

managed by

 **KASB FUNDS**

THE PRIMARY OBJECTIVE OF THE SCHEME IS TO SEEK TO GENERATE LONG TERM CAPITAL APPRECIATION AND INCOME, FROM A PORTFOLIO THAT IS SUBSTANTIALLY CONSTITUTED OF EQUITY AND EQUITY RELATED SECURITIES.

THE SCHEME MAY ALSO INVEST A CERTAIN PORTION OF ITS CORPUS IN SHORT TERM GOVERNMENT SECURITIES IN ORDER TO MEET LIQUIDITY REQUIREMENTS FROM TIME TO TIME.

**KASB** STOCK MARKET FUND

**ANNUAL REPORT**  
June 30, 2011

**CONTENTS**

---

Fund Information	2
Mission Report	3
Report of the Directors of the Management Company	4
Annual Fund Managers' Report	9
Trustee Report To The Unit Holders	11
Statement of Compliance With The Code Of Corporate Governance	12
Review Report To The Unit Holders of KASB Stock Market Fund "The Fund" on Statement of Compliance With Best Practices of Code of Corporate Governance	13
Independent Auditors' Report To The Unit Holders	14
Statement of Assets and Liabilities	15
Income Statement	16
Statement of Comprehensive Income	17
Distribution Statement	18
Statement of Movement in Unit Holders' Fund	19
Cash Flow Statement	20
Notes to the Financial Statements	21

## FUND INFORMATION

---

**Management Company**

KASB Funds Limited

*Registered Office:*

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

*Principal Office*

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

UAN: (92-21) 111 535 535

Fax: (92-21) 3263 9188

URL: [www.kasbfunds.com](http://www.kasbfunds.com)

**Board of Directors of KASB Funds Limited**

Mr. Robert John Richard Owen - Chairman

Mr. Amer Maqbool - Chief Executive

Mr. Qaiser P. Mufti

Mr. Syed Muhammad Rehmanullah

Mr. Muzaffar Ali Shah Bukhari

**Chief Financial Officer**

Mr. Muhammad Imran Khalil

**Company Secretary**

Mr. Mansoor Ali

**Audit Committee**

Mr. Robert John Richard Owen

Mr. Syed Muhammad Rehmanullah

Mr. Qaiser P. Mufti

**Trustee**

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

**Fund Ranking**

2 star (Short Term)

4 star (Long Term)

By PACRA (February 2011)

**Bankers to the Fund**

KASB Bank Limited

**Auditors**

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

**Legal Advisor**

Bawaney & Partners

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

**Registrar**

KASB Funds Limited

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

**Distributors**

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Standard Chartered Bank (Pakistan) Limited

**Management Company Rating**

Rated AM3 by JCR-VIS

(May 2011)

## MISSION STATEMENT

---

The Funds seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities.

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

The Board of Directors of KASB Funds Limited ("KFL" or "the Company"), the Management Company of KASB Stock Market Fund ("KSMF" or "the Fund"), is pleased to present the fifth Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2011.

### Financial Highlights

	FY 2011	FY 2010	Increase / (Decrease) (%)
Net Income (Rs. in Million)	22.22	74.29	(70.09)
Net Assets as at June 30 (Rs. in Million)	124.42	217.85	(42.88)
NAV per Unit as on June 30 (Rs.) *	29.37**	36.53	(41.29)
Return (%)	17.35	10.80	60.65

\* Par value of each unit is Rs. 50

\*\*Ex-NAV after final distribution

### Economic Environment

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

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

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

### Capital Market

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

### Investment Strategy

KSMF 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. Liquidity is an important consideration in the stock selection process as well and illiquid but fundamentally under valued stocks are kept at a minimum. For the outgoing fiscal year, banking, fertilizer and oil and gas sectors remained in favour with the fund as they offered most value as well as growth opportunities.

### Fund Performance

KSMF has earned a return of 17.35% for FY11 as against a benchmark return of 21.24% of the KSE-30 Index. The slight underperformance was due to limited selection of illiquid but undervalued stocks which could not provide the desired results. The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 29.37. The net income for the year ended June 30, 2011 was Rs. 22.22 million.

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

*For the year ended June 30, 2011*

### Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 3.00 per unit to the unit holders of the Fund for the year ended June 30, 2011.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the financial year ended June 30, 2011, 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 KSMF was Rs. 217.85 million on June 30, 2010 which decreased by 42.88% by the end of the financial year to close at Rs. 124.42 million on June 30, 2011. During the year, units worth Rs. 66.32 million were issued and units with a value of Rs. 203.24 million were redeemed. As on June 30, 2011, the total number of outstanding units was 4,235,793 with a value of Rs. 124.42 million.

### Code of Corporate Governance

The Board of Directors states that:

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

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

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

### Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2011 is disclosed in note 23 of the financial statements.

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

S. No	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Mr. Muhammad Imran Khalil	Chief Financial Officer	33	Nil

### Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2011, associated companies held 85.45% out of the total units; individuals held 6.78% units and 7.77% units were held by retirement funds. Detailed pattern is also annexed.

### Future Outlook

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

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

### Auditors

The Audit Committee of the Board of Directors recommended the appointment of M/s A.F. Fergusons & Co. - Chartered Accountants in place of M/s KPMG Taseer Hadi & Co. - Chartered Accountants as auditors of KASB Stock Market Fund for the financial year ending June 30, 2012. The Board has approved the appointment.

### Acknowledgement

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

For and on behalf of the Board

September 15, 2011  
Karachi

Amer Maq  
Chief Executive

**DETAILS OF PATTERN OF HOLDING (UNITS)***As at June 30, 2011*

	Units held	
	Numbers	Percentage
<b>Associated Companies</b>		
KASB Bank Limited	3,619,513	85.45
<b>Individuals</b>	287,233	6.78
<b>Retirement Funds</b>	329,047	7.77
	<b>4,235,793</b>	<b>100.00</b>



**PERFORMANCE TABLE**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Total net asset value as at June 30 (Rs. '000)	<b>124,420</b>	217,846	299,277
Net asset value per unit as at June 30 (Rs.)	<b>29.37</b>	36.53	32.97
Selling price for units as at June 30 (Rs.)	<b>30.13</b>	37.47	33.82
Repurchase price for units as at June 30 (Rs.)	<b>29.37</b>	36.53	32.97
Final dividend distribution per unit (Rs.)	<b>3.00</b>	11.50	-
Date of final distribution	<b>July 8, 2011</b>	July 3, 2010	-
Highest selling price per unit (Rs.)	<b>32.43</b>	44.53	49.60
Lowest selling price per unit (Rs.)	<b>25.36</b>	43.41	48.36
Highest repurchase price per unit (Rs.)	<b>31.62</b>	34.25	21.25
Lowest repurchase price per unit (Rs.)	<b>24.72</b>	33.39	20.71
Return (%)	<b>17.35</b>	10.80	-32.10

Return since inception is -6.64%

Launch date of the Fund is March 22, 2007

**Disclaimer:**

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

## ANNUAL FUND MANAGERS' REPORT

1. Type & Category of Fund  
Open-end equity market
2. Inception Date  
March 22, 2007
3. Investment objective  
The Fund seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities. The scheme may also invest a certain portion of its corpus in short term government securities in order to meet liquidity requirements from time to time.
4. Accomplishment of objective  
The fund has successfully achieved its stated objective and has outperformed its benchmark since inception by a significant margin.
5. Benchmark  
KSE 30 Index
6. Performance Return
 

	KSMF Return	Benchmark Return
Since inception	-6.64%	-18.15%
FY 2011	17.35%	21.24%
Jan 11 - Jun 11	-1.21%	-0.02%
For June 11	3.69%	1.50%
7. Strategies and policies employed during the period  
The fund invested a maximum of 100% and a minimum of 70% in equity and equity related securities. The Fund invested in fundamentally undervalued stocks that had business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.
8. Weighted Asset Allocation
 

Asset Allocation	June 30, 2011	June 30, 2010
General Industrials	0.02%	5.66%
Oil & Gas	29.34%	26.14%
Power	7.30%	5.71%
Comm. Banks	17.34%	18.23%
Personal Goods	11.95%	11.45%
Chemical	8.66%	9.93%
Construction & Materials	4.48%	4.55%
Non- Life Insurance	5.14%	7.53%
Cash & Other Assets	10.21%	9.23%
Misc Equity	5.56%	1.57%
9. Significant changes in asset allocation during the period  
Asset allocation of the Fund changes dynamically as per sector and market outlook. During the year, cash & other Asset allocation remained largely unchanged.
10. Fund Performance  
KSMF return has outperformed its benchmark since inception. In FY11, it provided a return of 17.35%, 3.89% lower than its benchmark. Returns on the fund remained on the lower side as compared to the index due to non performance of some undervalued illiquid stocks which couldn't discover their intrinsic value.

The AUM of the fund were PKR 218 million (NAV per unit: Rs 36.53) on June 30, 2010 and at the end of the period the AUM of the fund stood at PKR 124 million (NAV per unit: Rs 29.37).

## ANNUAL FUND MANAGERS' REPORT

---

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

The economic environment slightly improved during FY11 with a modest GDP growth of 2% as against a GDP growth of 4.1% in FY10. The decline in growth was due to massive floods in Pakistan destroying major crops together with chronic energy crisis and law and order situation.

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

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

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

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

For details, please refer to the full yearly accounts.

### 13. Distribution

The Fund distributed PKR 3.00 per unit (Par value of PKR 50) for the year ended on June 30, 2011.

### 14. Significant changes in the state of affairs

Changes in market rates of Sukuks had return implications on the fund. No other significant change in affairs was 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.

### 17. Circumstances materially affecting the interests of the unit holders

Any significant change in market rates of the instruments invested in and any significant change in the credit profile of the counterparties can materially affect the interests of unit holders.

### 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 STOCK MARKET FUND

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

The KASB Stock Market Fund (the Fund), an open-end scheme was established under a trust deed dated January 09, 2007, executed between KASB Funds Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE**

*For the year ended June 30, 2011*

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

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

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

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

For and on behalf of the Board

September 15, 2011  
Karachi

Amer Maq  
Chief Executive

**REVIEW REPORT TO THE UNIT HOLDERS OF KASB STOCK MARKET FUND "THE FUND"  
ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

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

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

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

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

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

Date: 15 September 2011

Karachi

KPMG Taseer Haidri &  
Chartered Accountants  
Moneeza Usman Butt

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

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

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2011, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *Emphasis of Matter*

We draw attention to note 14 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 0.44 million is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

### *Other matters*

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

Date: 15 September 2011

Karachi

KPMG Taseer Hadi &  
Chartered Accountants  
Moneeza Usman Butt

**STATEMENT OF ASSETS AND LIABILITIES**

As at June 30, 2011

	Note	2011	2010
----- (Rupees in '000) -----			
<b>ASSETS</b>			
Balances with banks	4	11,631	20,737
Receivable against sale of investments		5,017	30
Investments	5	111,716	197,746
Dividend receivable		419	163
Advances, deposits and other receivables	6	2,862	2,887
Preliminary expenses and floatation costs	7	376	896
<b>Total assets</b>		<b>132,021</b>	<b>222,459</b>
<b>LIABILITIES</b>			
Payable against purchase of investments		4,745	1,416
Payable on redemption of units		-	6
Payable to KASB Funds Limited - Management Company	8	29	370
Payable to Central Depository Company of Pakistan Limited - Trustee	9	60	62
Payable to The Securities and Exchange Commission of Pakistan	10	198	252
Accrued expenses and other liabilities	11	2,569	2,507
<b>Total liabilities</b>		<b>7,601</b>	<b>4,613</b>
<b>Net assets</b>		<b>124,420</b>	<b>217,846</b>
<b>Unit holders' funds</b>		<b>124,420</b>	<b>217,846</b>
<b>(Number of units)</b>			
<b>Number of units In Issue</b>	12	<b>4,235,793</b>	<b>5,963,905</b>
<b>(Rupees)</b>			
<b>Net asset value per unit</b>		<b>29.37</b>	<b>36.53</b>

The annexed notes 1 to 23 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



**INCOME STATEMENT**

For the year ended June 30, 2011

	Note	2011	2010
		----- (Rupees in '000) -----	
<b>INCOME</b>			
Capital gain on sale of investments		31,157	33,468
Dividend income		8,652	9,290
Profit on bank deposits		4,430	3,080
Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	5.5	9,802	(18,272)
<b>Total income</b>		<b>54,041</b>	<b>77,566</b>
<b>EXPENSES</b>			
Remuneration of KASB Funds Limited - Management Company	8.1	6,267	7,327
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	700	702
Annual fee - The Securities and Exchange Commission of Pakistan	10	198	252
Transaction costs on securities		1,985	3,081
Settlement and bank charges		283	295
Legal and professional charges		484	468
Fees and subscription		140	140
Auditors' remuneration	13	448	476
Amortisation of preliminary expenses and floatation costs		520	520
Printing expenses		120	96
Provision for Workers' Welfare Fund	14	-	1,486
(Reversal) / provision against non-performing investment	5.6	(605)	16,000
<b>Total expenses</b>		<b>10,540</b>	<b>30,843</b>
		<b>43,501</b>	<b>46,723</b>
Net element of income / (loss) and capital gains / (losses) for the year including the prices of units issued less those in units redeemed		<b>(21,281)</b>	<b>27,562</b>
<b>Net income for the year</b>		<b>22,220</b>	<b>74,285</b>
<b>Earnings per unit</b>	15		

The annexed notes to 2011 constitute an integral part of these financial statements.

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

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended June 30, 2011

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

<b>Net income for the year</b>	<b>22,220</b>	<b>74,285</b>
<b>Other comprehensive income</b>		
Net unrealised diminution in fair value of investments classified as 'available for sale'	-	(16,000)
Provision against non-performing 'available for sale' investments	-	16,000
Other comprehensive income for the year	-	-
<b>Total comprehensive Income for the year</b>	<b>22,220</b>	<b>74,285</b>

The annexed notes 1 to 23 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, 2011

	Note	2011	2010
		----- (Rupees in '000) -----	
Accumulated losses brought forward	16	(80,676)	(154,961)
Net income for the year		22,220	74,285
Final distribution at the rate of Rs. 11.50 per unit for the year ended June 30, 2010 (2009: Nil)			
- Issue of bonus units		(68,575)	-
- Cash dividend		(10)	-
		(68,585)	-
Accumulated losses carried forward		<u>(127,041)</u>	<u>(80,676)</u>

The annexed notes 1 to 23 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, 2011

	<b>2011</b>	<b>2010</b>
	----- (Rupees in '000) -----	
Net assets at beginning of the year	217,040	239,277
Issue of 2,250,371 units (2010: 1,916,276 units)	<b>66,319</b>	76,855
Issue of 2,739,701 bonus units (2010: Nil units)	<b>68,575</b>	-
Redemption of 6,718,184 units (2010: 5,030,609 units)	<b>(203,236)</b>	(205,009)
	<b>(68,342)</b>	(128,154)
Net element of income / (loss) and capital gains / (losses) for the year 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	21,2	(27,562)
Distribution during the year:		
- Issue of bonus units	<b>(68,575)</b>	-
- Cash dividend	<b>(10)</b>	-
	<b>(68,585)</b>	-
Net (loss) / income for the year (excluding unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gains)	<b>(18,739)</b>	9,089
Capital gains on sale of investments	<b>31,157</b>	83,468
Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	<b>9,802</b>	(18,272)
Net income for the year (including unrealized appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gains)	<b>22,220</b>	74,285
<b>Net assets as at end of the year</b>	<b>124,420</b>	<b>217,846</b>
	(Rupees)	
Net asset value per unit as at beginning of the year	<b>36.53</b>	32.97
Net asset value per unit as at end of the year	<b>29.37</b>	36.53

The annexed notes 1 to 23 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## CASH FLOW STATEMENT

For the year ended June 30, 2011

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income for the year	22,220	14,285
<b>Adjustments for:</b>		
Dividend income	(8,652)	(9,290)
Profit on bank deposits	(4,430)	(3,080)
Amortisation of preliminary expenses and floatation costs	520	520
Unrealised (appreciation) / diminution in fair value of investments classified as 'at fair value through profit or loss'	(9,802)	18,272
(Reversal) / provision against non-performing investment	(605)	16,000
Provision for Workers' Welfare Fund	-	1,486
Net element of (income) / loss and capital (gains) / losses for the year included in prices of units issued less those in units redeemed	21,281	(27,562)
	20,532	70,631
<b>(Increase) / decrease In assets</b>		
Receivable against sale of investments	(4,987)	4,168
Investments	96,437	40,601
Advances deposits and other receivables	-	1,068
	91,450	45,837
<b>Increase / (decrease) In liabilities</b>		
Payable against purchase of investments	3,329	(2,040)
Payable to KASB Funds Limited - Management Company	(341)	(167)
Payable to Central Depository Company of Pakistan Limited - Trustee	(2)	(7)
Payable to The Securities and Exchange Commission of Pakistan	(54)	(51)
Accrued expenses and other liabilities	62	(965)
	2,994	(3,230)
	114,976	113,238
	8,396	11,343
	4,456	3,164
<b>Net cash generated from operating activities</b>	127,828	127,745
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(10)	-
Net payments against redemption of units	(136,924)	(129,613)
<b>Net cash used in financing activities</b>	(136,934)	(129,613)
Net decrease in cash and cash equivalents during the year	(9,106)	(1,868)
Cash and cash equivalents at beginning of the year	20,737	22,605
Cash and cash equivalents at end of the year	11,631	20,737

The annexed notes 1 to 23 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

### 1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Stock Market Fund ("the Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on January 9, 2007 and the Fund was approved by The Securities and Exchange Commission of Pakistan (SECP) on February 23, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). In conformity with circular 7 of 2009 dated March 6, 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Equity" category.

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, Jinnah Chundrigar Road, Karachi, Pakistan. The JCR-VIS has assigned management quality rating of AM3 to the Management Company and Pakistan Credit Rating Agency Limited (PACRA) has assigned long term rating of 4 star and normal ranking of 2 star to the Fund.

The Securities and Exchange Commission of Pakistan vide letter No. SCD/PR&DD/AMCW/CAML & KFL/333/2010 dated July 1, 2011 has sanctioned the Scheme of Arrangement of acquisition and simultaneous merger of Crosby Asset Management (Pakistan) Limited ("CAMS") with and into KASB Funds Limited ("KFL") in terms of Section 282L of the Companies Ordinance, 1984 and the rights to manage Crosby Dragage Fund, Crosby Phoenix Fund and AMZ Plus Income Fund have been transferred to KFL with effect from July 20, 2011.

The Fund is an open end stock market fund and is listed on the Karachi Stock Exchange (Guarantee) Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder. The details of non-compliant investments with the investment criterion of assigned category as at June 30, 2011 is disclosed in note 5.4 of this financial statement.

The primary objective of the scheme is to seek to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities. The scheme may also invest a certain portion of its corpus in short term government securities in order to meet liquidity requirements from time to time.

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

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

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

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

New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

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

### 2.3 Basis of measurement

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

### 2.4 Functional and presentation currency

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

### 2.5 Critical accounting estimates and judgments

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

Accounting 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 judgements in applying accounting policies that have a significant effect on the amount recognised in the financial statements are as follows:

#### *Investment estimates and derivative financial instruments*

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

#### *Other assets*

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

#### a) *At fair value through profit or loss*

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated 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'.

#### d) *Financial liabilities*

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

### *Recognition*

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the 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 as '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 as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

### *Fair value measurement principles*

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

### *Basis of valuation of Sukuk Certificates*

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

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

### *Securities under repurchase/ resale agreements*

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

### *Impairment*

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

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

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

### *Derecognition*

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

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

### *Offsetting of financial instruments*

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

### 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 application 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 facilitator, 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 a back end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

### 3.4 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the "element of income / (loss) included in prices of units sold less those in units redeemed" is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

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

The revised calculation, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the calculation not changed, the net income for the year ended June 30, 2011 would have been higher by Rs. 39.35 million.

### 3.5 Preliminary expenses and floatation costs

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

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

### 3.8 Taxation

#### *Current*

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

#### *Deferred*

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

However, the Fund has previously availed 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 current tax and deferred tax has been recognized in these financial statements.

### 3.9 Revenue recognition

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

### 3.10 Expenses

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

### 3.11 Cash and cash equivalents

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

### 3.12 Other assets

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

### 3.13 Dividend distributions and appropriations

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2011

	<b>2011</b>	<b>2010</b>
	----(Rupees in '000)----	
<b>4. BALANCES WITH BANKS</b>		
In current accounts	14	14
In deposit accounts	4.1 <u>11,617</u>	<u>20,723</u>
	<u>11,631</u>	<u>20,737</u>
<b>4.1</b> These deposit accounts carry mark-up at the rate of 5% to 12% per annum (2010: 5% to 12% per annum).		
<b>5. INVESTMENTS</b>		
<b>'At fair value through profit or loss- held for trading'</b>		
- Quoted equity securities	5.2 111,718	197,746
<b>'Available for sale'</b>		
- Fixed income and other debt securities	5.3 <u>-</u>	<u>197,746</u>
	<u>111,718</u>	<u>197,746</u>
<b>5.1</b> The cost of the above investments as at June 30, 2011 amounted to Rs. 120.186 million (2010: Rs. 216.018 million).		

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2011

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

Name of the Investee company	(Number of shares)					Market value as at June 30, 2011	Market value as a percentage of total investments
	As at July 1, 2010	Purchases during the period	Bonus Issue during the period	Sales during the period	As at June 30, 2011		
<b>SHARES OF LISTED COMPANIES</b>							
(Rupees in '000)							
- Fully paid up ordinary shares of Rs. 10 each unless otherwise stated							
<b>BANKS</b>							
MCB Bank Limited	55,513	567,805	4,852	584,789	43,381	8,646	7.74
National Bank of Pakistan	170,000	996,819	7,500	1,086,819	87,500	4,412	3.95
NIB Bank Limited	455,000	-	-	172,552	282,448	426	0.38
United Bank Limited	307,703	757,016	-	933,981	130,738	8,094	7.25
Meezan Bank Limited	-	-	-	-	-	-	-
Allied Bank Limited	-	348,796	6,311	355,107	-	-	-
Bank Alfalah Limited	-	300,000	-	300,000	-	-	-
BankIslami Pakistan Limited	-	-	-	-	-	-	-
Habib Bank Limited	-	130,000	-	130,000	-	-	-
<b>OIL AND GAS</b>							
Attock Petroleum Limited	11,135	58,000	3	59,120	10,018	3,749	3.36
Oil & Gas Development Company Limited	85,255	358,333	-	441,456	2,132	326	0.29
Pakistan Oilfields Limited	32,958	301,250	-	302,480	31,728	11,391	10.20
Pakistan Petroleum Limited	85,680	170,394	8,436	215,649	48,861	10,118	9.06
Pakistan State Oil Company Limited	72,074	97,500	-	132,920	36,654	9,698	8.68
Attock Refinery Limited	-	10,000	-	-	10,000	1,227	1.10
National Refinery Limited	-	47,312	-	47,312	-	-	-
<b>FINANCIAL SERVICES</b>							
Jahangir Siddiqui & Co. Limited	245,000	-	-	75,000	170,000	1,102	0.99
Arif Habib Limited	-	130,000	-	130,000	-	-	-
<b>ELECTRICITY</b>							
Hub Power Company Limited	358,192	597,495	-	886,186	69,501	2,606	2.33
Kot Addu Power Company Limited	-	371,475	-	246,568	124,907	5,322	4.76
Nishat Power Limited	-	75,000	-	-	75,000	1,168	1.04
Nishat Chunlian Power Limited	100,000	75,000	-	175,000	-	-	-
<b>CONSTRUCTION MATERIALS</b>							
Attock Cement Pakistan Limited	-	175,690	-	113,481	62,209	3,019	2.70
Lucky Cement Limited	107,500	280,530	-	352,500	35,530	2,517	2.25
Degussa Cement Pakistan Limited	130,000	246,000	-	376,000	-	-	-
<b>PERSONAL SERVICES</b>							
Ibrahim Habib Limited	635,607	343,956	-	707,009	272,554	11,507	10.30
Nishat Cement Limited	-	580,000	-	531,035	48,965	1,092	0.98
Nishat Mills Limited	74,655	363,806	-	393,461	45,000	2,265	2.03
Aztec Nin Limited	-	100,000	-	100,000	-	-	-
<b>PERSONAL LIFE INSURANCE</b>							
Adamjee Insurance Limited	205,250	451,554	-	558,415	98,389	6,394	5.72
<b>FIXED TELECOMMUNICATION</b>							
Pakistan Telecommunication Company Limited 'A'	25,000	1,383,557	-	1,344,657	63,900	909	0.81
<b>CHEMICALS</b>							
Eco Pak Corporation Limited	50,022	482,009	10,334	515,114	30,251	4,939	4.42
Fauji Fertilizer Company Limited	98,212	445,453	170	504,985	38,850	5,841	5.23
Wood Hercules Chemicals Limited	-	34,063	-	34,063	-	-	-
Descon Oxychem Limited	88,783	-	-	88,783	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	150,000	-	150,000	-	-	-
ICI Pakistan Limited	12,042	329,839	-	341,881	-	-	-
Lucky Cement Pakistan PTA Limited	60,000	1,650,254	-	1,710,254	-	-	-
<b>TEXTILE INDUSTRIES</b>							
Ecopack Limited	1,071,541	84,300	-	1,132,540	23,301	28	0.03
Pakistan Limited	46,500	29,000	-	75,500	-	-	-
Tri-Pack Films Limited	43,731	760	-	44,491	-	-	-
<b>AUTOMOBILE AND PARTS</b>							
Pak Suzuki Motor Company Limited	-	20,000	-	-	20,000	1,251	1.12
<b>MEDIA</b>							
Hum Network Limited	285,500	109,190	-	150,425	244,265	3,679	3.29
						<b>111,718</b>	

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

- 5.2.1 Investments include quoted equity securities with market value as at June 30, 2011 aggregating to Rs. 18.759 million (June 30, 2010: 19.637 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Fund's trades in terms of Circular No. 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

### 5.3 Fixed income and other debt securities- available for sale

Name of the investee company	(Number of certificates)					Carrying value as at June 30, 2011	Carrying value as a percentage of total investment
	Profit rate (%)	As at July 01, 2010	Purchases during the year	Sales during the year	As at June 30, 2011		
						(Rupees in '000)	

#### New Allied Electronics

Industries (Private) Limited - II	5.3.1	15.75	6,400	-	-	6,400	-	-
-----------------------------------	-------	-------	-------	---	---	-------	---	---

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

On December 3, 2008, owing to the financial difficulties, no payment was made by NAEIL against profit amounting to Rs. 2.42 million. On February 11, 2009 and March 20, 2009, the Fund received a partial payment amounting to Rs. 1.17 million and Rs. 0.63 million respectively against the outstanding profit. The Fund recognised full provision against the said investment and outstanding profit receivable accordingly. During the current year an amount of Rs. 0.605 million has been received in respect of insurance proceeds. Moreover, the Fund suspended further accruals of profit thereagainst and has fully provided the remaining exposure as at June 30, 2011.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

### 5.4 Details of non-compliant investments with the investment criterion of assigned category

Name of non-compliant investment	Type of	Value of investment before provision	Provision held (if any)	Value of investment after Provision	%age of net assets	%age of gross assets
----------------------------------	---------	--------------------------------------	-------------------------	-------------------------------------	--------------------	----------------------

		----- (Rupees in '000) -----				
New Allied Electronics Industries (Private) Limited - II	Sukuk	32,000	32,000	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2011

**5.5 Unrealised diminution in fair value of Investments classified as 'at fair value through profit or loss'**

Fair value of investments  
Less: Cost of investments

5.2

2011	2010
----- (Rupees In '000) -----	
111,716	197,746
(120,186)	(216,018)
<b>(8,470)</b>	<b>(18,272)</b>

Less: Net unrealised diminution / (appreciation) in fair value of investments at beginning of the year  
Add: Realised on disposal during the year

18,272	742
-	(742)
<b>18,272</b>	<b>-</b>
<b>9,802</b>	<b>(18,272)</b>

**5.6 Unrealised diminution in fair value of Investments classified as 'available for sale'**

Carrying value of investments  
Less: Cost of investments

5.3

-	-
(32,153)	(32,153)
<b>(32,153)</b>	<b>(32,153)</b>

Less: Unrealised diminution in fair value of investments at beginning of the year  
Add: (Reversal) / provision against non-performing investment

32,153	32,153
(605)	16,000
<b>31,548</b>	<b>48,153</b>
<b>(605)</b>	<b>16,000</b>

**6. ADVANCES, DEPOSITS AND OTHER RECEIVABLES**

Due receivable bank deposits  
Due to National Clearing Company of Pakistan Limited  
Due to General Depository Company of Pakistan Limited

2011	2010
----- (Rupees In '000) -----	
109	134
153	153
2,500	2,500
100	100
<b>2,862</b>	<b>2,887</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2011

**7. PRELIMINARY EXPENSES AND FLOATATION COSTS**

Preliminary expenses and floatation costs		896	1,416
Less: Amortisation during the year		<u>(520)</u>	<u>(520)</u>
		<u><u>376</u></u>	<u><u>896</u></u>

**8. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY**

Management fee payable	8.1	18	370
Sales load payable		<u>11</u>	<u>-</u>
		<u><u>29</u></u>	<u><u>370</u></u>

8.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. During the year, remuneration of management company is charged at the rate of 3 percent per annum of the average annual net assets of the Fund.

8.2 In accordance with Clause 6.2.1.2 of the offering document, Management Company has issued type 'B' Units to core investors. The Management Company offers a special rebate on the management fee to type 'B' units, (currently rebate is applicable at one-third of the management fee applicable to type 'B' units). However, difference between normal rates and reduced rates is passed on to type 'B' unit holders by way of issuance of type 'A' additional units, as a result the management fee charged to Income Statement remains at the rates specified in note 8.1. Total 38,178 additional units were issued during the year to type 'B' unit holders at a value of Rs. 1.07 million. (47,905 additional units were issued during the year ended June 30, 2010 at a value of Rs. 1.89 million).

**9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE**

Trustee fee	9.1	57	58
CDS charges		<u>3</u>	<u>4</u>
		<u><u>60</u></u>	<u><u>62</u></u>

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



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

10. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011	2010
	----- (Rupees in '000) -----	
Auditors' remuneration	335	303
Legal and professional charges payable	221	151
Credit rating fee payable	100	100
Others	1,913	1,953
	<u>2,569</u>	<u>2,507</u>

12. NUMBER OF UNITS IN ISSUE

	---- (Units) ----	
Total outstanding at beginning of the year	5,963,905	9,078,238
Sales during the year	2,250,371	1,916,276
Bonus units issued	2,739,701	-
Redemption during the year	<u>(6,718,184)</u>	<u>(5,030,609)</u>
Total units in issue at the end of the year	<u>4,235,793</u>	<u>5,963,905</u>

Face value of the unit is Rs. 50 each.

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

	2011	2010	2011	2010
	----- Units -----		---- (Rupees in '000) ----	
Type 'A' Units	12.1	1,835,793	1,263,026	53,924
Type 'B' Units	12.2	2,400,000	4,700,879	70,496
		<u>4,235,793</u>	<u>5,963,905</u>	<u>124,420</u>
				<u>217,846</u>

12.1 Type 'A' Units are available to all types of investors, except for core investors.

12.2 Type 'B' Units are available to core investors (refer note 8.2).

13. AUDITORS' REMUNERATION

Audit fee	275	250
Half year review	75	66
Other professional fees and services	60	111
Out of pocket expenses	38	49
	<u>448</u>	<u>476</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

### 14. PROVISION FOR WORKERS' WELFARE FUND

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

On July 15, 2010, the clarification was issued by the Ministry of Labour and Manpower (the Ministry) which states that mutual funds are not liable to contribute to WWF on the basis of their income. However, on December 14, 2010 the Ministry filed its response against the Constitutional petition pending in the Honorable High Court of Sindh. According to the legal counsel who is handling the case, there is no contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Honorable High Court of Sindh. The case has been heard on March 12, 2011 by the full bench judge of Honorable High Court of Sindh and judgment in this respect has been reserved.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act 2006 and the Finance Act 2008 has declared the said amendments as unlawful and unconstitutional hence struck them down. The Management Company is hopeful that the decision of the Honorable Lahore High Court will lend further support to the Constitutional Petition which is pending in the Honorable High Court of Sindh. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs. 1.49 million in these financial statements representing charge accrued up to June 30, 2010.

### 15. EARNINGS / (LOSS) 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.

### 16. ACCUMULATED (LOSS) / INCOME BROUGHT FORWARD / CARRIED FORWARD

As per Schedule V to the NBFC Regulations 2008, accumulated (loss) / income brought forward / carried forward needs to be bifurcated in to realised and unrealised gains. However, it has not been bifurcated as it is impracticable to do so.

### 17. TAXATION

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2011

18. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

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

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

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

18.1 Transactions	2011	2010
	---- (Rupees in '000) ----	
<b>KASB Funds Limited - Management Company</b>		
Remuneration	8.1 6,287	7,327
Sales load	35	100
Bonus units: 20,615 units (2010: Nil units)	516	-
Conversion out of the Fund: 65,483 units (2010: Nil units)	1,686	-
Redemption from Fund: Nil units (2010: 44,850 units)	-	1,864
<b>KASB Securities Limited Employees' Provident Fund</b>		
Fee: 15,400 (2010: Nil units)	887	-
Redemption from Fund: 112,507 units (2010: Nil units)	3,431	-
<b>KASB Securities Limited - Brokerage house</b>		
Brokerage	18.3 314	357
Bonus units: 841 (2010: Nil units)	21,052	-
Conversion out of the Fund: 2,681,627 units (2010: Nil units)	84,793	-
Additional units: 9,912 units (2010: 16,562 units)	268	650
<b>KASB Bank Limited</b>		
Profit accrued	4,417	3,070
Bank charges	4	7
Bonus units: 1,132,551 units (2010: Nil units)	28,348	-
Additional units: 22,000 units (2010: 22 units)	627	794

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2011

	<b>2011</b>	<b>2010</b>
	---- (Rupees in '000) ----	
<b>Central Depository Company of Pakistan Limited-Trustee</b>		
Remuneration	61	702
CDS charges	50	82
<b>Directors and Officers of the Management Company</b>		
Investment in the Fund: 1,301 units (2010: 3,725 units)	35	150
Redemption from the Fund: 2,521 units (2010: 15,835 units)	71	582
Bonus units: 17,399 units (2010: Nil units)	435	-
Conversion in the Fund: 33 units (2010: 174,569 units)	1	6,776
Conversion out of the Fund: 53,300 units (2010: 156,731 units)	-	6,199
Switching in the Fund: Nil units (2010: 141,737 units)	-	5,756
Switching out of the Fund: Nil units (2010: 154,884 units)	-	6,252
Transfer in the Fund: Nil units (2010: 3,084 units)	-	106
Transfer out of the Fund: Nil units (2010: 3,084 units)	-	106
<b>18.2 Balances</b>		
<b>KASB Funds Limited - Management Company</b>		
Payable to the Management Company	29	370
Units held: Nil units (2010: 44,868 units)	-	1,639
<b>KASB Securities Limited - Brokerage house</b>		
Brokerage payable	20	10
Units held: Nil units (2010: 1,830,633 units)	-	66,873
<b>KASB Securities Limited Employees' Provident Fund</b>		
Units held: Nil units (2010: 77,089 units)	-	2,816
<b>KASB Bank Limited</b>		
Profit receivable on bank deposits	18.4	109
Bank balance	10,906	20,421
Units held: 3,619,573 units (2010: 2,465,022 units)	106,307	90,047
<b>Central Depository Company of Pakistan Limited-Trustee</b>		
Payable to Central Depository Company of Pakistan Limited-Trustee	60	62
Security Deposit	100	100
<b>Directors and officers of the Management Company</b>		
Units held: 781 units (2010: 40,165 units)	79	1,467

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

18.3 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.

18.4 The rate of return on this deposit account is 12% per annum (2010: 12% per annum).

### 19. RISK MANAGEMENT

The Board of Directors of management company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by investment committee under policies approved by Board of Directors.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

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

- Market risk
- Credit risk and
- Liquidity risk

#### Market risk

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

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management 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

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 presently is not exposed to currency risk as all transactions are carried out in Pak Rupees.

#### Interest rate risk

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

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

As at June 30, 2011 the Fund has an investment in sukuk certificates of New Allied Electronics Industries (Private) Limited which has been fully provided, accordingly no sensitivity analysis has been prepared for the said investment.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

### *Other price risk*

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

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

A summary analysis of investments by industry sector, the percentage in relation to Fund's total investment as at June 30, 2011 is presented in Note 5.2.

In case of 5% increase / decrease in prices of equity securities quoted at Karachi Stock Exchange, the net income for the year, other comprehensive income and net assets attributable to unit holders would have been higher / lower by Rs. 5.586 million (2010: Rs. 7.733 million). Previously, the management has used correlation with KSE 30 index to ascertain the effect of change in prices of quoted equity securities on the Fund's net income, other comprehensive income and net assets attributable to unit holders.

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

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

### *Credit risk*

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

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

### *Credit risk management*

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

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

	<b>2011</b>	<b>2010</b>
	----(Rupees in '000)----	
<b>Bank balances</b>	<b>11,631</b>	<b>20,737</b>
<b>Receivable against sale of investments</b>	<b>5,017</b>	<b>30</b>
<b>Dividend receivable</b>	<b>419</b>	<b>163</b>
<b>Advances deposits and other receivables</b>	<b>2,709</b>	<b>2,734</b>
	<b>19,776</b>	<b>23,664</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

None of the above financial assets were considered to be past due or impaired in 2011 and 2010 except for the exposures and the provisions there against as provided in note 5.3.1. The management company follows Circular 1 of 2009 containing criteria for provisioning of non-performing debt securities issued by SECP for the purpose of making provision against non-performing debt securities. Further management company has devised provisioning policy duly approved by the Board of Directors of the management company to make provision over and above required by the said circular and for those exposures not covered by the said circular. For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated except stated otherwise.

### *Settlement risk*

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

### *Bank balances*

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

### *Investment in debt securities*

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. Details of provision against doubtful exposure are provided in note 5.3.1 to these financial statements.

### *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 relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

### *Liquidity risk*

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

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

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

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

	June 30, 2011			Total
	Up to three months	More than three months and up to one year	More than one year	
	----- (Rupees in '000) -----			
Payable against purchase of investments	4,745	-	-	4,745
Payable on redemption of units	-	-	-	-
Payable to KASB Funds Limited - Management Company	29	-	-	29
Payable to Central Depository Company of Pakistan Limited - Trustee	60	-	-	60
Accrued expenses and other liabilities	1,083	-	-	1,083
	<u>5,917</u>	<u>-</u>	<u>-</u>	<u>5,917</u>

	June 30, 2010			Total
	Up to three months	More than three months and up to one year	More than one year	
	----- (Rupees in '000) -----			
Payable against purchase of investments	1,416	-	-	1,416
Payable on redemption of units	6	-	-	6
Payable to KASB Funds Limited - Management Company	370	-	-	370
Payable to Central Depository Company of Pakistan Limited - Trustee	62	-	-	62
Accrued expenses and other liabilities	1,021	-	-	1,021
	<u>2,875</u>	<u>-</u>	<u>-</u>	<u>2,875</u>

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

Unit Holders' funds risk management

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



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

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

### 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Investment in equity securities disclosed in Note 5.2 to the Financial Statements falls with in level 1 of the fair value hierarchy as mentioned above reason being that such securities are valued using quoted prices from the stock markets.

### 21. DISTRIBUTION BY THE FUND

Non-adjusting event after the balance sheet date

The Board of Directors of the Management Company has approved a final dividend distribution of Rs. 3.00 per unit for the year ended June 30, 2011 amounting to Rs. 12.71 million in total in their meeting held on July 08, 2011. The financial statements for the year ended June 30, 2011 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2012.

### 22. SUPPLEMENTARY 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:

#### 22.1 Pattern of Unit Holding

Unit Holding pattern as at June 30 is as follows:

Category	Number of unit holders		Investment amount		Percentage of total investment	
	2011 ----(Numbers)----	2010	2011 ----(Rupees in '000)---	2010	2011 ----(%)----	2010
Individuals	62	95	8,438	26,504	6.78	12.17
Associated companies	1	5	106,317	162,660	85.45	74.67
Bank / Financial Institution	-	1	-	32	-	0.01
Retirement Funds	1	6	9,665	28,650	7.77	13.15
<b>Total</b>	<b>64</b>	<b>107</b>	<b>124,420</b>	<b>217,846</b>	<b>100.00</b>	<b>100.00</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2011

**22.2 List of top ten brokers / dealers by percentage of commission paid**

Broker name	2011 (percentage)
Next Capital Limited	25.77
KASB Securities Limited	18.34
Global Securities Pakistan Limited	11.74
Fortune Securities Limited	9.51
Foundation Securities (Private) Limited	9.48
Taurus Securities Pakistan Limited	6.87
AKD Securities Limited	4.78
M.R.A. Securities (Private) Limited	4.64
First Capital Equities Limited	4.59
Elixir Securities Pakistan (Private) Limited	4.51

Broker name	(percentage)
KASB Securities Limited	13.44
Foundation Securities (Private) Limited	10.22
Live Securities (Private) Limited	11.3
Elixir Securities Pakistan (Private) Limited	7.5
Invest Capital Securities Investment Bank Limited	4.43
Fortune Securities Limited	9.19
Alfalah Securities (Private) Limited	4.16
JS Global Capital Limited	4.53
Global Securities Pakistan Limited	7.65
Taurus Securities Pakistan Limited	6.58

**22.3 Dates, names of persons attending each meeting of the board of directors**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

Dates of the meetings of the Board of Directors

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

### 22.4 Details of Members of Investment Committee

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

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

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

### 22.4.1 Details of other funds managed by the fund manager

KASB Asset Allocation Fund (formerly KASB Balanced Fund) under the management of KASB Funds Limited.

### 23. DATE OF AUTHORISATION FOR ISSUE

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

For KASB Funds Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director