

KASB LIQUID FUND

Annual Report 2007

Managed by:

 **KASB FUNDS**

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FUND'S 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.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert Owen

Chairman

Ms. Naz Khan

Director & Chief Executive

Mr. Muneer Kamal

Director

Mr. Farid Arshad Masood

Director

Syed Muhammad Rehmanullah

Director

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Irfan Saleem

Audit Committee

Mr. Muneer Kamal

Chairman

Mr. Robert Owen

Member

Mr. Farid Arshad Masood

Member

Trustee

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block "B"

SMCHS, Main Shahrah-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

2nd Floor, Sohni Centre, BS 5 & 6, Main Karimabad,

Block-4, Federal B. Area, Karachi-75950, Pakistan.

Distributors

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Atlas Capital Markets (Private) Limited

MISSION STATEMENT

*KASB Liquid Fund seeks to
maximise current income,
consistent with low levels of risk and high liquidity.*

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR KASB LIQUID FUND

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Liquid Fund (KLF, 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, 2007.

Financial Highlights

	FY 2007	From May 9, 2006 to June 30, 2006	Increase
Net Income (Rs. in Million)	628.89	10.89	5,672%
Net Assets as at June 30 (Rs. in Million)	6,481	730.69	787%
NAV per Unit as on June 30 (Rs.) **	111.08	100.11*	10.96%
Annualised yield	10.96%	10.60%	3.40%

* Ex-NAV after distribution.

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

Economic Environment

On the back of last year's impressive GDP growth, the economy managed to carry the positive momentum by posting a GDP growth of 7.0% for the current fiscal year. Manufacturing sector has reaped the benefits of the recent upsurge in the growth momentum and its share in the GDP has increased to 19.1%(as per Economic Survey 2006-2007). However as capacity utilisations peaked out across all sectors and demand drivers remained intact, the inflationary pressure was witnessed through out the year. Rising oil prices and growing current account deficit further fuelled the price index which showed only signs of tapering off towards the last quarter of the year under strict monetary tightening by SBP.

In its bid to cut down the money supply and restrict inflation, a tight monetary stance was maintained through out the year by the Central Bank. The measures taken by the Central Bank included enhancement of the cash and reserve requirements for banks.

Income and Return of the Fund

The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 111.08, thus, giving an annualised yield of 10.96% for the year. The net income before distribution for the period from July 1, 2006 to June 30, 2007 was Rs. 628.89 million. Placements with banks and financial institutions contributed Rs. 122.29 million towards the income, profit on bank deposits was Rs. 46.42 million and income from Continuous Funding System (CFS) was Rs. 26.38 million.

Income Distribution

The Board of Directors of KASB Funds Limited approved the distribution of bonus units of Rs.10.72 per unit to the unit holders of the Fund for the year ended June 30, 2007 which translates into a distribution of 99.5% of realised income to the unit holders of KASB Liquid Fund.

As the Fund has distributed more than 90% of the accounting income among the unit holders, its income will not be subject to income tax under clause 99 of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001.

Investment Strategy

KLF seeks to maximise current income, consistent with low levels of risk and high liquidity by primarily investing in low duration, liquid investments. The Fund also seeks to maintain an average duration of less than one year on the portfolio minimising price risk for investors whilst giving them money market returns.

In light of a relatively flat yield curve, rising interest rates and consolidating stock market, the Fund chose to stay at the shorter end of the yield curve by increasing its exposure towards low duration placements and floating rate TFCs while reducing its exposure towards CFS and Ready Future Arbitrage. As at June 30, 2007, the Fund's investments as a share of total assets were: Bank Balances & Term Deposits 11%, Placements and Certificate of Investments 70%, CFS 4%, TFCs 13% and other assets 2%. Going forward, the Fund will increase its investments in short term corporate debts and floating rate instruments while managing the interest rate risk.

Fund Performance

The Fund has earned a return of 10.96% p.a. for the period under review, while maintaining an average duration of the portfolio less than one year, against the average 1 Month KIBOR rate of 9.57% p.a. and average bank deposit rate of approximately 4.0% p.a. for the same period. The fund not only managed to provide superior returns to its valued investors but kept a high credit rated portfolio with investment in CFS remaining under 15% on average.

Sale and redemption of units

The fund size of KLF was Rs. 730.69 million on June 30, 2006 which increased by 787% by the end of the financial year to close at Rs. 6,481 million on June 30, 2007. During the year, units worth Rs.12,801 million were issued and units with a value of Rs.7,269 million were redeemed. As on June 30, 2007, the total number of outstanding units was 58,347,582 with a value of Rs.6,481 million.

Compliance with the Code of Corporate Governance

The Fund being listed on the Karachi Stock Exchange, the Management Company is committed to observe the Code of Corporate Governance prescribed for listed companies. The Board of Directors state that:

- a. 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 account of the Fund have been maintained;
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and account estimates are based on reasonable and prudent judgment;
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements;
- e. The system of internal control is sound in design and has been effectively implemented and monitored;
- f. There is no significant doubt upon the Fund's ability to continue as going concern;

- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations;
- h. Key financial data is summarized in note 26 of the financial statements;
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- j. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company; and
- k. The detailed pattern of 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, 2006 to June 30, 2007 is as under:

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr. Robert Owen	Chairman	9	7	2
2.	Ms. Naz Khan	Chief Executive & Director	9	9	-
3.	Mr. Muneer Kamal	Director	9	8	1
4.	Mr. Farid Arshad Masood	Director	9	8	1
5.	Mr. Sulaiman Ahmed Saeed Al Hoqani-Resigned	Director	8	-	8

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. Muneer Kamal	Director	Nil	Nil
2.	Mr. Farid Arshad Masood	Director	10,040	15,837
3.	Ms. Naz Khan	Director & Chief Executive	66,855	11,404
4.	Mr. Muhammad Imran Khalil	CFO	957	461

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2007, banks and financial institutions held 48.11% out of the total units; individuals 14.12% units; insurance companies, modarabas and mutual funds and limited companies 17.34% units; 20.43% units were held by other corporate sector entities, non profit organisations and retirement funds. Detailed pattern is also annexed.

Future Outlook

Having achieved a GDP growth of 7% in FY07, the central bank is expected to continue walking the tight rope between sustaining growth and curtailing inflation. As such interest rates are expected to remain firm and the portfolio will reflect the same. The rapidly expanding fixed income mutual fund market will also necessitate the development of additional debt instruments which should be a progressive step for the market.

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 Liquid Fund for the financial year ending June 30, 2008. 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, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee) for their confidence, continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

For and on behalf of the Board

August 30, 2007
Karachi

Naz Khan
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS) AS AT JUNE 30, 2007

	Units Held	Units Held (%)
Associated companies		
KASB Bank Limited	2,534,962	4.34
KASB Bank Limited Employees' Provident Fund	70,979	0.12
KASB Funds Limited	322,670	0.55
KASB Funds Limited Employees' Provident Fund	2,073	0.00
Directors and Chief Executive		
Chief Executive		
Ms. Naz Khan	54,151	0.09
Director		
Mr. Farid Arshad Masood	10,040	0.02
Spouses and Minor Children of Directors & CEO		
Mr. Zaheer Ahmed Khan	1,807	0.00
Ms. Nabigha Nasser Masood	14,583	0.02
Ms. Saba Kamal	8,112	0.01
Executives		
Mr. Muhammad Imran Khalil	496	0.00
Mr. Irfan Saleem Awan		
Mr. Faisal Potrik		
Public Limited Companies	8,074,499	13.84
Banks and Financial Institutions	25,535,606	43.76
Individuals	8,147,549	13.96
Retirement Funds	1,863,523	3.19
Insurance Companies	1,627,557	2.79
Modarabas and Mutual Funds	91,207	0.16
Other Corporate Sector Entities	9,949,524	17.05
Non-Profit Organisations	38,246	0.07
TOTAL	58,347,582	100.00

REPORT OF THE TRUSTEE KASB LIQUID FUND

Report of the Trustee Pursuant to Rule 76(h) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003

The KASB Liquid Fund, an Open-ended Scheme established under a trust deed executed between KASB Funds Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on February 20, 2006. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on March 17, 2006.

In our opinion, KASB Funds Limited, the Management Company of KASB Liquid Fund has in all material respects managed KASB Liquid Fund during the year ended June 30, 2007 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (Rules).

For the purpose of information, the attention of the Unit Holders is drawn towards note 4.1 of the financial statements wherein it is specified that listed Term Finance Certificates have been valued with reference to quotation obtained from brokerage houses instead of the closing rate quoted on stock exchange as required under the Rules.

September 12, 2007
Karachi

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

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 37 of Listing Regulations of Karachi Stock Exchange (Guarantee) Limited ("KSE") for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The Board of Directors ("Board") of KASB Funds Limited ("The Company"), the management company, which is an unlisted public company, manages the affairs of KASB Liquid Fund ("the Fund"). The Fund being a unit trust scheme does not have its own Board of Directors. The management company has applied the principles contained in the Code to the Fund, whose units are listed on the KSE, in the following manner:

1. The Company encourages representation of independent non-executive directors. All the directors except the Chief Executive Officer (CEO) of the Company are non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year a casual vacancy occurred in the Board which has been filled by the appointment of Syed Muhammad Rehmanullah within 30 days of the casual vacancy. As this appointment is subject to the approval of the Securities and Exchange Commission of Pakistan ("Commission"), the Company has applied to the Commission for seeking approval in accordance with the NBFC Rules (Establishment and Regulation) 2003.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and has also been signed by the Board of Directors and employees of the Company.
6. The Company has developed a mission statement and significant policies for the Fund that has been approved by the Board of Directors of the Company. 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, 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 and, in his absence, by a director elected by the Board for this purpose. 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. The Board will arrange an orientation course for its existing and new director(s) to apprise them of their duties and responsibilities. This shall also serve as an update for those directors who have participated in the previous orientation course held by the Company.

10. The roles and responsibilities of the Chairman and CEO have been approved by the Board of Directors. The Board has approved appointment and terms of employment of CFO and Company Secretary of the Company.
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 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.
13. The financial statements of the Fund were duly endorsed by CEO and CFO of the Company before approval of the Board.
14. The Company has complied with all the significant corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises 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 annual financial statements 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 its compliance.
17. The Company has outsourced the internal audit function of the Fund 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 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. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 30, 2007
Karachi

Naz Khan
Chief Executive

REVIEW REPORT TO THE UNIT HOLDERS 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 ("the Code") prepared by the Board of Directors of KASB Fund Limited ("the Management Company") of KASB Liquid Fund ("the Fund") to comply with the listing regulation of the Karachi Stock Exchange (Guarantee) Limited, where the Fund is listed.

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

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

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

August 30, 2007
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of KASB Liquid Fund, which comprise the statement of assets and liabilities as at 30 June 2007, and the income statement, distribution statement, cash flow 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 Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and 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 2007, 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 Trust Deed and NBFC Rules.

August 30, 2007
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2007

	Note	2007	2006
		(Rupees in '000)	
Assets			
Bank balances	5	4,624,755	363,134
Placements	6	575,000	100,000
Certificates of investment	7	375,000	50,000
Receivable against sale of investments		-	18,462
Receivable against Continuous Funding System	8	95,657	120,394
Investments	9	742,112	127,868
Income receivable	10	76,058	4,577
Deposits, prepayments and other receivables	11	1,756	1,703
Preliminary expenses and floatation costs	12	2,320	2,922
Total assets		6,492,658	789,060
Liabilities			
Payable against purchase of investments		54	51,971
Payable on redemption of units		1,335	749
Payable to KASB Funds Limited - Management Company	13	5,493	5,064
Payable to Central Depository Company of Pakistan Limited - Trustee	14	535	174
Accrued expenses and other liabilities	15	4,204	410
Total liabilities		11,621	58,368
Commitments	16		
Net assets		6,481,037	730,692
Unit holders' funds (as per statement attached)		6,481,037	730,692
		(Number of units)	
Number of units in issue		58,347,582	7,197,970
		(Rupees)	
Net asset value per unit		111.08	101.51

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

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

Chief Executive

Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007	From May 9, 2006 to June 30, 2006
(Rupees in '000)			
Income			
Income from Term Finance Certificates and Sukuk Certificates		36,760	794
Income from Continuous Funding System		26,376	5,124
Income from Term Deposit Receipts		85,336	1,820
Income from Placements		17,158	2,851
Income from Certificates of Investment		19,792	699
Income from Commercial Papers		3,575	-
Profit on bank deposits		46,415	2,122
Capital gains / (losses) on sale of investments		11,608	(916)
Realised (losses) / gains on future contracts		(6,697)	1,156
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	9.5	6,027	139
Net unrealised appreciation on revaluation of future contracts		-	603
Total income		246,350	14,392
Expenses			
Remuneration of KASB Funds Limited - Management Company	13.1	26,653	1,465
Remuneration of Central Depository Company of Pakistan Limited - Trustee	14.1	3,029	225
Annual fee - The Securities and Exchange Commission of Pakistan	15.1	2,050	113
Transaction costs on securities		5,893	436
Settlement and bank charges		709	80
Legal and professional charges		126	-
Fees and subscription		34	36
Auditors' remuneration	17	674	155
Amortisation of preliminary expenses and floatation costs		602	87
Printing expense		17	-
Total expenses		39,787	2,597
		<u>206,563</u>	<u>11,795</u>
Realised element of income and capital gains included in prices of units issued less those in units redeemed		422,324	(900)
Net income for the year / period		628,887	10,895
Earnings per unit	18		

The annexed notes 1 to 27 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, 2007**

	2007	From May 9, 2006 to June 30, 2006
	(Rupees in '000)	
Undistributed income brought forward	10,895	-
Unrealised element of income and capital gains included in prices of units issued less those in units redeemed	5,383	-
Final distribution @ Rs. 1.4 per unit issue of bonus units (on July 1, 2006)	(10,077)	-
Net income for the year / period	628,887 624,193	10,895 10,895
Undistributed income carried forward	<u>635,088</u>	<u>10,895</u>

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

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

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007	From May 9, 2006 to June 30, 2006
(Rupees in '000)			
Net assets at beginning of the year / period		730,692	-
Issue of 117,838,305 units (2006: 8,758,948 units)		12,801,442	876,901
Issue of 100,661 bonus units (2006: Nil units)		10,077	-
Redemption of 66,789,354 units (2006: 1,560,978 units)		(7,268,852)	(158,004)
		5,542,667	718,897
Element of income and capital gains included in prices of units issued less those in units redeemed:			
- amount representing realised capital gains - transferred to the Income Statement		(422,324)	900
- amount representing unrealised appreciation in fair value of investments - transferred directly to the Distribution Statement		(5,383)	-
		(427,707)	900
Net unrealised appreciation in fair value of investments classified as 'available for sale' during the year / period	9.8	11,192	-
Issue of bonus units on July 1, 2006		(10,077)	-
Net income available for distribution (excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss')		628,243	10,756
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'		6,027	139
Net income available for distribution (Including unrealised element of income and capital gains included in prices of units issued less those in units redeemed)		634,270	10,895
Net assets at end of the year / period		6,481,037	730,692

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

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

Chief Executive

Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2007

	2007	From May 9, 2006 to June 30, 2006
(Rupees in '000)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year / period	628,887	10,895
Adjustments for:		
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	(6,027)	(139)
Realised element of income and capital gains included in prices of units issued less those in units redeemed	(422,324)	900
Amortisation of preliminary expenses and floatation costs	602	87
Profit before working capital changes	201,138	11,743
(Increase) / decrease in assets		
Preliminary expenses and floatation costs	-	(3,009)
Receivable against sale of investments	18,462	(18,462)
Receivable against Continuous Funding System	24,737	(120,394)
Investments - net	(597,025)	(127,729)
Placements	(475,000)	(100,000)
Certificates of Investment	(325,000)	(50,000)
Income receivable	(71,481)	(4,577)
Deposits and other receivables	(53)	(1,703)
	(1,425,360)	(425,874)
Increase / (decrease) in liabilities		
Payable against purchase of investments	(51,917)	51,971
Payable on redemption of units	586	749
Payable to KASB Funds Limited - Management Company	429	5,064
Payable to Central Depository Company of Pakistan Limited - Trustee	361	174
Accrued expenses and other liabilities	3,794	410
	(46,747)	58,368
Net cash outflow from operating activities	(1,270,969)	(355,763)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from sale and redemption of units	5,532,590	718,897
Net increase in cash and cash equivalents during the year / period	4,261,621	363,134
Cash and cash equivalents at beginning of the year / period	363,134	-
Cash and cash equivalents at end of the year / period	4,624,755	363,134

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

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

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Liquid Fund ("KLF", 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 February 20, 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on March 17, 2006 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The 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 Pakistan Credit Rating Agency Limited has assigned management quality rating of AM3+ to the Management Company.

KLF is an open-ended mutual 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 the units issued to core investors which are not redeemable for a period of two years from the date of issue.

KLF seeks to maximise current income, consistent with low levels of risk and high liquidity by primarily investing in low duration, liquid investments including money market and other debt instruments as well as fixed income transactions in the capital market.

2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Trust Deed, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and directives issued by the SECP. Approved accounting standards comprise of such International Financial Reporting Standard (IFRS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, NBFC Rules or directives issued by the SECP differ with the requirements of these standards, the requirements of the Trust Deed, NBFC Rules and the said directives take precedence.

2.2 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after July 1, 2007 and are not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures in certain cases:

- IAS 1 - Presentation of Financial Statements - Amendments relating to Capital Disclosures;
- IAS 23 - Borrowing Costs - Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets;
- IAS 41 - Agriculture;
- IFRS 2 - Share-based Payments;
- IFRS 3 - Business Combinations;
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations;
- IFRS 6 - Exploration for and Evaluation of Mineral Resources;
- IFRIC 10 - Interim Financial Reporting and Impairment;

- IFRIC 11 - Group and Treasury Share Transactions;
- IFRIC 12 - Service Concession Arrangements;
- IFRIC 13 - Customer Loyalty Programmes; and
- IFRIC 14 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

3. BASIS OF PREPARATION

3.1 Measurement

These financial statements are presented in Pakistani rupees which is the functional currency of the Fund and rounded to the nearest thousand Rupees. These have been prepared under the historical cost convention, as modified by the revaluation of investments 'at fair value through profit or loss' and 'available for sale' at fair value in accordance with applicable accounting standards and Rules.

3.2 Use of estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgment in applying the accounting policies that have most significant effect on the amount recognised in the financial statements are described in note 24.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all years presented.

4.1 Investments

All investments are initially recognised at fair value, being the cost of the consideration given including transaction cost associated with the investment, except in case of financial assets at fair value through profit or loss, in which case the transaction costs are charged off to the Income Statement.

The Fund classifies its investments in the following categories:

Financial assets at fair value through profit or loss

This category has two sub-categories, namely; financial instruments held for trading, and those designated at fair value through profit or loss at inception.

- Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading.
- Investments designated at fair value through profit or loss upon initial recognition include those that are not held for trading purposes and which may be sold.

After initial recognition, the above investments, except for listed term finance certificates are remeasured at fair value determined with reference to the rates prevailing in the relevant stock exchanges, where applicable. Gains or losses on investments on remeasurement of these investments are recognised in Income Statement.

Held to maturity

These are investments with fixed or determinable payments and fixed maturity in respect of which the Fund has positive intent and ability to hold such investments to maturity. These investments are stated at amortised cost less impairment losses, if any. Amortisation is determined using the effective yield method.

Available for sale

Investments which do not fall under the above categories are classified as available-for-sale.

Subsequent to initial measurement, 'available for sale' investments, except for listed term finance certificates are remeasured to fair value with reference to rates prevailing in the relevant stock exchanges, where applicable. Net gains and losses arising on changes in fair values of these investments are taken to equity as part of Unit Holders' Funds. However, any premium or discount on acquisition is amortised and taken to the Income Statement over the life of the investment using the effective yield method. When securities are disposed off or impaired, the related fair value adjustments previously taken to equity are transferred to the Income Statement.

All regular way of purchases and sales of equity securities are recognised on the trade date i.e. the date the Fund commits to purchase / sell the investments. Regular way of purchase and sale of investments require delivery of securities within the prescribed time period after the transaction, as required by the Stock Exchange Regulations.

Basis of valuation of Term Finance Certificates

The Fund values its investments in listed Term Finance Certificates (TFCs) using the average of the mid-rates obtained from reputable brokerage houses, while Rule 2(xxxiv)(i) of NBFC Rules requires that securities which are quoted on the stock exchange should be valued at its last sale price on such exchange on the date on which it is valued. However, the management is of the view that quotations received from brokers are a more appropriate representation of the fair value of these investments. Had the TFCs been valued at last sale price quoted on stock exchange, the carrying value of these investments would have been lower by Rs. 1.357 million (2006: Rs. 0.533 million). Further, the Net Asset Value (NAV) of the Fund during the year / period would have been different and consequently the number of units issued / redeemed during the year / period as well as the 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 not practical to do so.

4.2 Derivatives

These are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value which is the quoted price. The fair value of futures contracts is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contract. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the Statement of Assets and Liabilities. The resultant gains and losses are included in the Income Statement.

Derivative financial instruments entered into by the Fund do not meet the hedging criteria as defined by International Accounting Standard - 39, Recognition and Measurement of Financial Instruments (IAS - 39), consequently, all derivatives are classified as held for trading and hedge accounting is not used by the Fund.

4.3 Securities under resale agreements (including balance receivable against Continuous Funding System arrangement)

Transactions of purchase under resale (reverse-repo) of marketable and government securities, including the securities purchased under continuous funding system, 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-repos) are not recognised in the statement of assets and liabilities.

Amounts paid under these agreements are included in receivable in respect of reverse repurchase transactions / against continuous funding system. The difference between purchase and resale price is treated as income from reverse repurchase transactions / continuous funding system and accrued over the life of the reverse-repo agreement.

Transactions of sale under repurchase (repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of assets and liabilities and are measured in accordance with accounting policies for investment securities. The counterparty liabilities for amounts received under these transactions are recorded as liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the life of the repo agreement.

All reverse repo / continuous funding system transactions are accounted for on the settlement date.

4.4 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 previous 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 previous business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

4.5 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.

4.6 Net asset value - per unit

The net asset value per unit disclosed in 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 / period end.

4.7 Taxation

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

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

4.8 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised capital gains / (losses) arising on the valuation of investments classified as financial assets' at fair value through profit or loss' are included in the Income Statement in the year / period in which they arise as described in note 4.1 to these financial statements.
- Income on reverse repurchase transactions, continuous funding system transactions and bank deposits is recognised on a time proportionate basis.
- Income on debt securities is recognised on time proportion basis using effective interest rate method.
- Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the Income Statement as discussed in note 4.2 to these financial statements.
- Dividend income is recognised when the right to receive the dividend is established.

4.9 Expenses

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

4.10 Impairment

The carrying amount of the Fund's assets is 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 exceed its recoverable amount. Impairment losses are recognised in the Income Statement.

4.11 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.

4.12 Preliminary expenses and floatation costs

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

4.13 Financial instruments

All the financial assets and liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instruments. All financial assets and liabilities are initially measured at fair value and are subsequently measured at fair value or amortised cost as the case may be. The Fund derecognises the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments. Any gain or loss on derecognition of financial assets and financial liabilities is taken to Income Statement directly.

4.14 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is 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 realise the assets and settle the liabilities simultaneously.

4.15 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and term deposits.

4.16 Other assets

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

4.17 Dividend and bonus units

Dividends declared subsequent to the balance sheet date are considered as a non-adjusting event and are recognised in the period in which they are authorised or approved.

5. BANK BALANCES

		2007	2006
		(Rupees in '000)	
In current accounts		10	10
In deposit accounts	5.1	1,949,745	113,124
In term deposit accounts	5.2	2,675,000	250,000
		4,624,755	363,134

5.1 Deposit accounts

Profit rates on deposit accounts range between 9.5% to 12.2% per annum (2006: 9.5% per annum). This includes Rs. 812.232 million (2006: Rs. 113.104 million) with related parties on which return is earned at 9.5% to 12.2% (2006: 9.5%) per annum.

5.2 Term deposit accounts

These term deposit accounts carry profit rates ranging from 10.45% to 12.30% per annum (2006: 11.00% to 11.50 % per annum) and maturity ranging from 19 to 366 days (2006: 7 to 21 days).

6. PLACEMENTS - Unsecured

These placements carry profit rates ranging from 10.65% to 12.69% per annum (2006: 10.85% to 11.0% per annum) and maturity ranging from 4 to 159 days (2006: 5 to 15 days).

7. CERTIFICATES OF INVESTMENT - Unsecured

These certificates of investment carry profit rates ranging from 10.76% to 11.3% per annum (2006: 10.85% per annum) and maturity ranging from 91 to 546 days (2006: 48 days).

8. RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM

The rates of return on these transactions range between 11.99% to 18.92% per annum (2006: 12.5% to 18% per annum), with a maximum maturity of 22 days at the option of financee (2006: 30 days). Fair value of the collaterals accepted against the above receivable balance as at June 30, 2007 amounted to Rs. 100.253 million (2006: Rs. 114.823 million).

KASB LIQUID FUND

9. INVESTMENTS	Note	2007 (Rupees in '000)	2006
At fair value through profit or loss - designated on initial recognition			
- Term Finance Certificates	9.2	131,520	75,533
- Investment in Mutual Fund	9.3	-	-
Held for trading			
- Equity Securities - Ordinary shares of listed companies	9.4	-	52,335
Available for sale			
- Term finance certificates and Sukuk certificates- Quoted	9.6	418,415	-
- Term finance certificates - Unlisted	9.6	74,955	-
- Commercial Papers - Unsecured	9.7	117,222	-
		742,112	127,868

9.1 The cost of these securities as at June 30, 2007 amounted to Rs.720.862 million (2006: 127.729 million).

9.2 At fair value through profit or loss - Term Finance Certificates

	2007.....						
Name of the Investee Company	Note	Profit / markup rate %	As at July 01, 2006	Purchased during the year	Sold during the year	As at June 30, 2007	Market Value as at June 30, 2007	Percentage of net assets on the basis of market value
		-----Number of certificates-----					(Rupees in '000)	
Quoted investments								
Pakistan Mobile Communications Limited	9.2.1	12.99	15,000	-	-	15,000	79,655	1.23%
Jahangir Siddiqui & Company Limited	9.2.2	12.66	-	5,000	-	5,000	25,870	0.40%
Allied Bank Limited	9.2.3	11.93	-	5,000	-	5,000	25,995	0.40%
							131,520	
	2006.....						
Name of the Investee Company		Profit / markup rate %	As at May 09, 2006	Purchased during the period	Sold during the period	As at June 30, 2006	Market Value as at June 30, 2006	Percentage of net assets on the basis of market value
		-----Number of certificates-----					(Rupees in '000)	
Pakistan Mobile Communications Limited		12.46	-	15,000	-	15,000	75,533	10.34%

9.2.1 These term finance certificates are secured, with a maturity in May 2013 and carry mark-up equal to the 6 months KIBOR plus 285 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.2.2 These term finance certificates are secured, with a maturity in May 2012 and carry mark-up equal to the 6 months KIBOR plus 250 basis points per annum, with a floor of 6% and cap of 16%. The principal and mark-up are receivable semi-annually in arrears.

9.2.3 These term finance certificates are unsecured and subordinated, with a maturity in December 2014 and carry mark-up equal to the 6 months KIBOR plus 190 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.3 Investment in Mutual Funds (Units of Rs. 100 each)

Name of the Investee Fund	As at July 01, 2006	Purchased during the year	Sold during the year	As at June 30, 2007	Market Value as at June 30, 2007	Percentage of net assets on the basis of market value
	-----Number of units -----			(Rupees in '000)		
Dawood Money Market Fund	-	949,085	949,085	-	-	-
United Money Market Fund	-	1,189,847	1,189,847	-	-	-

9.4 Equity Securities - Ordinary shares of listed companies (of Rs. 10/- each)

	-----2007-----					
Name of the Investee Company	As at July 01, 2006	Purchased during the year	Sold during the year	As at June 30, 2007	Market Value as at June 30, 2007	Percentage of net assets on the basis of market value
	-----Number of shares -----			(Rupees in '000)		
Commercial Banks						
Faysal Bank Limited	113,500	100,000	213,500	-	-	-
National Bank of Pakistan	200,000	987,500	1,187,500	-	-	-
MCB Bank Limited	-	250,000	250,000	-	-	-
Cement						
Pioneer Cement Limited	36,500	2,000	38,500	-	-	-
Maple Leaf Cement Factory Limited	20,000	-	20,000	-	-	-
Power Generation & Distribution						
Karachi Electric Supply Corporation Limited	10,000	-	10,000	-	-	-

	-----2006-----					
Name of the Investee Company	As at May 09, 2006	Purchased during the period	Sold during the period	As at June 30, 2006	Market Value as at June 30, 2006	Percentage of net assets on the basis of market value
	-----Number of shares -----			(Rupees in '000)		
Commercial Banks						
Faysal Bank Limited	-	113,500	-	113,500	6,980	0.96%
National Bank of Pakistan	-	200,000	-	200,000	43,100	5.90%
Union Bank Limited	-	218,500	218,500	-	-	-
Cement						
Pioneer Cement Limited	-	36,500	-	36,500	1,666	0.23%
Maple Leaf Cement Factory Limited	-	20,000	-	20,000	512	0.07%
Oil & Gas Marketing Companies						
Sui Southern Gas Company Limited	-	27,000	27,000	-	-	-
Power Generation & Distribution						
Karachi Electric Supply Corporation Limited	-	32,500	22,500	10,000	77	0.01%
					<u>52,335</u>	

9.5 Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss

	2007	2006
	(Rupees in '000)	
Fair value of investments	131,520	127,868
Less: Cost of investments	(124,960)	(127,729)
	<u>6,560</u>	<u>139</u>
Less: Net unrealised appreciation in fair value of investments at beginning of the year / period	(139)	-
Less: Realised during the year / period	(394)	-
	<u>(533)</u>	<u>-</u>
	<u>6,027</u>	<u>139</u>

9.6 Available for sale - Term Finance Certificates and Sukuk Certificates

Name of the Investee Company	Note	Profit / markup rate %	As at July 01, 2006	Purchased during the year	Sold during the year	As at June 30, 2007	Market Value as at June 30, 2007	Percentage of net assets on the basis of carrying value
Quoted investments								
Azgard Nine Limited	9.6.1	12.84	-	19,000	10,000	9,000	47,109	0.73%
Security Leasing Corporation- Limited Sukuk	9.6.2	12.04	-	10,000	-	10,000	50,000	0.77%
Orix Leasing Pakistan Limited - II	9.6.3	11.67	-	10,000	-	10,000	50,750	0.78%
Allied Bank Limited	9.6.4	11.93	-	23,000	-	23,000	119,576	1.85%
Askari Bank Limited	9.6.5	12.05	-	4,252	-	4,252	21,774	0.34%
Bank Alfalah Limited - III	9.6.6	11.67	-	15,000	-	15,000	76,456	1.18%
Bank Al Habib Limited - II	9.6.7	12.45	-	10,000	-	10,000	52,750	0.81%
							<u>418,415</u>	
Unlisted investments								
Azgard Nine Limited	9.6.8	13.26	-	15,000	-	15,000	74,955	1.16%

9.6.1 These term finance certificates are secured, with a maturity in September 2012 and carry mark-up equal to the 6 months KIBOR plus 240 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.6.2 These sukuk certificates are secured, with a maturity in June 2012 and carry mark-up equal to the 6 months KIBOR plus 125 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.6.3 These term finance certificates are secured, with a maturity in May 2012 and carry mark-up equal to the 6 months KIBOR plus 150 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.6.4 These term finance certificates are unsecured and subordinated, with a maturity in December 2014 and carry mark-up equal to the 6 months KIBOR plus 190 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.6.5 These term finance certificates are unsecured and subordinated, with a maturity in February 2013 and carry mark-up equal to the 6 months KIBOR plus 150 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.6.6 These term finance certificates are unsecured and subordinated, with a maturity in November 2013 and carry mark-up equal to the 6 months KIBOR plus 150 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.6.7 These term finance certificates are unsecured and subordinated, with a maturity in February 2015 and carry mark-up equal to the 6 months KIBOR plus 195 basis points per annum, with no floor or cap. The principal and mark-up are receivable semi-annually in arrears.

9.6.8 These term finance certificates are secured, with a maturity in August 2007 and carry mark-up equal to the 6 months KIBOR plus 300 basis points per annum, with no floor or cap. The principal and mark up are receivable quarterly in arrears.

9.7 Commercial Papers - Unsecured

Name of the Investee Company	Note	As at July 01, 2006	Purchased during the year	Sold during the year	As at June 30, 2007	Market Value as at June 30, 2007	Percentage of net assets on the basis of carrying value
		-----Number of Commercial Paper -----				(Rupees in '000)	
Dewan Cement Limited	9.7.1	-	25	-	25	24,932	0.38%
Dewan Farooq Motors Company Limited	9.7.2	-	50	-	50	46,570	0.72%
Azgard Nine Limited	9.7.3	-	50	-	50	45,720	0.71%
						117,222	

9.7.1 These Commercial Papers have a face value of Rs. 1 million each and carry mark-up of 13.7 % per annum with a maturity on July 9, 2007 in lump sum.

9.7.2 These Commercial Papers have a face value of Rs. 1 million each and carry mark-up of 13.36 % per annum with a maturity on January 23, 2008 in lump sum.

9.7.3 These Commercial Papers have a face value of Rs. 1 million each and carry mark-up of 13.30 % per annum with a maturity on March 15, 2008 in lump sum.

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

	2007	2006
	(Rupees in '000)	
Fair value of investments	610,592	-
Less: Cost of investments	599,400	-
	11,192	-

10. INCOME RECEIVABLE

Income accrued on bank deposits	8,629	-
Income accrued on term deposit receipts	44,518	1,379
Income accrued on placements	4,768	898
Income accrued on certificates of investment	5,143	699
Income accrued on continuous funding system	1,415	807
Income accrued on term finance certificates and sukuk certificates	11,585	794
	76,058	4,577

11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposit with National Clearing Company of Pakistan Limited	1,000	1,000
Deposit with Central Depository Company of Pakistan Limited	100	100
Prepaid brokerage	656	-
Unrealised gain on future contracts	-	603
	1,756	1,703

12. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs		2,922	3,009
Less: Amortisation during the year / period		(602)	(87)
Balance as at June 30		<u>2,320</u>	<u>2,922</u>

Preliminary expenses and floatation costs represent expenditure incurred for the launching of the Fund and are being amortised over a period of five years commencing from May 9, 2006, in accordance with the Trust Deed of the Fund.

13. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY

		2007	2006
		(Rupees in '000)	
Management fee	13.1	5,493	890
Other payable		-	4,174
		<u>5,493</u>	<u>5,064</u>

13.1 Under the provision of Rule 66 of NBFC Rules 2003, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.3 percent per annum of the average annual net assets of the Fund for the year / period.

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

Trustee fee	14.1	505	137
CDS charges		30	37
		<u>535</u>	<u>174</u>

14.1 The trustee is entitled to a monthly remuneration for services rendered to the Fund in accordance with the provisions of the Trust Deed at the higher of 0.7 million or 0.2% per annum on amount upto Rs.1 billion of average daily net assets of the Fund and Rs. 2 million plus 0.1% per annum on amount exceeding Rs. 1 billion of average daily net assets of the Fund.

15. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration		535	155
Brokerage		1,187	133
Fee payable to the Securities and Exchange Commission of Pakistan	15.1	2,050	113
Others		432	9
		<u>4,204</u>	<u>410</u>

15.1 Payable to the Securities and Exchange Commission of Pakistan - annual fee This represents annual fee payable to The Securities and Exchange Commission of Pakistan (SECP) in accordance with rule 79 of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 whereby the Fund is required to pay SECP an amount equal to one tenth of 1% of the average annual net assets.

16. COMMITMENTS

2007 **2006**
(Rupees in '000)

Continuous Funding System transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30	15,162	21,550
	15,162	21,550

17. AUDITORS' REMUNERATION

Audit fee	150	50
Other certifications and services	505	105
Out of pocket expenses	19	-
	674	155

18. EARNINGS PER UNIT

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

19. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Related parties / connected persons include KASB Funds Limited (the Management Company), KASB Bank Limited and KASB Securities Limited (associated companies of the Management Company), KASB Stock Market Fund (Fund managed by the Management Company), Central Depository Company of Pakistan Limited (Trustee of the Fund), other group companies and directors and key management personnel of the Management Company.

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

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

19.1 Transactions with connected persons can be summarised as follows:

	2007	From May 9, 2006 to June 30, 2006
	(Rupees in '000)	
KASB Funds Limited		
Remuneration expense	13.1 26,653	1,465
Investment in the Fund: 668,469 units (2006: Nil units)	67,700	-
Redemption from the Fund: 345,799 units (2006: Nil units)	37,050	-
Payments during the year / period	22,050	575
KASB Funds Limited Employees' Provident Fund		
Investment in the Fund: 2,073 units (2006: Nil units)	216	-
KASB Capital Limited		
Investment in the Fund: 189,018 units (2006: Nil units)	20,000	-
Redemption from the Fund: 189,018 units (2006: Nil units)	20,346	-
KASB Securities Limited		
Brokerage expense	19.3 704	37
Purchase of TFC-Pakistan Mobile Communications Limited	-	50,000
Investment in the Fund: 542,383 units (2006: 150,000 units)	55,000	15,000
Redemption from the Fund: 542,383 units (2006: 150,000 units)	55,209	15,000

		2007	From May 9, 2006 to June 30, 2006
(Rupees in '000)			
KASB Bank Limited			
Bank charges		18	1
Term Deposit Receipts		-	100,000
Income accrued on Term Deposit Receipts		-	723
Profit accrued on bank deposits	19.4	34,911	2,122
Investment in the Fund: Nil units (2006: 2,500,000 units)		-	250,000
Bonus units: 34,962 units (2006: Nil units)		3,500	-
Transfer in the Fund: 7,604,885 units (2006: Nil units)		831,696	-
Transfer out of the Fund: 7,604,885 units (2006: Nil units)		831,493	-
KASB Bank Limited Employees' Provident Fund			
Investment in the Fund: Nil units (2006: 70,000 units)		-	7,000
Bonus units: 979 units (2006: Nil units)		98	-
First Capital Securities Limited			
Brokerage expense	19.3	214	-
First Capital Equities Limited			
Brokerage expense	19.3	123	-
Central Depository Company of Pakistan Limited - Trustee			
Remuneration	14.1	3,029	225
CDS charges		450	72
Payments during the year / period		3,118	123
Directors and officers of the Management Company			
Investment in the Fund: 85,542 units (2006: 42,640 units)		8,911	4,265
Redemption from the Fund: 30,045 units (2006: 3,000 units)		3,132	304
Conversion out from the Fund: 4,590 units (2006: Nil units)		500	-
Bonus units: 834 units (2006: Nil units)		83	-

19.2 Balances with connected persons can be summarised as follows:

		2007	2006
(Rupees in '000)			
KASB Funds Limited			
Payable to the Management Company	13	5,493	5,064
Units held: 322,670 units (2006: Nil units)		35,823	-
KASB Funds Limited Employees' Provident Fund			
Units held: 2,073 units (2006: Nil units)		230	-
KASB Securities Limited			
Receivable against sale of investments		-	18,462
Receivable against Continuous Funding System	19.5	3,363	86,601
Brokerage payable		432	90

		2007 (Rupees in '000)	2006
KASB Bank Limited			
Bank	19.4	812,232	113,104
Profit receivable on bank deposits		4,203	-
Term Deposit Receipts		-	100,000
Income receivable on Term Deposit Receipts		-	723
Units held: 2,534,962 units (2006: 2,500,000 units)		281,431	253,500
KASB Bank Limited Employees' Provident Fund			
Units held: 70,979 units (2006: 70,000 units)		7,880	7,098
Central Depository Company of Pakistan Limited - Trustee			
Payable to the Trustee		535	174
Security deposit		100	100
Directors and officers of the Management Company			
Units held: 91,103 (2006: 39,640 units)		10,114	4,020

19.3 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.

19.4 The rates of return on these deposits range between 9.5% to 12.2% per annum (2006: 9.5% per annum).

19.5 The rates of return on these transactions through related party range between 7.68% to 19.03% per annum (2006: 12.86% to 15.14% per annum). Fair value of the collaterals accepted against the above receivable balance as at June 30, 2007 amounted to Rs. 3.335 million (2006: Rs.83.085 million).

20. MARK-UP / PROFIT RATE RISK

20.1 The Fund's exposure to mark-up / profit rate risk based on contractual repricing and maturity dates, whichever is earlier is as follows:

	2007.....						
		Exposed to yield / interest risk						
Effective yield/ Interest rate	Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Non-interest bearing financial instruments	
%(Rupees in '000).....							
On-balance sheet financial instruments								
Financial Assets								
Bank balances	9.50 - 12.22	4,624,755	2,499,745	525,000	1,050,000	550,000	-	10
Placements	10.65-12.69	575,000	415,000	100,000	60,000	-	-	-
Certificates of investment	10.76 - 11.30	375,000	-	100,000	275,000	-	-	-
Receivable against Continuous								
Funding System	11.99 - 18.92	95,657	95,657	-	-	-	-	-
Investments	11.67 - 13.70	742,112	231,408	-	418,415	92,289	-	-
Income receivable		76,058	-	-	-	-	-	76,058
Deposits, prepayments and other receivables		1,756	-	-	-	-	-	1,756
		6,490,338	3,241,810	725,000	1,803,415	642,289	-	77,824

Financial Liabilities

Payable against purchase of investments	54	-	-	-	-	-	54
Payable on redemption of units	1,335	-	-	-	-	-	1,335
Payable to KASB Funds Limited - Management Company	5,493	-	-	-	-	-	5,493
Payable to Central Depository Company of Pakistan Limited -Trustee	535	-	-	-	-	-	535
Accrued expenses and other liabilities	4,204	-	-	-	-	-	4,204
	11,621	-	-	-	-	-	11,621
On-balance sheet gap - 2007 (a)	6,478,717	3,241,810	725,000	1,803,415	642,289	-	66,203

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

Effective yield/ Interest rate	2006						Non-interest bearing financial instruments
	Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	
%	(Rupees in '000)						

On-balance sheet financial instruments

Financial Assets							
Bank balances	9.50 - 11.50	363,134	363,124	-	-	-	10
Placements	10.50-11	100,000	100,000	-	-	-	-
Certificates of investment	10.85	50,000	-	50,000	-	-	-
Receivable against sale of investments		18,462	-	-	-	-	18,462
Receivable against Continuous Funding System	12.5- 18	120,394	120,394	-	-	-	-
Investments	12.7	127,868	533	-	30	74,970	52,335
Income receivable		4,577	-	-	-	-	4,577
Deposits, prepayments and other receivables		1,703	-	-	-	-	1,703
		786,138	584,051	50,000	30	74,970	77,087
Financial Liabilities							
Payable against purchase of investments		51,971	-	-	-	-	51,971
Payable on redemption of units		749	-	-	-	-	749
Payable to KASB Funds Limited - Management Company		5,064	-	-	-	-	5,064
Payable to Central Depository Company of Pakistan Limited -Trustee		174	-	-	-	-	174
Accrued expenses and other liabilities		410	-	-	-	-	410
		58,368	-	-	-	-	58,368
On-balance sheet gap - 2006 (a)		727,770	584,051	50,000	30	74,970	18,719

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

21. MATURITIES OF ASSETS AND LIABILITIES

.....2007.....						
Total	not later than one month	Later than one month and upto three months	Later than three months and not later than one year	Later than one year and not later than five year	Later than five years	
.....(Rupees in '000).....						
Assets						
Bank balances	4,624,755	2,499,755	525,000	1,600,000	-	-
Placements	575,000	415,000	100,000	60,000	-	-
Certificates of investment	375,000	-	100,000	275,000	-	-
Receivable against Continuous Funding System	95,657	95,657	-	-	-	-
Investments	742,112	24,932	74,955	92,290	173,729	376,206
Income receivable	76,058	76,058	-	-	-	-
Deposits, prepayments and other receivables	1,756	656	-	-	1,100	-
Preliminary expenses and floatation costs	2,320	51	101	452	1,716	-
	6,492,658	3,112,109	800,056	2,027,742	176,545	376,206
Liabilities						
Payable against purchase of investments	54	54	-	-	-	-
Payable on redemption of units	1,335	1,335	-	-	-	-
Payable to KASB Funds Limited - Management Company	5,493	5,493	-	-	-	-
Payable to Central Depository Company of Pakistan Limited -Trustee	-	-	-	-	-	-
Accrued expenses and other liabilities	4,204	4,204	-	-	-	-
	11,621	11,621	-	-	-	-
Net Assets	6,481,037	3,100,488	800,056	2,027,742	176,545	376,206
.....2006.....						
Total	not later than one month	Later than one month and upto three months	Later than three months and not later than one year	Later than one year and not later than five year	Later than five years	
.....(Rupees in '000).....						
Assets						
Bank balances	363,134	363,134	-	-	-	-
Placements	100,000	100,000	-	-	-	-
Certificate of investment	50,000	-	50,000	-	-	-
Receivable against sale of investments	18,462	18,462	-	-	-	-
Receivable against Continuous Funding System	120,394	120,394	-	-	-	-
Investments	127,868	52,335	-	-	-	75,533
Income receivable	4,577	4,577	-	-	-	-
Deposits and other receivables	1,703	603	-	-	-	1,100
Preliminary expenses and floatation costs	2,922	51	101	452	2,318	-
	789,060	659,556	50,101	452	2,318	76,633

Liabilities						
Payable against purchase of investments	51,971	51,971	-	-	-	-
Payable on redemption of units	749	749	-	-	-	-
Payable to KASB Funds Limited - Management Company	5,064	5,064	-	-	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	174	174	-	-	-	-
Accrued expenses and other liabilities	410	410	-	-	-	-
	<u>58,368</u>	<u>58,368</u>	-	-	-	-
 Net Assets	 <u>730,692</u>	 <u>601,188</u>	 <u>50,101</u>	 <u>452</u>	 <u>2,318</u>	 <u>76,633</u>

22. RISK MANAGEMENT

The Fund will invest in low duration, liquid investments including money market and other debt instruments as well as fixed income transactions in the capital market. The Fund aims to keep an overall duration of one year or less for the investment portfolio. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

22.1 Market risk

Market risk is the risk that the value of the financial instrument may 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. There is a possibility of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the clearing system etc. The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the SECP.

22.2 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, placements or other arrangements to fulfill their obligations. The risk is generally limited to principal amounts and accrued interest thereon, if any.

Credit risk management

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits, obtaining adequate collaterals and by following strict credit evaluation criteria laid down by the management.

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. Financial assets subject to credit risk amount to Rs. 6.490 billion (2006: Rs. 786 million). The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk. Moreover, the Fund limits its exposure to any group or sector through its investment policy.

22.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising Funds to meet its obligations and commitments. The Management Company manages the liquidity risk by maintaining suitable maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in liquid financial assets.

22.4 Mark-up / profit rate risk

Mark-up / profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund manages its investment portfolio in order to reduce the risk of loss in market value of investments as a result of changes in market interest rates by keeping a low overall duration of the portfolio and by purchasing floating rate instruments which are repriced periodically, in case of long term investments. In case the management expects economic uncertainty, the portfolio will be restructured so as to comprise of short-term debt securities, money market instruments, short maturity placements, reverse repurchase transactions and continuous funding system.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from their carrying values as the assets and liabilities are essentially short term in nature.

24. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Management Company makes estimates and assumptions that affect the reported amount of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Investments stated at fair value

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

Other assets

Judgement is also involved in assessing the realiseability of asset balances.

25. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company have approved the distribution of bonus units of Rs. 10.72 per unit to the unit holders of the Fund for the year ended June 30, 2007, amounting to Rs. 625.486 million in total in their meeting held on July 6, 2007. These financial statements do not reflect this approved issue.

26. PERFORMANCE TABLE

	2007	2006 *
Net assets (Rs. '000)	6,481,037	730,692
Net asset value per unit (Rs.)	111.08	101.51
Dividend distribution per unit (Rs.)	10.72	9.64
Highest offer price per unit (Rs.)	111.08	101.51
Lowest offer price per unit (Rs.)	100.14	100.00
Highest repurchase price per unit (Rs.)	111.08	101.51
Lowest repurchase price per unit (Rs.)	100.14	100.00
Highest repurchase price per unit with contingent back-end load (Rs.)	110.52	101.00
Lowest repurchase price per unit with contingent back-end load (Rs.)	99.63	99.50

* The Fund started its operations from May 9, 2006.

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 30, 2007 by the Board of Directors of the Management Company.

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

Chief Executive

Director

