investment in Pre - IPO of Dewan Cement Limited to APIF in settlement against its Preference Shares. APIF has carried it at Nil value and has transferred it to the Fund on the effective date of the merger.

- 9.3 This represents advance provided against issue of privately placed issue of term finance certificates of Pakistan Mobile Communications Limited in terms of investment agreement dated September 17, 2013. The advance is unsecured and carries mark up at the rate of 6 months KIBOR + 2.00% per annum. The Fund has committed to subscribe 5,960 TFCs having face value of Rs. 5,000 each with total amount of Rs. 29.8 million.

10. PLACEMENTS

Due to continuous defaults in repayment of principal by Saudi Pak Leasing Company (SPLC) and Trust Investment Bank Limited (TIBL), the Fund has recognized full provision against their outstanding principal amounting to Rs. 86 million and Rs. 3.5 million respectively.

On December 28, 2011 the Fund entered into settlement agreement with SPLC whereby term finance facility as detailed in note 10 was received by the Fund. The balance of Rs. 10 million is to be paid in monthly instalments of Rs. 0.375 million each till March 31, 2014 and remaining balance of Rs. 10.428 million is still outstanding there against. In view of irregularities in repayments made by SPLC in past, currently the Fund is recognizing those payments on receipt basis. During the year, the Fund has received Rs. 3.375 million (Rs. 14.283 million in aggregate) against the aforesaid exposure.

11. TERM FINANCE FACILITY

This represents term finance facilities availed by Wisdom Education System (Private) Limited (WESPL) from Saudi Pak Leasing Company Limited (SPLC). On June 11, 2012, the Fund has entered into novation agreement with SPLC whereby rights of SPLC to term payments from WESPL stand transferred to the Fund. The novation agreement was part of settlement against the Fund's investment in the letter of placement with SPLC. The principal amount will be repaid by WESPL till October 31, 2016 and carrying mark-up at 15% per annum. On April 15, 2014, the Fund has entered into a restructuring agreement with WESPL whereby principal repayment will be made till January 31, 2017 with deferred mark-up will be repaid by June 30, 2017. During the year, the Fund has received Rs. 9 million from WESPL as repayment of principal as per restructuring agreement and has reversed the provision amounting to Rs. 32.883 million based on the decision made by the Investment Committee of the Fund in its meeting held on April 18, 2014.

12. RECEIVABLE AGAINST LOAN

On August 3, 2012, the Fund has entered into an agreement with Security Leasing Corporation Limited (SLCL) in which it was mutually agreed that the previous agreement to transfer of redeemable preference shares was cancelled and a new arrangement was settled. According to the new arrangement, the Fund is entitled to receive an amount of Rs. 25 million (interest free) through 96 monthly instalments. As at June 30, 2014, the receivable from SLCL has been valued by applying discount rate of 20% to the future receipts in line with the decision of the Investment Committee of the Fund to which Trustee of the Fund has acceded after allowing provision of Rs. 2.5 million there against. The said loan is transferred to the Fund following the merger of AMZ Plus Income Fund into the Fund. In view of irregularities in repayments made by SLCL in past, currently the Fund is recognizing those payments on receipt basis and adjusting recovery, if any, against carrying amount. During the year, the Fund has received Rs. 2.86 million from SLCL which was adjusted against its carrying amount.

13. RECEIVABLE AGAINST LEASE FACILITY

On November 20, 2012, the Fund has entered into settlement agreement with Trust Investment Bank Limited (TIBL) against its Preference Shares. As per the settlement arrangement TIBL has transferred certain lease facilities from its portfolio of leases to APIF. APIF has carried these lease facilities portfolio at Nil value and has transferred to the Fund on the effective date of the merger. The following leases were transferred to APIF from TIBL:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

| Type of Investment | Name of the Party | Lease receivable | Book value as at June 30, 2014 |
|--------------------|-------------------------------------|------------------|--------------------------------|
| | | (Rupees in '000) | |
| Lease facility | Ahmed Cold Agency | 3,395 | - |
| Lease facility | Ahli Transport | 3,306 | - |
| Lease facility | Anwar Kamal | 9,217 | - |
| Lease facility | Gul Azam Enterprises | 5,143 | - |
| Lease facility | Jahangir & Co. | 6,996 | - |
| Lease facility | Shah Mehmood Khan Transport Company | 7,883 | - |
| Lease facility | Malik Ahsan Awan Transport Company | 3,529 | - |
| Lease facility | Shad Muhammad | 1,630 | - |
| | | 41,099 | - |

The Securities and Exchange Commission of Pakistan vide its letter no. SCD/AMCW/MF/DD-ZRK/APIF/333/2012 dated November 12, 2012 has allowed Fund to hold the lease receivables in the Fund's portfolio. The proceed will be recognized against above facility on receipt basis.

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | | 2014 | 2013 |
|---|------|------------------------------|--------------|
| | | (Rupees in '000) | |
| Deposit with National Clearing Company of Pakistan Limited | 14.1 | 12,375 | 5,375 |
| Deposit with Central Depository Company of Pakistan Limited | 14.2 | 200 | 200 |
| Prepaid expense | | 165 | 176 |
| | | 12,740 | 5,751 |

14.1 This represents deposit with National Clearing Company of Pakistan Limited in respect of Bond Automated Trading System (BATS) and against exposure for Marginal Trading System.

14.2 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.

15. PAYABLE TO MANAGEMENT COMPANY OF THE FUND

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. During the year the Management Company has charged its remuneration at the rate of 2 percent per annum of the average annual net assets of the Fund and also includes Sindh Sales Tax and Federal Excise Duty levied at the rate of 16% on management fees.

The Finance Act, 2013 introduced an amendment to Federal Excise Act, 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% on the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the passage of eighteenth amendment. The SHC in its short order dated September 4, 2013 directed the Federal Board of Revenue (FBR) not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED in these financial statements. In case, the suit is decided against the Fund it would be paid to management company, who will be responsible for submitting the same to taxation authorities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

16. PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed. The following tariff structure as amended by the Trustee of the Fund vide letter no. CDC/T&C-UIDH/328/2010 dated December 18, 2010 is applicable based on net assets of the Fund.

| Net Assets of the Fund (Average NAV) | Tariff per annum |
|--------------------------------------|---|
| Up to Rs. 1,000 million | Rs. 0.6 million or 0.17% p.a. of NAV, whichever is higher |
| Rs. 1,000 million to 5,000 million | Rs. 1.7 million plus 0.085% p.a. of NAV exceeding Rs. 1,000 million |
| On an amount exceeding 5,000 million | Rs. 5.1 million plus 0.07% p.a. of NAV exceeding Rs. 5,000 million |

17. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

Under the provisions of the NBFC Regulations, 2006, 'income fund' is required to pay an amount equal to 0.075% of the average annual net assets of the Fund, as annual fee to the SECP.

18. ACCRUED EXPENSES AND OTHER LIABILITIES

| | 2014 | 2013 |
|--|-----------------------------|--------------|
| | ----- (Rupees in '000)----- | |
| Auditors' remuneration payable | 677 | 678 |
| Legal and professional charges payable | - | 220 |
| Provision for Workers' Welfare Fund | 78.7 | 4,522 |
| Payable against redemption of units | 99,398 | - |
| Others | 478 | 337 |
| | <u>106,350</u> | <u>5,757</u> |

- 18.1 The Finance Act, 2006 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. The Board of Directors of the management company in their meeting held on March 12, 2014 have decided that the cumulative unrecognized portion of WWF charge till February 28, 2014 will be borne by the management company subject to court decision. The aggregate unrecognized amount as at February 28, 2014 amounted to Rs. 2.27 million (2013:Rs. 1.41 million). Further from March 1, 2014 and onwards the Fund has recognised the WWF charge amounting to Rs. 1.28 million in its books of accounts.

19. AUDITORS' REMUNERATION

| | | |
|-----------------------------------|------------|------------|
| Audit fee | 400 | 350 |
| Half yearly review | 110 | 110 |
| Other certifications and services | 70 | 70 |
| Out of pocket expense | 35 | 63 |
| | <u>615</u> | <u>593</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

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 realized or unrealized is distributed amongst the unit holders. Furthermore, as per regulation 63 of the NBFC Regulations, 2008 and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. The management distributes at least 90% of the income earned by the Fund to the unit holders in the manner explained above. Consequently, no provision for taxation has been made in these financial statements.

21. EARNINGS PER UNIT

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

22. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Related parties / connected persons include KASB Funds Limited being the Management Company, its related entities, Central Depository Company of Pakistan Limited being the Trustee of the Fund, other Funds managed by the Management Company and directors, key management personnel and officers of the Management Company, and unit holders having more than 10% holding in the Fund.

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:

22.1 Transactions with related parties / connected persons:

KASB Funds Limited

Remuneration of Management Company of the Fund - including
taxes and duties thereon

Conversion in the Fund: Nil units (2013: 542,951 units)

Conversion out of the Fund: 186,713 units (2013: 160,757 units)

Redemption from the Fund: Nil units (2013: 164,686 units)

Investment in the Fund: 754,895 units (2013: Nil units)

Sale of fixed income and other debt securities

| | 2014 | 2013 |
|--|-----------------------------|--------|
| | (Rupees in '000)..... | |
| | 11,867 | 8,947 |
| | - | 28,293 |
| | 13,458 | 12,150 |
| | - | 12,451 |
| | 55,000 | - |
| | - | 22,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

| | | 2014 | 2013 |
|---|------|------------------------------|---------|
| | | ----- (Rupees in '000) ----- | |
| KASB Bank Limited | | | |
| Bank charges | | 34 | 19 |
| Profit on bank deposits | 22.4 | 15,463 | 6,895 |
| Dividend paid | | 81,507 | 1,008 |
| KASB Securities Limited | | | |
| Brokerage expense | 22.3 | 80 | 5 |
| Conversion in the Fund: Nil units (2013: 51,737) | | - | 3,723 |
| Redemption from the Fund: Nil units (2013: 51,737) | | - | 3,710 |
| Central Depository Company of Pakistan Limited - Trustee | | | |
| Remuneration | 16 | 1,034 | 755 |
| CDS charges | | 5 | 11 |
| KASB Modaraba | | | |
| Purchase of certificate of musharaka | | 126,000 | 80,000 |
| Maturities of certificate of musharaka | | 119,000 | 80,000 |
| Profit on certificate of musharaka | | 3,185 | 3,659 |
| KASB Islamic Income Opportunity Fund | | | |
| Purchase of fixed income and other debt securities | | - | 363 |
| KASB Corporation Limited (Formerly: Sigma Corporation Limited) | | | |
| Investment in the Fund: 40,330 units (2013: 1,497,398) | | 2,955 | 100,000 |
| Redemption from the Fund: 235,256 units (2013: 1,262,143) | | 17,069 | 84,929 |
| Mr. Abdul Rashid / Khadija* | | | |
| Investment in the Fund: Nil units (2013: 800,219) | | - | 60,000 |
| Conversion in the Fund: 544,766 units (2013: 1,419,007) | | 40,000 | 104,984 |
| Conversion out of the Fund: 1,230,321 units (2013: 800,219) | | 89,607 | 60,575 |
| Redemption from the Fund: 161,175 units (2013: Nil units) | | 11,500 | - |
| Directors & officers of the management company | | | |
| Conversion in the Fund: Nil units (2013: 28,900 units) | | - | 2,079 |
| Redemption from the Fund: Nil units (2013: 18,379) | | - | 1,329 |
| Bonus units issued 5,888 units (2013: Nil) | | 409 | - |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

22.2 Balances with related parties / connected persons at year end:

| | 2014 | 2013 |
|---|------------------------------|------------------|
| | ----- (Rupees in '000) ----- | |
| KASB Funds Limited | | |
| Payable to Management Company of the Fund | 15 | 2,555 |
| Units held: 1,358,906.27 units (2013: 217,508) | | 1,149 |
| | | <u>96,118</u> |
| | | <u>17,336</u> |
| KASB Bank Limited | | |
| Bank balance | 4 | 151,118 |
| Profit receivable on bank deposits | 22.4 | 291,161 |
| Units held: 3,361,101 units (2013: 3,361,101 units) | | 1,790 |
| | | <u>237,737</u> |
| | | <u>270,398</u> |
| KASB Securities Limited | | |
| Brokerage payable | 22.3 | - |
| | | <u>7</u> |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | 16 | 187 |
| Security deposit | 14.2 | 76 |
| | | <u>200</u> |
| | | <u>200</u> |
| KASB Corporation Limited <i>(Formerly: Sigma Corporation Limited)</i> | | |
| Units held: 89,717 units (2013: 235,256) | | <u>6,346</u> |
| | | <u>18,751</u> |
| Mr. Abdul Rashid / Khadija * | | |
| Units held: Nil units (2013: 1,419,007 units) | | <u>-</u> |
| | | <u>114,158</u> |
| Directors & officers of the management company | | |
| Units held: 21,000 units (2013: 15,112 units) | | <u>1,485,393</u> |
| | | <u>1,204</u> |

22.3 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.

22.4 The rate of return on this deposit is 9.75% per annum (2013: 6.5% per annum).

* Owing to redemption during the year by unit holders, the holding was less than 10% of total outstanding unit in issue at year end.

23. 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 money market instrument and government securities with an objective of optimizing the return to unit holders. The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

23.1 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, 2014, the investment in debt securities exposed to interest rate risk is detailed in notes 8.3, 8.5, 9, 10, 11, 12 and 13 to these financial statements.

a) Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in KIBOR and MTS Lending rate on June 30, 2014, 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. 0.402 million (2013: Rs. 0.251 million).

The composition of the Fund's investment portfolio and KIBOR / MTS lending rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates. The management considers that fluctuation in interest of 100 basis points is reasonably possible in current economic environment.

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, 2014, with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.98 million (2013: 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 and Mutual Funds Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Investments in certificates of investment including certificate of Musharaka which are carried at amortised cost and not exposed the Fund to fair value and cash flow 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 changes 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. As at June 30, 2014, the Fund has investment in quoted equity securities exposed to price risk.

In case of 5% increase / decrease in KSE-100 index on June 30, 2014, net income and net assets of the Fund would increase / decrease by Rs. 1.089 million (2013: 0.709 million) as a result of gains/losses on equity securities at fair value through profit or loss.

23.2 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 a financial loss to the Fund. It principally arises from balances with banks, Lending under MTS, Income receivable, Investments, Certificate of Investment, Placements, Term finance facility, Receivable against loan, Receivable against lease facility and Deposits and other receivables. The credit exposures arises from investment in debt securities as detailed in notes 8.3, 8.5, 9, 10, 11, 12 and 13 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

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 through circulars by the SECP 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, at the balance sheet date is represented by the respective carrying amount of relevant financial asset i.e. balances with banks, Lending under MTS, Income receivable, Investments, Certificate of Investment, Placements, Term finance facility, Receivable against loan, Receivable against lease facility and Deposits and other receivables in Statement of Assets and Liabilities. The credit exposure arising from investment in debt securities is detailed in note 8.3, 8.5, 9, 10, 11, 12 and 13 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 counterparty 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, 2014, the Fund kept surplus liquidity with bank having credit rating ranging from AA+ to BBB. The rating to respective banks are 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 as per criteria specified in Circulars issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. 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 summarizes 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

| | 2014 | 2013 |
|----------------------|------------------------------|-------------|
| | ----- (Rupees in '000) ----- | |
| AA | - | 16.52 |
| A | - | 5.97 |
| A- | 29.67 | 33.56 |
| BBB | 37.45 | - |
| Non Investment Grade | - | 8.03 |
| Non rated | 32.88 | 10.43 |
| Non-performing | - | 25.49 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

Deposits and other receivables

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.

Lending under Marginal Trading System

Management does not consider that it has material exposure under the arrangement as the settlement are done via Central Clearing System and underlying security is held as collateral.

Past due and impaired assets

None of the above financial assets were considered to be past due or impaired in 2014 and 2013 except for the exposures and the provisions there against as provided in notes 8.3, 8.5, 9, 10, 11, 12 and 13. 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. As at June 30, 2014 there is no concentration of credit risk to an individual issuer / counterparty, apart from investment in government securities to which the management believes it has no material credit exposure.

None of the financial assets and financial liabilities are offset in the Statement of Assets and Liabilities except where the settlement is done through central clearing system or where management intends to settle net and also has legally enforceable right to do so.

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

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 the Fund Manager and Risk and Compliance Department on daily basis. The aim of the review 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

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, 2014 | | | |
|--|--------------------------|---|-----------------------|----------------|
| | Up to three months | More than three months and up to one year | More than one year | Total |
| | (Rupees in '000) | | | |
| Payable to Management Company of the Fund | 2,555 | - | - | 2,555 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | 187 | - | - | 187 |
| Accrued expenses and other liabilities | 100,444 | - | - | 100,444 |
| | 103,186 | - | - | 103,186 |
| | (Rupees in '000) | | | |
| | June 30, 2013 | | | |
| | Up to three months | More than three months and up to one year | More than one year | Total |
| | (Rupees in '000) | | | |
| Payable to Management Company of the Fund | 1,149 | - | - | 1,149 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | 76 | - | - | 76 |
| Accrued expenses and other liabilities | 1,235 | - | - | 1,235 |
| | 2,460 | - | - | 2,460 |

23.4 Financial instruments by category

As at June 30, 2014, all the financial assets are carried on the Statement of Assets and Liabilities are categorized either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorized as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

| | June 30, 2014 | | | Total |
|---|--------------------------|---|-----------------------|----------------|
| | Loans and receivables | Assets at fair value through profit or loss | Available for sale | |
| | (Rupees in '000) | | | |
| Assets | | | | |
| Balances with banks - saving accounts | 151,206 | - | - | 151,206 |
| Lending under Margin Trading System | 142,713 | - | - | 142,713 |
| Certificate of Musharaka | 67,000 | - | - | 67,000 |
| Income receivable | 31,178 | - | - | 31,178 |
| Investments | - | 136,200 | 112,811 | 249,011 |
| Advances against Pre Initial Public Offer | 15,395 | - | - | 15,395 |
| Term Finance Facility | 32,883 | - | - | 32,883 |
| Receivable against loan | 4,818 | - | - | 4,818 |
| Deposits and other receivables | 12,575 | - | - | 12,575 |
| | 457,768 | 136,200 | 112,811 | 706,779 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

Liabilities

Payable to Management Company of the Fund
Payable to the Central Depository Company of
Pakistan Limited - Trustee
Accrued expenses and other liabilities

| June 30, 2014 | | |
|---|-----------------------------------|----------------|
| Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| ----- (Rupees in '000) ----- | | |
| - | 2,555 | 2,555 |
| - | 187 | 187 |
| - | 100,444 | 100,444 |
| <u>-</u> | <u>103,186</u> | <u>103,186</u> |

June 30, 2013

| Loans and receivables | Assets at fair value through profit or loss | Available for sale | Total |
|------------------------------|---|-----------------------|----------------|
| ----- (Rupees in '000) ----- | | | |
| 291,177 | - | - | 291,177 |
| 38,096 | - | - | 38,096 |
| 34,260 | - | - | 34,260 |
| - | - | 181,213 | 181,213 |
| 7,942 | - | - | 7,942 |
| - | - | - | - |
| 5,575 | - | - | 5,575 |
| <u>377,050</u> | <u>-</u> | <u>181,213</u> | <u>558,263</u> |

Assets

Balances with banks - saving accounts
Lending under Margin Trading System
Income receivable
Investments
Receivable against loan
Term Finance Facility
Deposits and other receivables

| June 30, 2013 | | |
|---|-----------------------------------|--------------|
| Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| ----- (Rupees in '000) ----- | | |
| - | 1,149 | 1,149 |
| - | 76 | 76 |
| - | 1,235 | 1,235 |
| <u>-</u> | <u>2,460</u> | <u>2,460</u> |

Liabilities

Payable to Management Company of the Fund
Payable to the Central Depository Company of
Pakistan Limited - Trustee
Accrued expenses and other liabilities

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

23.5 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 at all time during the life of the Fund. 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 maximize 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.

24. 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 measurement:

- 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. from prices) derived.
- Level 3: Valuation techniques using significant unobservable inputs.

| | 2014 | | |
|--|---------|-----------------------------|---------|
| | Level 1 | Level 2 (Rupees in '000) | Level 3 |
| <i>'At fair value through profit or loss' - held for trading</i> | | | |
| - Fixed income and other debt securities | - | - | 136,200 |
| <i>'Available for sale'</i> | | | |
| - Fixed income and other debt securities | - | - | 64,049 |
| - Quoted equity securities | 36,916 | - | - |
| - Unquoted equity securities | - | 11,846 | - |
| | | | |
| | 2013 | | |
| | Level 1 | Level 2 (Rupees in '000) | Level 3 |
| <i>'At fair value through profit or loss' - held for trading</i> | | | |
| - Fixed income and other debt securities | - | - | - |
| <i>'Available for sale'</i> | | | |
| - Fixed income and other debt securities | - | - | 113,302 |
| - Quoted equity securities | 41,544 | - | - |

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, 2014

25. DISTRIBUTIONS TO THE UNIT HOLDER OF THE FUND

Interim distributions during the year

Date of distributions

For the year ended June 30, 2014

| Date of distributions | Distribution per unit | No. of bonus units issued | Bonus | | Cash | Total |
|-----------------------|-----------------------|---------------------------|------------------------------|---------------|----------------|-------|
| | | | ----- (Rupees in '000) ----- | | | |
| December 31, 2013 | 7.25 | 487,305 | 34,714 | 24,369 | 59,083 | |
| June 26, 2014 | 7.00 | 615,006 | 41,187 | 23,528 | 64,715 | |
| | | 1,102,311 | 75,901 | 47,897 | 123,798 | |

26. SUPPLEMENTARY NON FINANCIAL INFORMATION

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

26.1 Pattern of unit holding

| Category | No. of unit holders | | Investment amount | | Percentage of total investment | |
|--------------------------------|---------------------|-----------|-------------------|----------------|--------------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | (Numbers) | | (Rupees in '000) | | (%) | |
| Individuals | 32 | 33 | 186,351 | 207,172 | 31.19 | 37.21 |
| Associated companies | 2 | 6 | 340,201 | 307,161 | 56.95 | 55.17 |
| Banks / Financial Institutions | 1 | 1 | 43,435 | 31,401 | 7.27 | 5.64 |
| Retirement Funds | 1 | 1 | 14,824 | 10,930 | 2.48 | 1.96 |
| Others | 2 | 1 | 12,585 | 59 | 2.11 | 0.01 |
| | 38 | 42 | 597,396 | 556,723 | 100.00 | 100.00 |

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

Broker Name

KASB Securities Limited
 Invest One Market Ltd.
 Vector Capital
 Anil Habib Securities Limited

2014
(Percentage)

60.69
 37.74
 1.33
 0.24

Broker Name

JS Global Capital Limited
 Invest & Finance Securities Limited
 KASB Securities Limited
 Alfalah Securities (Pvt.) Limited
 Invest Capital Invest Bank Ltd.
 Invest One Market Ltd.

2013
(Percentage)

57.5
 17.71
 16.23
 5.9
 1.51
 1.15

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

26.3 Meeting of Board of Directors of Management Company

| Name of the person | Designation | Total | Meetings | |
|-------------------------------|---|-------|----------|---------------|
| | | | Attended | Leave granted |
| Mr. Robert John Richard Owen | Chairman | 7 | 7 | - |
| Mr. Muzaffar Ali Shah Bukhari | Director | 7 | 4 | 3 |
| Mr. Qaisar P. Mufit | Director | 7 | 7 | - |
| Mr. Amer Maqbool | Chief Executive Officer and Director* | 7 | 3 | 4 |
| Mr. Adnan Abdali | Chief Financial Officer and Company Secretary | 7 | 7 | - |
| Mr. Hussain Jaffer Ali Khoja | Acting Chief Executive Officer* | 7 | 4 | 3 |

* During the year, CEO has resigned from his office and Board of Directors in their meeting held on October 14, 2013 have promoted Hussain Jaffer Ali Khoja as acting CEO. On June 6, 2014 the acting CEO was replaced by appointment of Mr. Khaldoon Bin Latif as CEO by Board of Directors of Management Company through resolution by circulation. However SECP approval for appointment of CEO is still pending. Subsequent to appointment of new CEO no Board of Directors meeting has been held.

Dates of the meetings of the Board of Directors

The 68th, 69th, 70th, 71st, 72nd, 73rd, and 74th Board of Directors meetings were held on July 4, 2013, August 1, 2013, August 27, 2013, October 14, 2013, March 12, 2014, April 3, 2014, and April 28, 2014 respectively.

26.4 Details of Members of Investment Committee

| Name | Designation | Qualification | Experience (Years) |
|--------------------------|---------------------------|---------------|--------------------|
| Khaldoon Bin Latif | Chief Executive Officer | B.Sc (Hons.) | 10 |
| Hussain Jaffer Ali Khoja | Chief Investments Officer | ACCA | 11 |
| Irfan Nepal | Fund Manager | B.Com | 20 |
| Mohsin Raza Wasaya | Compliance Officer | B.Com | 7 |
| Saqib Shah | Fund Manager | MBA | 11 |
| Syed Adnan Abdali | Chief Financial Officer | ACMA | 10 |

26.4.1 Details of other funds managed by the Fund Manager

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

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 13, 2014.

For KASB Funds Limited
(Management Company)

Chief Executive

Director