



**KASB** BALANCED  
FUND

**ANNUAL REPORT**

June 30, 2009

(Audited)

managed by



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## Fund Information

### Management Company

KASB Funds Limited

### Registered Office:

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

### Principal Office:

11th Floor, Trade Centre, I. I. Chundrigar Road,  
Karachi-74200, Pakistan  
UAN: (92-21) 111 535 535  
Fax: (92-21) 263 9188  
URL: www.kasb.com

### Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen – Chairman  
Ms. Naz Khan – Director & Chief Executive  
Mr. Farid Arshad Masood – Director  
Mr. Syed Muhammad Rehmanullah – Director  
Mr. Amir Zahoor Khan – Director

### Chief Financial Officer

Mr. Muhammad Imran Khalil

### Company Secretary

Mr. Irfan Saleem Awan

### Audit Committee

Mr. Farid Arshad Masood – Chairman  
Mr. Robert John Richard Owen – Member  
Mr. Syed Muhammad Rehmanullah – Member

### Trustee

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

### 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

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

### 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 2009)**

## **Mission Statement**

KASB Balanced Fund seeks to generate regular income together with long term capital appreciation by investing in income bearing securities as well as equities.



## Report Of The Directors Of The Management Company For KASB Balanced Fund

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Balanced Fund (KBF, the Fund), is pleased to present the second Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2009.

### Financial Highlights

	FY 2009	From December 10, 2007 to June 30, 2008	Increase / (Decrease) (%)
Net loss (Rs. in Million)	99.83	3.12	3,099.68
Net Assets as at June 30 (Rs. in Million)	625.81	1,124.02	(44.32)
NAV per Unit as on June 30 (Rs.) *	(42.75)	49.87	(14.28)
Return (%)	(14.28)	(0.26)	(5,392.31)

\* Par value of each unit is Rs. 50.

### Economic Environment

Pakistan's economy faced a tough time during the fiscal year 2009 as internal economic challenges coupled with impact of global recession hit the country. Internal issues ranged from sizeable current account and fiscal deficits due to high international oil prices, three decade high inflation and a sharp depreciation in the exchange rate. As a result, the government opted for a stabilization approach to the economy and left GDP growth much below the list of economic priorities.

After entering into the IMF program and with help from Friends of Pakistan, country's macroeconomic situation has started improving. However, inflation, power crisis and the expenditures on the war on terror remain as challenges for the government.

### Capital Market

Capital markets (both equity and income) bore the brunt in FY09 due to economic challenges facing the country as well as a liquidity crisis in the market. Thus, Karachi Stock Exchange (KSE) market capitalization reduced by 53% to US\$26bn from US\$55.2bn. KSE-100 index remained the worst performing index among its peers as it recorded a decline of 42% vs regional markets, which on average fell by 6% during the fiscal year. Stock market closure for more than 3 months only added to the steep fall of the market as it reopened.

There were a number of reasons for the lack luster performance of the capital markets including weak economic performance, liquidity shortfall in the system, uncertainty on the political front and a deteriorating security situation in the country. Investors were taken aback by imposition of price floor for three and half months which resulted in a massive outflow of foreign portfolio investments from the equity market. The extended flooring of prices also resulted in Pakistan being removed from MSCI Emerging Market Index in December 2008, though it was subsequently added to the MSCI Frontier Index in May 2009, and coupled with the global financial crisis, was responsible for net foreign selling of US\$ 445mn in the same period.

In terms of sectors, Power Generation and E&P fared marginally better on the back of currency devaluation and higher realized oil and gas prices. In contrast, banks underperformed amid investors concern on banking asset quality, concerns of higher NPLs and slowing private sector credit off-take, while autos underperformed massively due to weak fundamentals caused by dwindling demand.

On the money market front, M2 growth remained near 7% during the year, comparatively lower than last year (close to 14%) due to SBP's tight monetary stance. The market remained under pressure throughout the year due to liquidity crunch especially during

2QFY09. The liquidity shortfall led to a substantial decrease in the prices of corporate bonds and led to credit deterioration especially in the Non-Banking Finance Companies (NBFC).

### Investment Strategy

KBF aims to achieve the objective of generating regular income together with capital appreciation. The Fund invests a maximum of 70% and a minimum of 60% in fixed income together with a maximum of 40% and a minimum of 30% in equities. On the income side, the fund invests both in shorter duration and longer duration debt instruments as well as fixed income transactions in the capital market to achieve consistent income for Unit Holders keeping in view capital preservation. On the equity side, the Fund invests in fundamentally undervalued stocks that have business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

The income portion of KBF was invested in floating rate instruments, long tenor placements and govt. bonds to benefit from the declining interest rate scenario. While the equity market is at attractive levels in fundamental terms, the sentiment and political/economic developments remain discouraging. We continue to follow stock-specific, fundamentals driven strategy to outperform the benchmark.

### Fund Performance

The Fund has earned a return of -14.28% for FY09 against the benchmark (65% 1 Month KIBOR + 35% KSE-30) return of -11.78%. While the equity portion outperformed its benchmark, fund underperformance has come from the income portion as TFC prices fell. The Net Asset Value per unit of the Fund at the close of the year stood at Rs. 42.75. The net loss for the year ended June 30, 2009 was Rs. 99.83 million. Term Finance Certificates and Sukuk Certificates contributed Rs. 31.64 million, Placements with financial institutions contributed Rs. 28.24 million towards the income, dividend income was Rs. 10.42 million, profit on bank deposits was Rs. 8.70 million, income from PIBs and term deposit receipts were Rs. 2.50 million and Rs. 1.20 million respectively and income from Continuous Funding System (CFS) was Rs. 3.13 million.

As Mutual Funds Association of Pakistan (MUFAP) is in discussion with the SECP with respect to the mechanism of determination of rating of Funds, the Management Company has withheld the rating of the Fund.

As explained in note 18 of the financial statements, the Management Company, in compliance with the circular 23 of 2008 dated October 7, 2008 issued by the Securities and Exchange Commission of Pakistan and to protect the interest of the unit holders, suspended the pricing, issuance and redemption of units of the Fund with effect from October 07, 2008 and removed suspension on the third business day after the floor was removed i.e. December 18, 2008. Apart from this, no suspension of redemption was made by the Fund during the year.

### Income Distribution

As the Fund has incurred a net loss for the year, therefore, no dividend was declared by the Board of Directors of KASB Funds Limited for the financial year ended June 30, 2009.

### Sale and redemption of units

The fund size of KBF was Rs. 1,124.02 million on June 30, 2008 which decreased by 44.32% by the end of the financial year to close at Rs. 625.81 million on June 30, 2009. During the year, units

## Report Of The Directors Of The Management Company For KASB Balanced Fund

worth Rs. 10.23 million were issued and units with a value of Rs. 346.22 million were redeemed. As on June 30, 2009, the total number of outstanding units was 14,637,966 with a value of Rs. 625.81 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, 2007 (the NBFC Regulations 2007), 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 2007, 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 2007, the NBFC Regulations 2008 and the said directives shall prevail.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts about the Fund's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
- i. Key operating and financial data is enclosed.
- j. The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k. The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

### Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors from July 1, 2008 to June 30, 2009 is disclosed in note 22 of the financial statements.

The trades 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. Farid Arshad Masood	Director	Nil	14,733

### Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2009, banks and financial institutions held 77.32% out of the total units; individuals 7.74% units; modarabas and mutual funds and other corporate sector entities 3.76% units; 11.18% units were held by retirement funds, and non profit organisations. Detailed pattern is also annexed.

### Future Outlook

The combination of global macro challenges and political uncertainty on the domestic front has put the economy through challenging times. Trade and fiscal deficits may leave the government with little fiscal room and will force the government to raise external and domestic debt. Therefore, despite declining inflation, interest rates may not fall as fast.

Coming off a very difficult FY09, KSE is likely to remain pegged to the gradual improvement in macro economic variables during FY10. Under our base case we envisage that initial part of FY10 should see inflation declining substantially where it would potentially touch single digit towards the end of 2009. This should in turn pave way for monetary easing leading to further cuts in discount rate by December 2009.

The stock market is trading at around 6.57x forward earnings, 1.31x forward book value and giving a forward dividend yield of about 8.9%, very attractive levels when seen in Pakistan's historical context as well as in a regional context. As political uncertainty abates and the economic environment improves the market should respond positively.

In terms of risks, in addition to political risk, we highlight crude oil prices where another super spike could leave Pakistan vulnerable under the pressures of trade account and force dependence on external flows to support the balance of payment as well as the currency as Pakistan's exports are likely to remain weak in FY10 as well.

### Auditors

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadi & Co. – Chartered Accountants as auditors of KASB Balanced Fund for the financial year ending June 30, 2010. 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

25 August 2009  
Karachi

Naz Khan  
Chief Executive Officer

## Details Of Pattern Of Holding (Units) As At June 30, 2009

	Units Held	Units Held (%)
<b>Associated companies</b>		
KASB Bank Limited	6,388,107	43.64
<b>Banks and Financial Institutions</b>	4,929,452	33.68
<b>Individuals</b>	1,132,384	7.73
<b>Retirement Funds</b>	1,338,672	9.14
<b>Modarabas and Mutual Funds</b>	56,721	0.39
<b>Other Corporate Sector Entities</b>	493,054	3.37
<b>Non Profit Organisations</b>	299,576	2.05
<b>TOTAL</b>	<b><u>14,637,966</u></b>	<b><u>100.00</u></b>



## Performance Table

	<b>2009</b>	2008*
Total net asset value as at June 30 (Rs. '000)	<b>625,814</b>	1,124,019
Net asset value per unit as at June 30 (Rs.)	<b>42.75</b>	49.87
Selling price for units as at June 30 (Rs.)	<b>43.63</b>	50.89
Repurchase price for units as at June 30 (Rs.)	<b>42.75</b>	49.87
Highest selling price per unit (Rs.)	<b>50.76</b>	54.89
Lowest selling price per unit (Rs.)	<b>35.48</b>	49.38
Highest repurchase price per unit (Rs.)	<b>49.74</b>	53.79
Lowest repurchase price per unit (Rs.)	<b>34.77</b>	48.39
Return for the year/period	<b>-14.28%</b>	-0.26%

Return since inception -14.50%

\*Launch date of the Fund is December 31, 2007

### Disclaimer:

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

## Annual Fund Managers' Report

**Investment objective**

The Fund seeks to generate regular income together with long term capital appreciation by investing in income bearing securities as well as equities.

**Inception Date**

December 31, 2007

**Type & Category of Fund**

Open-end balanced

**Benchmark**

65% 1 month KIBOR + 35% KSE 30 Index

**Fund Size**

PKR 626 million

**Current NAV**

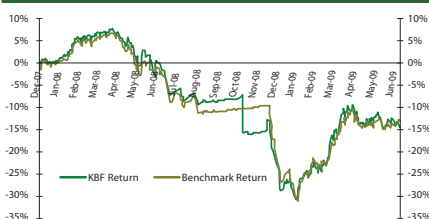
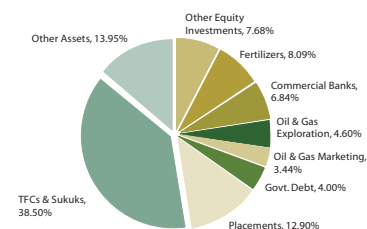
PKR 42.75 (30-06-09)

**Load Structure**

Front-end 2.0%  
Back-end Nil

**Performance Return (Absolute)**

	KBF	Benchmark
Since inception	-14.50%	-13.18%
For month	-2.55%	-0.59%
CY 2009	19.21%	17.44%

**KBF VS BENCHMARK****ASSET ALLOCATION AS AT JUNE 30, 2009****Accomplishment of objective**

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

**Strategies and policies employed during the period**

The fund invested a maximum of 70% and a minimum of 60% in fixed income together with a maximum of 40% and a minimum of 30% in equities. On the Income side, the fund invested both in shorter duration and longer duration debt instruments as well as fixed income transactions in the capital market to achieve consistent income for Unit Holders. On the equity side, the Fund 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

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

FY2009 turned out to be one of the most difficult years in recent times, where KSE market capitalization reduced by 53% to US\$26bn from US\$55.2bn. KSE-100 index remained the worst performing index among its peers as it recorded a decline of 42% vs regional markets, which on average fell by 6% during the year.

Main reasons for the lack luster performance was subdued economic growth, lack of liquidity in the system, uncertainty on the political front and a deteriorating security situation in the country. Investors were also taken aback by imposition of price floor for three and half months by SECP resulting in massive outflow of foreign portfolio investments from the equity market. The extended flooring of prices resulted in Pakistan being removed from MSCI Emerging Market Index in Dec 2008, though subsequently added to the MSCI Frontier Index in May 2009, and coupled with the global financial crisis, was responsible for net foreign selling of US\$ 445mn.

In terms of sectors, Power Generation and E&P sector fared marginally better on the back of currency devaluation and higher realized gas prices. In contrast, banks slightly underperformed amid investors concern on banking asset quality, concerns of higher NPLs and slowing private sector credit off-take, while autos under-performed massively due to weak fundamentals caused by dwindling demand.

On the money market front, M2 growth remained 9.6% during the year, comparatively lower than last year (close to 15%) due to SBP's tight monetary stance. The market remained under pressure throughout the year due to severe liquidity crunch especially during 2QFY09. During the year, Pakistan had to join IMF relief

package to manage severe balance of payment crisis, which stabilized the currency and halted depletion of foreign exchange reserves.

**Fund Performance**

KBF return has outperformed its benchmark in CY09 where it provided return of 19.21% on absolute basis, against benchmark return of 17.44%. Since inception the fund provided absolute return of -14.50% and -14.28% during FY09.

The AUM of the fund were PKR 1,124 million (NAV per unit: Rs 49.87 on June 30, 2008 and at the end of the period the AUM of the fund stood at PKR 626 million (NAV per unit: Rs 42.75).

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

As compared to the beginning of the year, the Fund's exposure in Sukuks & TFCs was increased to 38.50% from 15.20%, investment in Govt. debt rose to 4% from nil, and the Fund fully divested from CFS. Asset allocation of the equity portion changes dynamically as per sector outlook.

**Distribution**

No distributions were made during the year.

**Unit Splits**

There were no unit splits during the period.

**Significant changes in the state of affairs**

During the period under review there were occasions during the second quarter of FY09 when severe liquidity crunch was witnessed in the money market. As a result, few leasing and investment banks were not able to return the Fund's deposits on time. However there was no default on payment of mark up. Similarly, SECP decision of marking down TFC prices in a bid to improve trading volumes and liquidity saw debt instruments valuation and pricing at deep discounts from their fair values. This resulted in an unnecessary fall in NAV of funds holding sukuks and TFCs.

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

Changes in market rates of TFCs/ Sukuks and other debt instruments based on a new pricing mechanism by SECP, severely affected the fund returns.

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

For details, please refer to the full yearly accounts.

**Breakdown of unit holdings by size**

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

**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 Balanced 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**

KASB Balanced Fund (the Fund), an open-end scheme was established under a trust deed dated October 25, 2007, executed between KASB Funds Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee.

In our opinion, the management company has in all material respects managed the Fund during the year ended June 30, 2009 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.

During the first half of the year, the Fund entered into certain reverse repo transactions which were subsequently disallowed by the Securities and Exchange Commission of Pakistan upon intimation by the Trustee. These transactions were accordingly reversed and the Management Company has compensated the Fund for any losses incurred, accordingly there is no loss to the Fund or any of its unit holders as a result of these transactions.

Kamran Qazi  
Chief Financial Officer & Company Secretary  
Central Depository Company of Pakistan Limited

Karachi, October 5, 2009

## Statement Of Compliance With The Code Of Corporate Governance For the year ended June 30, 2009

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

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

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors and none of the directors represent minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIO, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. On July 04, 2008, Mr. Muneer Kamal resigned from the Board of the Management Company. An appointment was within 30 days to fill this casual vacancy however the appointee withdrew his consent prior to seeking required approval for his appointment from the Securities and Exchange Commission of Pakistan ("the Commission") by the Management Company. Hence, Mr. Amir Zahoor Khan was appointed, within 30 days of withdrawal of consent by the appointee, to fill this casual vacancy subject to the approval of his appointment by the Commission. On October 25, 2008 the election of directors of the Management Company was held upon completion of the three years' term of the previous Board and the appointment of Mr. Amir Zahoor Khan, along with other directors, was approved by the Commission on his election as director. No casual vacancy has arisen on the Board since the election of directors.
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 no change of Chief Financial Officer, Company Secretary and the Internal Auditors.
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. The Management Company has outsourced the internal audit function to a firm of Chartered Accountants which is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund.
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

25 August 2009  
Karachi

Naz Khan  
Chief Executive Officer

## Review Report To The Unit Holders Of KASB Balanced Fund “The Fund” On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KASB Funds Limited, “the Management Company” of the Fund to comply with the Listing Regulation no. 35 (previously Regulation no. 37) of the Karachi Stock Exchange, where the Fund is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company’s corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulation.35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 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 transaction 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 undertaken 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 Management Company’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2009.

25 August 2009  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

## Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **KASB Balanced Fund ("the Fund")**, which comprise the statement of assets and liabilities as at 30 June 2009, and the income statement, cash flow statement, distribution statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

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

### Auditors' responsibility

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2009 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and Non-Banking Finance Companies and Notified Entities Regulation, 2008.

25 August 2009  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Moneeza Usman Butt

## Statement of Assets and Liabilities

### As at June 30, 2009

	Note	2009	2008
(Rupees in '000)			
<b>Assets</b>			
Bank balances	4	67,616	48,688
Placements	5	80,712	80,000
Certificates of investment		-	50,000
Receivable against sale of investments		4,190	23,391
Receivable against continuous funding system		-	120,679
Investments	6	456,196	787,346
Dividend and profit receivable	7	11,907	16,366
Deposits and prepayments	8	7,673	3,604
Preliminary expenses and floatation costs	9	2,241	2,881
<b>Total assets</b>		<b>630,535</b>	<b>1,132,955</b>
<b>Liabilities</b>			
Payable against purchase of investments		-	756
Payable on redemption of units		972	-
Payable to KASB Funds Limited - Management Company	10	999	6,687
Payable to Central Depository Company of Pakistan Limited - Trustee	11	126	218
Payable to The Securities and Exchange Commission of Pakistan	12	767	506
Accrued expenses and other liabilities	13	1,857	769
<b>Total liabilities</b>		<b>4,721</b>	<b>8,936</b>
<b>Net assets</b>		<b>625,814</b>	<b>1,124,019</b>
<b>Unit holders' funds</b>		<b>625,814</b>	<b>1,124,019</b>
<b>(Number of units)</b>			
<b>Number of units in issue</b>	14	<b>14,637,966</b>	<b>22,540,006</b>
<b>(Rupees)</b>			
<b>Net asset value per unit</b>		<b>42.75</b>	<b>49.87</b>

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Income Statement

### For the year ended June 30, 2009

	<i>Note</i>	<b>2009</b>	For the period from December 10, 2007 to June 30, 2008
		<b>(Rupees in '000)</b>	
<b>(Loss) / income</b>			
Income from term finance certificates and sukuk certificates		<b>39,888</b>	7,690
Income from government securities		<b>2,501</b>	-
Income from continuous funding system		<b>3,131</b>	8,028
Dividend income		<b>10,420</b>	3,109
Income from placements		<b>20,189</b>	9,346
Income from certificates of investment		<b>8,046</b>	2,180
Income from term deposit receipts		<b>1,219</b>	-
Profit on bank deposits		<b>8,695</b>	10,087
Capital loss on sale of investments		<b>(155,879)</b>	(7,942)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' - advance against Pre-IPO and debt security	6.2.3 & 6.3.1	<b>(50,000)</b>	-
Unrealized diminution in fair value of investments classified as 'at fair value through profit or loss'	6.6	<b>(5,495)</b>	(25,368)
<b>Total (loss) / income</b>		<b>(117,285)</b>	7,130
<b>Expenses</b>			
Remuneration of KASB Funds Limited - Management Company	10.1	<b>16,693</b>	9,842
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11.1	<b>1,662</b>	971
Annual fee - The Securities and Exchange Commission of Pakistan		<b>767</b>	492
Transaction cost on securities		<b>5,874</b>	5,512
Settlement and bank charges		<b>483</b>	1,124
Legal and professional charges		<b>489</b>	63
Fees and subscription		<b>1,088</b>	35
Auditors' remuneration	15	<b>714</b>	334
Amortisation of preliminary expenses and floatation costs		<b>640</b>	319
Printing and other expenses		<b>142</b>	99
Provision for doubtful income receivable		<b>8,252</b>	-
<b>Total expenses</b>		<b>36,804</b>	18,791
		<b>(154,089)</b>	(11,661)
Net realised element of income and capital gains included in prices of units issued less those in units redeemed		<b>54,262</b>	8,538
<b>Net loss for the year / period</b>		<b>(99,827)</b>	(3,123)
<b>Loss per unit</b>			
	16		

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director



## Distribution Statement

### For the year ended June 30, 2009

For the period from  
**2009** December 10, 2007  
to June 30, 2008  
**(Rupees in '000)**

Accumulated loss brought forward		
- Realized gain	<b>22,245</b>	-
- Unrealized loss-net	<b>(25,355)</b>	-
	<b>(3,110)</b>	-
Net unrealized element of income and capital losses included in prices of units issued less those in units redeemed amount representing unrealised capital loss	<b>3,372</b>	13
Net loss for the year / period	<b>(99,827)</b>	(3,123)
	<b>(96,455)</b>	(3,110)
Accumulated losses carried forward	<b>(99,565)</b>	(3,110)
Accumulated losses carried forward		
- Realized (losses) / gains	<b>(22,087)</b>	22,245
- Unrealized losses-net	<b>(77,478)</b>	(25,355)
	<b>(99,565)</b>	(3,110)

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Statement of Movement in Unit Holders' Funds For the year ended June 30, 2009

	Note	2009	For the period from December 10, 2007 to June 30, 2008
(Rupees in '000)			
Net assets at beginning of the year / period		1,124,019	-
Issue of 1,539,491 units (2008: 35,575,828 units)		10,230	1,813,934
Redemption of 9,441,532 units (2008: 13,035,822 units)		(346,219)	(678,382)
		(335,989)	1,135,552
Element of income and capital gains included in prices of units issued less those in units redeemed:			
- amount representing accrued income and realized capital gains - transferred to the Income Statement		(54,262)	(8,538)
- amount representing unrealized capital gains transferred directly to Distribution Statement		(3,372)	(13)
		(57,634)	(8,551)
Unrealized (diminution) / appreciation in fair value of investments classified as 'available for sale' at the end of the year / period	6.7	(7,999)	128
Unrealized appreciation in fair value of investments classified as 'available for sale' at the beginning of the year		128	-
Unrealized (diminution) / appreciation in fair value of investments classified as 'available for sale' during the year / period	6.7	(8,127)	128
Net income for the year / period (excluding unrealised diminution in fair value of investments classified as 'at fair value through profit or loss', unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' - advance against Pre-IPO and debt security and capital loss)		111,547	30,187
Capital loss for the year / period		(155,879)	(7,942)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' - advance against Pre-IPO and debt security		(50,000)	-
Unrealized diminution in fair value of investments classified as 'at fair value through profit or loss'		(5,495)	(25,368)
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed - amounts representing unrealised capital gains / (losses)		3,372	13
		(96,455)	(3,110)
Net assets as at the end of the year / period		625,814	1,124,019
		(Rupees)	
<b>Net asset value per unit as at the beginning of the year / period</b>		49.87	-
<b>Net asset value per unit as at the end of the year / period</b>		42.75	49.87

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Cash Flow Statement

### For the year ended June 30, 2009

For the period from  
**2009** December 10, 2007  
to June 30, 2008  
**(Rupees in '000)**

#### CASH FLOWS FROM OPERATING ACTIVITIES

Net loss for the year / period

**(99,827)** (3,123)

#### Adjustments

Unrealized diminution in fair value of investments classified as  
'at fair value through profit or loss'

**5,495** 25,368

Unrealised diminution in fair value of investments classified as 'at fair  
value through profit or loss' - advance against Pre-IPO and debt security

**50,000** -

Provision for doubtful income receivable

**8,252** -

Net realised element of income and capital gains included in  
prices of units issued less those in units redeemed

**(54,262)** (8,538)

Amortisation of preliminary expenses and floatation costs

**640** 319

**(89,702)** 14,026

#### Decrease / (increase) in assets

Receivable against sale of investments

**19,201** (23,391)

Receivable against continuous funding system

**120,679** (120,679)

Investments

**267,528** (812,586)

Placements

**(712)** (80,000)

Certificates of investment

**50,000** (50,000)

Dividend and income receivable

**(3,793)** (16,366)

Deposits and prepayments

**(4,069)** (3,604)

**448,834** (1,106,626)

#### (Decrease) / increase in liabilities

Payable against purchase of investments

**(756)** 756

Payable to KASB Funds Limited - Management Company

**(5,688)** 3,487

Payable to Central Depository Company of Pakistan Limited - Trustee

**(92)** 218

Payable to the Securities and Exchange Commission of Pakistan

**261** 506

Accrued expenses and other liabilities

**1,088** 769

**(5,187)** 5,736

#### Net cash generated from / (used in) operating activities

**353,945** (1,086,864)

#### CASH FLOWS FROM FINANCING ACTIVITIES

Net (payments) / receipts from sale and redemption of units

**(335,017)** 1,135,552

Net increase in cash and cash equivalents during the year / period

**18,928** 48,688

Cash and cash equivalents at beginning of the year / period

**48,688** -

Cash and cash equivalents at end of the year / period

**67,616** 48,688

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Notes to Financial Statements For the year ended June 30, 2009

### 1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Balanced Fund ("the Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on October 25, 2007 and was approved by The Securities and Exchange Commission of Pakistan (SECP) on November 26, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

As Mutual Funds Association of Pakistan (MUFAP) is in discussion with the SECP with respect to the mechanism of determination of rating of Funds, the Management Company has withheld the rating of the Fund.

The Fund is an open-end balanced 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 except for units issued to core investors which are not redeemable for a period of two years from the date of issue.

The primary objective of the Fund is to generate regular income together with long term capital appreciation by investing in a portfolio constituting of income bearing securities as well as equities.

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, 2007 (the NBFC Regulations 2007), 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). Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2007, 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 2007, the NBFC Regulations 2008 and the said directives shall prevail.

#### 2.2 Initial application of a standard or an interpretation

During the year, amendments to International Accounting Standards (IAS) 39- Financial Instruments: Recognition and Measurement and IFRS 7-Financial Instruments: Disclosures- regarding reclassification of financial assets became effective from July 01, 2008. Further IAS 29 -Financial Reporting in Hyperinflationary Economies, International Financial Reporting Standard (IFRS) 7- Financial Instruments: Disclosures, IFRIC 13-Customer Loyalty Programme and IFRIC 14 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction became effective during the year. The application

of these standards and interpretations did not have any material effect on the Fund's financial statements except for certain increased disclosures.

#### 2.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after July 01, 2009 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

*Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after January 01, 2009).* The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.

*Revised IAS 23-Borrowing costs (effective from January 01, 2009).* Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.

*IAS 32 (amendment)-Financial instruments: Presentation and consequential amendment to IAS 1- Presentation of Financial Statements (effective for annual periods beginning on or after January 01, 2009).* IAS 32 amended classification of Puttable Financial Instruments.

*Amendment to IAS 39- Financial Instruments: Recognition and Measurement -Eligible Hedged Items (effective for annual periods beginning on or after July 01, 2009).* Amendment clarifies the application of existing principles that determines whether specific risk or portion of cash flows are eligible for designation in hedging relationship.

*IFRS 2 (amendment)-Share-based payments and withdrawal of IFRIC 8- Scope of IFRS 2 and IFRIC 11- Group and Treasury Share Transactions (effective for annual periods beginning on or after January 01, 2010).* Amendment provides guidance on the accounting for share based payment transactions among group entities.

*IFRS 2 (amendment)-Share-based payments (effective for annual periods beginning on or after January 01, 2009).* IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.

*IFRS 3 (amendment)-Business Combinations and consequential amendments to IAS 27-Consolidated and separate financial statements, IAS 28-Investment in associates and IAS 31-Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 01, 2009).*

*IFRS 4 -Insurance Contracts (effective for annual periods beginning on or after January 01, 2009).* The IFRS makes limited improvements to accounting for insurance contracts and contain disclosures requirements.

*Amendment to IFRS 7- Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after January 01, 2009).* The amendment contain additional disclosures for fair value measurement of financial instruments.

*IFRS 8- Operating Segments (effective for annual periods beginning on or after January 01, 2009)* The standard introduced 'management approach' to segment reporting.

*Amendment to IFRIC 9 -Reassessment of Embedded Derivatives and consequential amendment to IAS 39 -Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after*

## Notes to Financial Statements

### For the year ended June 30, 2009

June 30, 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.

*IFRIC 15- Agreement for the Construction of Real Estate (effective for annual period beginning on or after October 01, 2009).* The interpretation clarifies the recognition of revenue by real estate developers.

*IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 01, 2008).* The interpretation contains clarification on investment hedging of foreign operations.

*IFRIC 17- Distribution of Non-cash Assets to the Owner and related amendments to IFRS 5-Non-current Assets Held for Sale and Discontinued Operations and IAS 10- Event after the Balance Sheet Date (effective for annual periods beginning on or after July 01, 2009).* The interpretation contain recognition and measurement requirements regarding non-cash assets distributions by the entity to the owner.

*IFRIC 18- Transfer of Assets from Customers (effective for annual periods beginning on or after July 01, 2009).* The interpretation contain guidance from the perspective of the recipient regarding recognition and measurement principles on transferred assets by customer to the entity.

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

#### 2.4 Basis of measurement

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

#### 2.5 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.

#### 2.6 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 judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

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

##### *Investments stated at fair value*

The management company has determined fair value of certain investments by using quotations from active market and using rates notified by Mutual Fund Association of Pakistan (MUFAP). Fair value estimates are made at a specific point in time, based on market

conditions and information about financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore, cannot be determined with precision.

##### *Other assets*

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

- a) *Financial instruments at 'fair value through profit or loss'*  
An instrument is classified 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy.

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

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

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

- b) *'Available-for-sale'*  
'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.
- c) *Loans and receivables*  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'. This includes receivable against sale of investments, receivable against continuous funding system (CFS), placements, certificates of investment and other receivables and are carried at amortised cost using effective yield method, less impairment losses, if any.
- d) *Financial liabilities*  
Financial liabilities, other than those 'at fair value through profit or loss', are measured at amortised cost using the effective interest 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

## Notes to Financial Statements For the year ended June 30, 2009

performed its part of the contract or the contract is a derivative contract.

### **Measurement**

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement.

### **Fair value measurement principles**

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

### **Basis of valuation of Term Finance Certificates / Sukuk Certificate**

The SECP vide its Circular no. 1/2009 dated January 06, 2009 has changed the methodology for valuation of debt securities. Under the said directive, investment in term finance certificates / sukuk certificates are valued on the basis of traded, thinly traded and non traded securities. 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. Accordingly, investment in term finance certificates / sukuk certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular. Prior to the issuance of the said directive investment in term finance certificates / sukuk certificates were valued as follows:

- (i) With effect from November 06, 2008 to January 09, 2009, at the lower of discounted redeemable face value of term finance certificates and sukuk certificates determined in accordance with the SECP circular no. 26/2008 dated November 05, 2008 and the rates notified by the MUFAP.
- (ii) Prior to November 05, 2008, at the rates notified by MUFAP in accordance with the requirements of Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulation, 2007.

Had all the term finance certificates / sukuk certificates been valued on the basis of rates notified by MUFAP, the net assets value of the Fund calculated during the period would have been different and consequently the number of units issued / redeemed during the period as well as element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was impracticable to do so.

### **Basis of valuation of Government Securities**

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

### **Securities under repurchase/ resale agreements**

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

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

### **Impairment**

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

If in subsequent period the amount of impairment loss decreases, the reduction in impairment loss on financial assets, other than the securities classified as 'available-for-sale', is recognised in the income statement. For equity instruments classified as 'available for sale', any reversal in impairment loss is recognised in unit holder's fund. For debt instruments classified as 'available for sale', any reversal in impairment loss is recognised in income statement where the increase in fair value of debt instrument can be objectively related to an event occurring after the impairment loss was recognised in income statement.

### **Derecognition**

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the financial assets and the transfer qualifies for 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.

### **3.2 Unit holders' fund**

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

### **3.3 Issue and redemption of units**

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

Units redeemed are recorded at the redemption price, applicable on units for which the distributors receive redemption applications during business hours on that day. The redemption price represents the net asset value per unit as of the close of the business day less

## Notes to Financial Statements

### For the year ended June 30, 2009

any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

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

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

#### 3.5 Preliminary expenses and floatation costs

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

#### 3.6 Provisions

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

#### 3.7 Net asset value per unit

The net asset value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

#### 3.8 Taxation

##### Current

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

##### Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilized tax losses to the extent that this 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. No provision for current tax and deferred tax has been recognised in these financial statements due to the loss for the year.

#### 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, continuous funding system transactions, bank deposits and debt securities is recognised on a time proportion basis using effective interest rate method.

- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.

- Dividend income is recognised when the right to receive the dividend is established.

#### 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.

#### 4. BANK BALANCES

	2009	2008
	(Rupees in '000)	
In current accounts	-	10
In deposit accounts	4.1 <b>67,616</b>	48,678
	<b>67,616</b>	<b>48,688</b>

- 4.1 These deposit accounts carry mark-up at the rate of 5% to 12.5% per annum (2008: 9.5% to 12.5% per annum).

#### 5. PLACEMENTS - (Unsecured)

This includes placements with various financial institutions, carrying mark-up ranging between 15% to 22% (2008: 16.50% to 17.50%) per annum and maturity ranging from 6 to 7 days (2008: 2 to 10 days).

#### 6. INVESTMENTS

##### 'At fair value through profit or loss'

##### Held for trading

- Quoted equity securities 6.1 **191,865** 419,003

##### Designated on initial recognition

- Fixed income and other debt securities 6.2 **125,363** 136,335
  - Advance against Pre Initial Public Offer investments 6.3 **25,000** 151,880
- 150,363** 288,215

##### 'Available for sale'

- Fixed income and other debt securities 6.4 & 6.5 **113,968** 80,128
- 456,196** 787,346

The cost of the above investments as at June 30, 2009 amounted to Rs. 519.689 million (June 30, 2008: Rs. 812.586 million).

## Notes to Financial Statements For the year ended June 30, 2009

### 6.1 Quoted equity securities - 'at fair value through profit or loss'

#### SHARES OF LISTED COMPANIES - Fully paid up ordinary shares of Rs. 10/- each unless otherwise stated

Name of the investee company	As at July 1, 2008	Purchases during the year	Bonus issued during the year	Sales during the year	As at June 30, 2009	Market value as at June 30, 2009	Market value as a percentage of total investments
	----- (Number of Shares) -----					(Rupees in '000)	
<b>Automobile Assembler</b>							
Hinopak Motors Limited	1,500	-	-	1,500	-	-	-
<b>Cement</b>							
DG Khan Cement Company Limited	85,000	3,861,600	-	3,946,000	600	18	0.01
Lucky Cement Limited	50,000	2,580,100	-	2,533,900	96,200	5,631	1.23
<b>Chemical</b>							
Descon Oxychem Limited	-	500	-	500	-	-	-
ICI Pakistan Limited	-	66,200	-	66,200	-	-	-
Nimir Resins Limited (Rs. 5 each)	-	2,873,000	-	2,873,000	-	-	-
<b>Commercial Banks</b>							
Askari Bank Limited	-	130,600	-	130,600	-	-	-
Bank Alfalah Limited	958,200	3,183,500	600	4,140,900	1,400	15	0.01
Habib Bank Limited	35,840	263,000	-	288,840	10,000	861	0.19
MCB Bank Limited	6.1.1 186,000	1,326,100	29,820	1,359,900	182,020	28,219	6.19
National Bank of Pakistan	203,700	1,238,700	20	1,301,700	140,720	9,432	2.07
NIB Bank Limited	-	2,035,000	-	2,035,000	-	-	-
United Bank Limited	432,000	2,064,000	48,100	2,431,900	112,200	4,296	0.94
<b>Engineering</b>							
International Industries Limited	42,540	-	-	42,540	-	-	-
Sazgar Engineering Limited	-	80,500	5,900	86,400	-	-	-
<b>Fertilizer</b>							
Engro Chemicals (Pakistan) Limited	54,550	883,460	-	773,900	164,110	21,076	4.62
Fauji Fertilizer Bin Qasim Limited	-	720,000	-	720,000	-	-	-
Fauji Fertilizer Company Limited	58,100	1,786,800	30,927	1,535,900	339,927	29,556	6.48
<b>Insurance</b>							
Adamjee Insurance Company Limited	90,000	737,900	40,540	868,400	40	3	0.01
EFU General Insurance Limited	24,000	34,800	-	24,000	34,800	3,065	0.67
<b>Investment Banks / Companies / Securities</b>							
Arif Habib Securities Limited	50,000	1,340,000	14,750	1,404,200	550	15	0.01
Jahangir Siddiqui & Company Limited	6.1.1 60,000	95,000	159,918	314,100	818	18	0.01
<b>Miscellaneous</b>							
Pace (Pakistan) Limited	241,500	-	-	241,500	-	-	-
Tri-Pack Films Limited	30,000	5,000	-	35,000	-	-	-
<b>Oil &amp; Gas Exploration Companies</b>							
Oil & Gas Development Company Limited	132,100	1,636,100	-	1,673,000	95,200	7,487	1.64
Pakistan Oilfields Limited	52,100	1,086,800	12,200	1,150,500	600	88	0.02
Pakistan Petroleum Limited	45,000	1,051,200	10,870	995,000	112,070	21,242	4.66
<b>Oil &amp; Gas Marketing Companies</b>							
Pakistan State Oil Company Limited	6.1.1 41,600	725,900	-	666,800	100,700	21,515	4.72
<b>Paper &amp; Board</b>							
Packages Limited	6.1.1 620	292,400	-	156,420	136,600	21,451	4.70
<b>Power Generation &amp; Distribution</b>							
Hub Power Company Limited	422,500	4,655,000	-	4,547,500	530,000	14,358	3.15
Kot Addu Power Company	-	1,201,000	-	1,201,000	-	-	-
<b>Pharmaceuticals</b>							
Hightnoon Laboratories Limited	20,000	-	-	20,000	-	-	-
<b>Refinery</b>							
Attock Refinery Limited	14,000	-	-	14,000	-	-	-
National Refinery Limited	-	100	-	100	-	-	-



## Notes to Financial Statements

### For the year ended June 30, 2009

Name of the investee company	As at July 1, 2008	Purchases during the year	Bonus issued during the year	Sales during the year	As at June 30, 2009	Market value as at June 30, 2009	Market value as a percentage of total investments
	(Number of Shares)					(Rupees in '000)	

#### Technology & Communication

Pakistan Telecommunication Company Limited	978,900	2,761,600	-	3,740,500	-	-	-
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#### Textile Composite

Azgard Nine Limited	-	248,598	25,000	115,000	158,598	3,511	0.77
Nishat Mills Limited	16,400	871,000	-	887,200	200	8	0.01

**191,865**

6.1.1 Investments include quoted equity securities with market value as at June 30, 2009 aggregating to Rs. 57.388 million which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Funds trades in terms of Circular No. 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

#### 6.2 Fixed income and other debt securities - designated as 'at fair value through profit or loss' on initial recognition

Name of the investee company	Profit rate (%)	As at July 1, 2008	Purchases during the year	Sales during the year	Redemption during the year	As at June 30, 2009	Market / carrying value as at June 30, 2009	Market / carrying value as a percentage of total investments
		(Number of Certificates)					(Rupees in '000)	

#### Term Finance Certificates

NIB Bank Limited	-	16,000	-	16,000	-	-	-	-
Pak American Fertilizers limited - II	6.2.1	17.32	1,000	-	-	1,000	4,343	0.95
Pakistan Mobile Communications Limited - III	6.2.2	15.01	20,000	-	-	20,000	96,020	21.05
							<b><u>100,363</u></b>	

#### Sukuk Certificates

New Allied Electronics Industries (Private) Limited - I	6.2.3	15.83	160,000	-	-	-	160,000	25,000	5.48
								<b><u>125,363</u></b>	

6.2.1 These privately placed term finance certificates issued on January 14, 2008 and carrying mark-up equal to the base rate of 1.75% plus 6 months KIBOR per annum with no floor or cap. The principal redemption and mark-up thereon are paid semi-annually. These certificates will mature on January 14, 2015.

6.2.2 These term finance certificates issued on October 10, 2008 and carrying mark-up equal to 6 month KIBOR plus 165 basis points per annum. The principal redemption and mark-up thereon are paid semi-annually with no floor and cap. These certificates mature on October 28, 2013.

6.2.3 This represents sukuk certificates of New Allied Electronics Industries (Private) Limited (NAEIL). The investment is collateralised against first exclusive charge by way of equitable mortgage on land, plant, equipment, machinery and other fixed assets of the company with a margin of 33.33% as mentioned in the constitutive documents of the instrument.

On October 25, 2008, owing to the financial difficulties, NAEIL paid full markup amounting to Rs. 2.113 million, however, no payment was made against the principal due amounting to Rs. 3.125 million. NAEIL again defaulted on January 25, 2009 and April 25, 2009 on repayment of principal and mark-up in aggregate amounting to Rs. 6.250 million and Rs. 3.857 million respectively. The Fund has made full provision against markup receivable amounting to Rs. 1.474 million till December 31, 2008 and suspended further accruals of markup on the investment amounting to Rs. 3.564 million till June 30, 2009. MUFAP has classified such exposure as non-performing and its credit rating has been down graded in view of its continuous defaults. The investment has been valued in the light of the Circular 01 of 2009 issued by SECP specifying valuation and provisioning criteria for non performing debt securities. The investment has been further marked down by Rs. 10 million in accordance with provisioning policy approved by the Board of Directors. The mark down amounting to Rs. 25 million has been recognized in Income Statement as unrealised diminution in fair value of investments classified as 'at necessary fair value through profit or loss' advance against Pre-IPO and debt securities. Management is continuously monitoring the Fund's exposure to this investment and is making efforts for the recovery of the amount.

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

## Notes to Financial Statements For the year ended June 30, 2009

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

Name of the investee company	Profit / mark up rate (%)	As at July 1, 2008	Purchases during the year	Sales during the year	Redemption during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Carrying value as a percentage of total investments
							(Rupees in '000)	
----- (Number of Certificates) -----								
Dewan Cement Limited	6.3.1	16.12	10,000	-	-	10,000	25,000	5.48
							<u>25,000</u>	

6.3.1 This represents investment in advance against term finance certificates of Dewan Cement Limited (DCL). The respective investment in DCL is collateralised against first pari passu charge over plant and machinery and land and buildings, as mentioned in the constitutive documents of the instrument. As per agreement, public offering was expected to be completed within 270 days from the signing of the agreement failing which the Company was required to refund the amount of Rs. 50 million along with interest accrued thereon.

The Fund has made full provision against markup receivable till December 31, 2008 amounting to Rs. 6.778 million and suspended further accruals of markup on the investment amounting to Rs. 10.774 million till June 30, 2009. The Investment has been marked down in accordance with the provisioning policy of the Fund approved by the Board of Directors of the management company. Consequently, the investment is valued at 50% to its face value. The mark down amounting to Rs. 25 million has been recognized in income statement as unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' advance against Pre-IPO and debt securities. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

### 6.4 Fixed income and other debt securities- 'available for sale'

Name of the investee company	Profit / mark up rate (%)	As at July 1, 2008	Purchases during the year	Sales during the year	Redemption during the year	As at June 30, 2009	Market value as at June 30, 2009	Market value as a percentage of total investments	
							(Rupees in '000)		
----- (Number of Certificates) -----									
<b>Term Finance Certificates</b>									
Pak American Fertilizers Limited - II	6.4.1	17.32	16,000	-	4,000	-	12,000	52,113	11.42
<b>Sukuk Certificates</b>									
Pak Elektron Limited	6.4.2	14.52	-	1,000	-	-	1,000	4,553	1.00
Security Leasing Corporation Limited	6.4.3	15.75	-	19,500	10,000	-	9,500	32,241	7.07
Sitara Chemicals Industries Limited - III		-	-	6,000	6,000	-	-	-	-
Karachi Shipyard & Engineering Works Limited - II		-	-	3,900	3,900	-	-	-	-
							<u>36,794</u>		
							<u>88,907</u>		

6.4.1 These privately placed term finance certificates were issued on January 14, 2008 and carry mark-up equal to base rate of 1.75% plus 6 months KIBOR per annum with no floor or cap. The principal redemption and mark-up thereon are paid semi-annually. These certificates will mature on January 14, 2015.

6.4.2 These privately placed sukuk certificates are diminishing musharaka issued on September 28, 2007 and carrying mark-up equal to 6 months KIBOR plus 175 basis point per annum with no floor or cap. The principal redemption and mark-up thereon are paid semi-annually. These certificates will mature on September 28, 2012.

6.4.3 These privately placed sukuk certificates issued on June 01, 2007 and carrying mark-up equal to 6 months KIBOR plus 200 basis point per annum with no floor or cap. The principal redemption and mark-up thereon are paid semi-annually. These certificates will mature on June 01, 2012.

## Notes to Financial Statements

### For the year ended June 30, 2009

#### 6.5 Fixed income and other debt securities - 'available for sale' (government securities)

Issue date	Tenor	Profit / mark up rate (%)	As at July 1, 2008	Purchases during the year	Sales during the year	Matured during the year	As at June 30, 2009	Market value as at June 30, 2009	Market value as a percentage of total investments
<b>Pakistan Investment Bonds</b>									
August 30, 2008	6.5.1	10 Years	12.00	-	75	50	25	25,061	5.49
								<u>25,061</u>	

6.5.1 These government securities were issued on August 30, 2008, carrying mark-up at the rate of 12% per annum with no floor or cap. The mark-up thereon is paid semi-annually and will mature on August 30, 2018.

#### 6.6 Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'

	2009	2008
	(Rupees in '000)	
Fair value of investments	342,227	707,218
Less: cost of investments	(397,722)	(732,586)
	<u>(55,495)</u>	<u>(25,368)</u>
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' at the beginning of the year	25,368	-
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' - advance against Pre-IPO and debt security	50,000	-
Realised on disposal during the year	(25,368)	-
	<u>50,000</u>	<u>-</u>
	<u>(5,495)</u>	<u>(25,368)</u>

#### 6.7 Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'

	2009	2008
	(Rupees in '000)	
Fair value of investments	113,968	80,128
Less: cost of investments	(121,967)	(80,000)
	<u>(7,999)</u>	<u>128</u>
Net unrealised appreciation in fair value of investments classified as 'available for sale' at the beginning of the year	(128)	-
	<u>(8,127)</u>	<u>128</u>

#### 7. DIVIDEND AND PROFIT RECEIVABLE

Dividend receivable	1,656	1,417
Income accrued on bank deposits	885	821
Income accrued on placements	42	4,080
Income accrued on certificates of investment	-	603
Income accrued on continuous funding system	-	716
Income accrued on term finance certificates and sukuk certificates	24,806	8,729
Income accrued on government securities	1,002	-
Less: Provision against doubtful income receivable	6.2.3 & 6.3.1 (16,484)	-
	<u>11,907</u>	<u>16,366</u>

#### 8. DEPOSITS AND PREPAYMENTS

2009 2008  
(Rupees in '000)

Deposit with National Clearing Company of Pakistan Limited	3,500	3,500
Deposit with Central Depository Company of Pakistan Limited	100	100
Financial Institutions (FI) Margins with National Clearing Company of Pakistan Limited	8.1 4,027	-
Prepaid fee - National Clearing Company of Pakistan Limited	46	4
	<u>7,673</u>	<u>3,604</u>

8.1 This represents FI margins deposited with National Clearing Company of Pakistan Limited and carrying mark-up at the rate of 8.5% per annum.

#### 9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	2,881	3,200
Less: Amortisation during the year / period	(640)	(319)
Balance as at June 30	<u>2,241</u>	<u>2,881</u>

#### 10. PAYABLE TO KASB FUNDS LIMITED - MANAGEMENT COMPANY

Management fee payable	10.1 997	1,631
Sales load payable	2	1,856
Other payable	-	3,200
	<u>999</u>	<u>6,687</u>

10.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. During the year, remuneration of management company is charged at the rate of 2 percent per annum of the average annual net assets of the Fund.

10.2 In accordance with Clause 6.2.1.2 of the offering document, Management Company has issued type 'B' Units to core investors. The Management Company offers a special rebate on the management fee to type 'B' units, (currently rebate is applicable at one-fourth of the management fee applicable to type 'B' units). However, difference between normal rates and reduced rates is passed on to type 'B' unit holders by way of issuance of type 'A'

## Notes to Financial Statements For the year ended June 30, 2009

additional units, as a result the management fee charged to Income Statement remains at the rates specified in note 10.1. Total 37,596 additional units were issued during the year to type 'B' unit holders at a value of Rs. 1.615 million. (19,057 additional units were issued during the year ended June 30, 2008 at a value of Rs. 0.984 million.)

### 11. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

	2009	2008
	(Rupees in '000)	
Trustee fee	11.1	114
CDS charges	12	49
	<u>126</u>	<u>218</u>

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

### 14. NUMBER OF UNITS IN ISSUE

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

	2009	2008	2009	2008
	Units		(Rupees in '000)	
Type 'A' Units	14.1	15,040,006	7,137,966	750,011
Type 'B' Units	14.2	7,500,000	7,500,000	374,008
		<u>22,540,006</u>	<u>14,637,966</u>	<u>1,124,019</u>

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

14.2 Type 'B' units are meant for the core investors. (Refer note 10.2)

### 15. AUDITORS' REMUNERATION

	2009	2008
	(Rupees in '000)	
Audit fee	590	100
Other certifications and services	46	230
Out of pocket expense	78	4
	<u>714</u>	<u>334</u>

### 16. LOSS PER UNIT

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

### 17. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Connected persons / related parties include KASB Funds Limited (the Management Company), KASB Bank Limited (the Holding Company of the Management Company), KASB Securities Limited, KASB Modaraba, and New Horizon Exploration and Production Limited (associated companies of the Management Company), other Funds managed by the management company including KASB Liquid Fund, KASB Islamic Income Fund and KASB Stock Market Fund, Central Depository Company of Pakistan Limited (trustee of the Fund) and directors and key management personnel of the Management Company.

The State Bank of Pakistan vide its order dated January 01, 2009 sanctioned the scheme of amalgamation of KASB Capital Limited (previously the holding company of KASB Funds Limited), and Network Leasing Corporation Limited with and into KASB Bank Limited effect from the close of business on December 31, 2008. The same was approved by the SECP vide its letter dated January 23, 2009.

Therefore, consequent to this amalgamation, KASB Bank Limited (being the successor in interest of KASB Capital Limited) has become the holding company of KASB Funds Limited.

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, NBFC Regulations 2007 and the Trust Deed respectively.

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

### 12. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

2009	2008
(Rupees in '000)	
<u>767</u>	<u>506</u>

As per schedule II of the NBFC Regulations 2008, balanced funds are required to pay as annual fee to the SECP, an amount equal to 0.085 percent of the average annual net assets of the Scheme. Uptill November 20, 2008 annual fee is accrued at the rate of one tenth of one percent under the provisions of NBFC Regulations 2007.

### 13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2009	2008
Auditors' remuneration	492	290
Legal and professional charges payable	62	40
Payable to KASB Liquid Fund	-	279
Others	1,303	160
	<u>1,857</u>	<u>769</u>

## Notes to Financial Statements

### For the year ended June 30, 2009

#### 17.1 Transactions with connected persons / related parties can be summarised as follows:

For the period from  
**2009** December 10, 2007  
to June 30, 2008  
**(Rupees in '000)**

<b>KASB Funds Limited</b>			
Remuneration expense		<b>16,693</b>	9,842
Sales load		<b>98</b>	5,632
<b>KASB Funds Limited Employees' Provident Fund</b>			
Investment in the Fund: nil units (2008: 7,882 units)		-	400
Redemption from the Fund: 7,882 units (2008: nil units)		<b>336</b>	-
<b>KASB Capital Limited</b>			
Investment in the Fund: nil units (2008: 6,350,338 units)		-	322,000
Redemption from the Fund: nil units (2008: 5,000,000 units)		-	263,392
Transfer out of the Fund: 1,350,338 units (2008: nil units)		<b>58,497</b>	-
<b>KASB Bank Limited</b>			
Bank charges		<b>11</b>	17
Profit accrued on bank deposits		<b>8,450</b>	9,557
Investment in the Fund: nil units (2008: 5,000,000 units)		-	250,000
Transfer in the Fund: 1,350,338 units (2008: nil units)		<b>58,497</b>	-
Additional units: 25,064 units (2008: 12,705 units)		<b>1,077</b>	656
<b>KASB Securities Limited</b>			
Brokerage expense	17.3	<b>391</b>	3
<b>KASB Liquid Fund</b>			
Purchase of sukuk certificates: 25,500 units (2008: nil units)		<b>132,068</b>	-
Sale of sukuk certificates: 10,000 units (2008: nil units)		<b>51,826</b>	-
Reverse Repurchase Transaction		<b>48,000</b>	-
Income accrued on Reverse Repurchase Transaction		<b>2,035</b>	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>			
Remuneration		<b>1,662</b>	971
CDS charges		<b>241</b>	258
<b>Directors and officers of the Management Company</b>			
Investment in the Fund: nil units (2008: 22,815 units )		-	1,183
Conversion in the Fund: nil units (2008: 22,312 units)		-	1,132
Conversion out of the Fund: 14,733 units (2008: 2,506 units)		<b>599</b>	132
Redemption from the Fund: nil units (2008: 19,806 units)		-	970

#### 17.2 Balances with connected persons / related parties can be summarised as follows:

**2009** 2008  
**(Rupees in '000)**

<b>KASB Funds Limited</b>			
Payable to the Management Company		<b>999</b>	6,687
<b>KASB Liquid Funds</b>			
Payable to KASB Liquid Fund		-	279
<b>KASB Funds Limited Employees' Provident Fund</b>			
Units held: nil (2008: 7,882 units)		-	393
<b>KASB Capital Limited</b>			
Units held: nil (2008: 1,350,338 units)		-	67,341
<b>KASB Bank Limited</b>			
Bank balance		<b>67,249</b>	48,090
Profit receivable on bank deposits	17.4	<b>885</b>	821
Units held: 6,388,107 (2008: 5,012,705 units)		<b>273,092</b>	249,984
<b>KASB Securities Limited</b>			
Brokerage payable	17.3	<b>34</b>	3
<b>Central Depository Company of Pakistan Limited - Trustee</b>			
Payable to the Trustee		<b>126</b>	218
Security deposit		<b>100</b>	100
<b>Directors and officers of the Management Company</b>			
Units held: 8,082 (2008: 22,814 units)		<b>346</b>	1,183

## Notes to Financial Statements For the year ended June 30, 2009

**17.3** 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

**17.4** The rate of return on this deposit is 12.5% per annum.

### 18. 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 primary objective of the Fund is to generate regular income together with long term capital appreciation by investing in a portfolio constituting of income bearing securities as well as equities.

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

- Market risk
- Credit risk and
- Liquidity risk

#### Market risk

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

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

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

#### Currency risk

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

#### Interest rate risk

Interest rate risk arises from the 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 also holds a limited amount of fixed interest securities that expose the Fund to fair value 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, 2009, the investment in debt securities exposed to interest rate risk is detailed in Note 6.2, 6.3, 6.4 and 6.5.

#### a) Sensitivity analysis for variable rate instruments

Presently, majority of the Fund investment in Term Finance Certificates and Sukuk Certificates carry floating interest rate that expose the Fund to cashflow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2009 with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs.0.504 million (2008: Rs.0.741 million) with consequential effect on net loss for the year. This arises substantially from the increase / decrease in interest income and receivable on Term Finance Certificates and Sukuk Certificates.

#### b) Sensitivity analysis for fixed rate instruments

Presently, the Fund holds Pakistan Investment Bond which are classified as 'available for sale' exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association on June 30, 2009 with all other variables held constant, the net loss for the year would be higher by Rs. 1.323 million with consequential decrease in net assets. This substantially arises from decrease in fair value of Pakistan Investment Bond.

In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2009 with all other variables held constant the net loss for the year would be lower by Rs.1.428 million with consequential increase in net assets. This substantially arises from increase in fair value of Pakistan Investment Bond.

Investments in placements, certificates of investment which are classified as loans and receivables are not subject to fair value interest rate risk.

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests. Further the composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the effect on the Fund's net assets and income statement of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

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

## Notes to Financial Statements

### For the year ended June 30, 2009

	June 30, 2009					
	Effective rate of mark-up/return (%)	Exposed to MROR risk			Not exposed to MROR risk	Total
		Upto three months	More than three months and upto one year	More than one year		
(Rupees in '000)						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	5-12.5	67,616	-	-	-	67,616
Placements	15-22	80,712	-	-	-	80,712
Receivable against sale of investments		-	-	-	4,190	4,190
Investments	14.52 - 17.32	61,009	128,261	25,061	191,865	406,196
Dividend and profit receivable		-	-	-	11,907	11,907
Deposits and other receivables		-	-	-	7,627	7,627
		<u>209,337</u>	<u>128,261</u>	<u>25,061</u>	<u>215,589</u>	<u>578,248</u>
<b>Financial liabilities</b>						
Payable against purchase of investments		-	-	-	-	-
Payable on redemption of units		-	-	-	972	972
Payable to KASB Funds Limited - Management Company		-	-	-	999	999
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	126	126
Accrued expenses and other liabilities		-	-	-	1,857	1,857
		-	-	-	3,954	3,954
<b>On-balance sheet gap 2009</b>		<u><u>209,337</u></u>	<u><u>128,261</u></u>	<u><u>25,061</u></u>	<u><u>211,635</u></u>	<u><u>574,294</u></u>

	June 30, 2008					
	Effective rate of mark-up/return (%)	Exposed to MROR risk			Not exposed to MROR risk	Total
		Upto three months	More than three months and upto one year	More than one year		
(Rupees in '000)						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	9.5 - 12.50	48,678	-	-	10	48,688
Placements	16.5-17.5	80,000	-	-	-	80,000
Certificates of investment	12.85 - 15.35	50,000	-	-	-	50,000
Receivable against sale of investments		-	-	-	23,391	23,391
Receivable against continuous funding system	14.22 - 22.29	120,679	-	-	-	120,679
Investments	11.21 - 14.72	368,343	-	-	419,003	787,346
Dividend and profit receivable		-	-	-	16,366	16,366
Deposits and other receivable		-	-	-	3,600	3,600
		<u>667,700</u>	<u>-</u>	<u>-</u>	<u>462,370</u>	<u>1,130,070</u>
<b>Financial liabilities</b>						
Payable against purchase of investments		-	-	-	756	756
Payable on redemption of units		-	-	-	-	-
Payable to KASB Funds Limited- Management Company		-	-	-	6,687	6,687
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	218	218
Accrued expenses and other liabilities		-	-	-	769	769
		-	-	-	8,430	8,430
<b>On-balance sheet gap 2008</b>		<u><u>667,700</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>453,940</u></u>	<u><u>1,121,640</u></u>

## Notes to Financial Statements

### For the year ended June 30, 2009

#### Other price risk

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

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

A summary analysis of investments by industry sector, the percentage in relation to Fund's total investment as at 30 June 2009 is presented in note 6.1.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at June 30. The analysis is based on the assumption that KSE 30 indexes increased by 5%(2008: 5%) and decreased by 5%(2008 : 5%), with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 30 index, having regard to the historical volatility of index of past one and half year (2008: one year).

	2009	2008
	(Rupees in '000)	
The impact below arises from the reasonable possible change in the fair value of listed equity securities:		
<i>Effect on net assets attributable to unit holders of an increase in the KSE-30 index</i>		
Effect on investments	<u>8,826</u>	<u>18,855</u>
Effect on income statement	<u>8,826</u>	<u>18,855</u>
<i>Effect on net assets attributable to unit holders of a decrease in the KSE-30 index</i>		
Effect on investments	<u>(8,826)</u>	<u>(18,855)</u>
Effect on income statement	<u>(8,826)</u>	<u>(18,855)</u>

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

The composition of the Fund's investment portfolio and the correlation thereof to the KSE 30 index, is expected to change over the time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 30 index.

#### 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. 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.

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. In securities reverse repurchase transactions the Fund receives securities as collateral. The Fund kept surplus liquidity with banks having ratings of A and AAA. Investment in Pakistan Investment Bonds does not expose the fund to credit risk as the counter party is Government.

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.

	2009	2008
	(Rupees in '000)	
Bank balances	67,616	48,688
Placements	80,712	80,000
Certificates of investment	-	50,000
Investments in fixed income and other debt securities	214,270	216,463
Dividend and profit receivable	11,907	16,366
Deposits and other receivables	7,627	3,600
	<u>382,132</u>	<u>415,117</u>

None of the above financial assets were considered to be past due or impaired in 2009 and 2008 except for the exposures and the provisions there against as provided in note 6.2.3 and 6.3.1. 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.

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

Debt Securities by rating category	2009	2008
	(%)	(%)
AA-	47.65	37.53
A+	1.42	16.25
A	-	10.03
A-	-	10.10
BBB-	10.08	-
Non performing	15.63	-
A-1	-	16.05
A-2	13.97	10.03
A-3	11.25	-



## Notes to Financial Statements

### For the year ended June 30, 2009

#### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

#### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

The Fund's policy is to manage this risk by keeping adequate assets as cash and cash equivalents. Further the Fund also invests in assets that are traded in an active market and can be disposed. The Fund invests primarily in marketable securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement.

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 total assets at the time of borrowing with repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

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

Due to the introduction of a 'floor' on the equity prices at the stock exchanges and to protect the interest of the unit holders, SECP issued Circular No. 23 of 2008 dated October 07, 2008 directing all asset management companies managing open end schemes with direct exposure to equity securities to suspend pricing, issuance and redemption of units till third business day after the floor is removed at the stock exchanges. The Management Company, in compliance with the said circular, suspended the pricing, issuance and redemption of units of the Fund with effect from October 07, 2008 and removed suspension on the third business day after the floor was removed i.e. December 18, 2008. Apart from this, no suspension of redemption was made by the Fund during the year.

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, 2009			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	972	-	-	972
Payable to KASB Funds Limited - Management Company	999	-	-	999
Payable to Central Depository Company of Pakistan Limited - Trustee	126	-	-	126
Payable to the Securities and Exchange Commission of Pakistan	767	-	-	767
Accrued expenses and other liabilities	1,857	-	-	1,857
	<u>4,721</u>	<u>-</u>	<u>-</u>	<u>4,721</u>
	June 30, 2008			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable against purchase of investments	756	-	-	756
Payable on redemption of units	-	-	-	-
Payable to KASB Funds Limited - Management Company	6,687	-	-	6,687
Payable to Central Depository Company of Pakistan Limited - Trustee	218	-	-	218
Payable to the Securities and Exchange Commission of Pakistan	506	-	-	506
Accrued expenses and other liabilities	769	-	-	769
	<u>8,936</u>	<u>-</u>	<u>-</u>	<u>8,936</u>

## Notes to Financial Statements For the year ended June 30, 2009

Units of the Fund are redeemable on demand at the holder's option. However, holders of these units typically retain them for the medium to long term.

### Unit Holders' Fund risk management

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

The Fund's objective for managing Unit holders' Fund are to generate regular income together with long term capital appreciation by investing in portfolio constituting of income bearing securities as well as equities.

## 19. 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.

## 20. PATTERN OF UNITHOLDING

Category	No. of unitholders		Investment amount		Percentage of total investment	
	2009 (Numbers)	2008	2009 (Rupees in '000)	2008	2009 (%)	2008
Individuals	70	181	48,413	275,019	7.74	24.47
Associated companies	1	3	273,110	317,703	43.64	28.26
Directors	-	2	-	735	-	0.07
Insurance Companies	-	1	-	143,183	-	12.74
Banks / Financial Institutions	3	4	210,748	270,129	33.68	24.03
Non Banking Finance Companies	-	-	-	-	-	-
Retirement Funds	7	9	57,232	74,894	9.15	6.66
Public Limited Companies	1	1	2,425	2,829	0.39	0.25
Others	4	4	33,886	39,527	5.41	3.52
	<b>86</b>	<b>205</b>	<b>625,814</b>	<b>1,124,019</b>	<b>100</b>	<b>100</b>

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

Broker Name	2009 ( Percentage)
Elixir Securities Pakistan (Private) Limited	15%
Alfalah Securities (Private) Limited	13%
Invest and Finance Securities Limited	10%
Al Habib Capital Markets (Private) Limited	9%
KASB Securities Limited.	7%
Ismail Iqbal Securities (Private) Limited	7%
Live Securities (Private) Limited	5%
Atlas Capital Markets (Private) Limited	5%
Invest Capital Investment Bank Limited	4%
Arif Habib Limited	4%
	2008 ( Percentage)
Live Securities (Private) Limited	10%
Invest and Finance Securities Limited	8%
Elixir Securities Pakistan (Private) Limited	8%
Ismail Iqbal Securities (Private) Limited	7%
IGI Finex Securities Limited	7%
Multiline Securities (Private) Limited	7%
Alfalah Securities (Private) Limited	7%
Atlas Capital Markets (Private) Limited	6%
Fortune Securities Limited	6%
Invest Capital Investment Bank Limited	6%

## Notes to Financial Statements

### For the year ended June 30, 2009

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

Name of the person	Designation	Total meetings held during the period	Meetings Attended	Leave granted
Mr. Robert John Richard Owen	Chairman	8	8	-
Mr. Amir Zahoor khan	Director*	5	5	-
Mr. Farid Arshad Masood	Director	8	7	1
Ms. Naz Khan	Chief Executive & Director	8	8	-
Mr. Syed Muhammad Rehmanullah	Director	8	8	-
Mr. Muneer Kamal	Director**	1	-	1
Mr. Muhammad Imran Khalil	Chief Financial Officer	8	8	-
Mr. Irfan Saleem	Company Secretary	8	8	-

\*After being elected as director on October 25, 2008.

\*\* Mr. Muneer Kamal resigned from the Board on July 04, 2008.

#### Dates of the meetings of the Board of Directors

Twenty-fourth meeting	July 2, 2008
Twenty-fifth meeting	August 20, 2008
Twenty-sixth meeting	October 22, 2008
Twenty-seventh meeting	December 29, 2008
Twenty-eighth meeting	February 20, 2009 and February 26, 2009
Twenty-ninth meeting	April 27, 2009
Thirtieth meeting	May 27, 2009
Thirty-first meeting	June 8, 2009

#### 23. DETAILS OF MEMBER OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	B.A (USA)	16
Muhammad Faisal Potrik	Head of Fund Management	MBA	09
Khurram Bashir	Fund Manager	M Sc.(Econ & Finance)	04
Irfan Saleem Awan	Head of Risk Management & Compliance and Company Secretary	ACA	10

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

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

#### 24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 25, 2009 by the Board of Directors of the management Company.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

