



KASB ISLAMIC
INCOME FUND

ANNUAL REPORT

June 30, 2009

(Audited)

managed by

 **KASB FUNDS**

Contents

Fund Information	2
Mission Statement	3
Report Of The Directors Of The Management Company For KASB Islamic Income Fund	4
Annual Fund Managers' Report	8
Trustee Report To The Unit Holders Of KASB Islamic Income Fund	9
Report Of The Shari'ah Advisor - KASB Islamic Income Fund	10
Independent Assurance Provider's Report On Shariah Compliance To The Unit Holders	11
Statement Of Compliance With The Code Of Corporate Governance	12
Review Report To The Unit Holders On KASB Islamic Income Fund "The Fund" On Statement Of Compliance With Best Practices Of Code Of Corporate Governance	13
Independent Auditors' Report To The Unit Holders	14
Statement of Assets and Liabilities	15
Income Statement	16
Distribution Statement	17
Statement of Movement in Unit Holders' Funds	18
Cash Flow Statement	19
Notes To The Financial Statements	20

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

Shariah Advisor

Mufti Bilal Ahmed Qazi

Trustee

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

Bankers to the Fund

AlBaraka Islamic Bank
Dawood Islamic Bank Limited
Meezan 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
Atlas Capital Market (Private) Limited

Management Company Rating

Rated AM3 + by JCR-VIS
(May 2009)

Mission Statement

The Fund aims to provide its investors with Halal and regular income, by investing in Shariah-compliant income products.

Report Of The Directors Of The Management Company For KASB Islamic Income Fund

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Islamic Income Fund (KIIF, 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	For the period from May 02, 2008 to June 30, 2008	Increase / (Decrease) (%)
Net Income (Rs. in Million)	57.32	3.77	1,422.42
Net Assets as at June 30 (Rs. in Million)	542.17	670.70	(19.16)
NAV per Unit as on June 30 (Rs.) **	102.2820*	100.7581	1.51
Annualised yield	7.18%	12.06%	(40.46)

* Ex-NAV after interim distribution of Rs. 5 per unit.

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

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. 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.

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

The primary objective of the Fund is to provide investors with Halal and regular income by investing in Shariah compliant income products. The fund took a very cautious approach and invested in quality sukuk and placed funds with sound Islamic banks only. The fund refrained from investing in spread transactions as we felt it was a high risk avenue under the existing market and liquidity scenario. Overall the fund maintained a handsome chunk in cash, and on average remained around 38% in cash at all times.

Fund Performance

For the year ended June 30, 2009, the fund earned a return of 7.18% on annualised basis and the Net Asset Value per unit of the Fund at the close of the period stood at Rs. 102.2820. The net income before distribution for the year ended June 30, 2009 was Rs. 57.32 million. Placements with banks/financial institutions contributed Rs. 8.84 million, profit on bank deposits was Rs. 32.95 million and Sukuk certificates contributed Rs. 53.07 million towards the income.

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.

Due to the extraordinary circumstances in the financial markets and with a view to protect the interest of unit holders, Management Company announced temporary suspension of redemption of units of the Fund with effect from November 7, 2008 and removed suspension on January 20, 2009. Apart from this, no suspension of redemption was made by the Fund during the year.

Income Distribution

The Board of Directors of KASB Funds Limited approved the distribution of Rs. 3.75 per unit to the unit holders of the Fund for the year ended June 30, 2009. This distribution is in addition to the interim dividend of Rs. 3 per unit and Rs. 2 per unit distributed for the period ended October 21, 2008 and June 7, 2009 respectively. Therefore, the total distribution for the financial year ended June 30, 2009 totals to Rs. 8.75 per unit, which is equivalent to 8.75% of the par value of Rs. 100 which translates into a distribution of 95% of realised income to the unit holders of KASB Islamic Income 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.

Sale and redemption of units

The fund size of KIIF was Rs. 670.70 million on June 30, 2008 which decreased by 19.16% by the end of the financial year to close at Rs. 542.17 million on June 30, 2009. During the year, units worth Rs. 1,176.72 million were issued and units with a value of Rs. 1,323.69 million were redeemed. As on June 30, 2009, the total number of outstanding units was 5,300,695 with a value of Rs. 542.17 million.

Code of Corporate Governance

The Board of Directors states that:

- The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- Proper books of accounts of the Fund have been maintained.
- 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.
- Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International

Report Of The Directors Of The Management Company For KASB Islamic Income Fund

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.	Ms. Naz Khan	Director & Chief Executive	49,367	Nil
2.	Mr. Farid Arshad Masood	Director	9,938	6,888
3.	Mr. Muhammad Imran Khalil	Chief Financial Officer	1,461	1,504

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2009, banks and financial institutions held 57.44% out of the total units; individuals 38.42% units; insurance companies and retirement funds held 1.72% units, other corporate sector entities and non profit organisations held 2.42% units.

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. The State Bank's decision to introduce an interest rate corridor in its monetary policy statement in August 2009 should lead to greater stability in market rates which would help all market stakeholders.

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 Islamic Income 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 Pattern Of Holding (Units) As At June 30, 2009

	Units Held	Units Held (%)
Associated companies		
KASB Bank Limited	2,044,275	38.57
Directors and Chief Executive		
Chief Executive		
Ms. Naz Khan	50,489	0.95
Director		
Mr. Farid Arshad Masood	3,246	0.06
Executives	53,980	1.02
Banks and Financial Institutions	1,000,000	18.87
Individuals	1,929,124	36.39
Retirement Funds	70,702	1.33
Insurance Companies	20,505	0.39
Other Corporate Sector Entities	10,919	0.20
Non Profit Organisations	117,456	2.22
Total	<u>5,300,695</u>	<u>100.00</u>

Performance Table

	2009	2008*
Total net asset value as at June 30 (Rs. '000)	542,166	670,700
Net asset value per unit as at June 30 (Rs.)	102.2820	100.7581
Selling price for units as at June 30 (Rs.)	103.3152	101.7759
Repurchase price for units as at June 30 (Rs.)	102.2820	100.7581
Final dividend distribution per unit (Rs.)	3.75	0.55
Date of final distribution	July 4, 2009	July 2, 2008
1st Interim dividend distribution per unit (Rs.)	3.00	-
Date of 1st Interim distribution	October 22, 2008	-
2nd Interim dividend distribution per unit (Rs.)	2.00	-
Date of 2nd Interim distribution	June 08, 2009	-
Highest selling price per unit (Rs.)	104.9177	101.7759
Lowest selling price per unit (Rs.)	91.9653	100.0000
Highest repurchase price per unit (Rs.)	103.8685	100.7759
Lowest repurchase price per unit (Rs.)	91.0456	100.0000
Annualized return	7.18%	12.06%
Weighted average portfolio duration	52 days	41 days

Return since inception is 7.5% p.a

*Launch date of the Fund is June 7, 2008.

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

Accomplishment of objective

The Scheme is a purely Shariah based Unit Trust which shall make Investment only in designated authorised Shariah compliant Investments and shall thus offer Shariah Compliant returns to the investors in the Units of the Scheme. Hence, no investment of the Trust Property or any portion thereof shall be made in any Investment, which in the opinion of the Shariah Advisor, is opposed to Shariah. The fund has so far successfully achieved its stated objective.

Strategies and policies employed during the period

The fund took a very cautious approach and invested in quality sukuk and placed funds with sound Islamic banks only. The fund refrained from investing in spread transactions as we felt it was a high risk avenue under the existing market and liquidity scenario. Overall the fund maintained a handsome chunk in cash, and on average remained around 38% at all times.

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

Pakistan's economy is facing a tough time as the economic cycle completes. Issues on hand include sizeable current account and fiscal deficits, falling import cover and three decade high inflation. For the time being, growth is not on the target list due to the above mentioned crises. However, country's macroeconomic situation has started depicting improvement but still a few challenges remain including inflation, power crisis and the war on terror.

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. SBP increased discount rate by 300 bps to 15% during 1HFY09 in accordance with its tight monetary stance to curb inflation. The central bank, however, decreased the discount rate by 100 bps to 14%, on 20th April 2009, on the back of declining inflation rate. 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.

In terms of specific events impacting the asset management industry, SECP decision to mark down all TFC prices in the range of 10%-30% in Nov 2008 affected all income funds returns. This was done in a bid to improve market liquidity and secondary market trading of TFCs. However, a sudden change in prices dearly affected the fund returns and put extreme pressure on the fund liquidity in terms of investors panicking and filing in redemptions.

In shariah compliant debt instruments, few new additions were seen and the market remained quite inactive. Secondary market remained dull and prices were depressed on the back of lack of interest and low liquidity.

Fund Performance

KIIF return has clearly outperformed its benchmark in all categories, especially in CY09 where KIIF provided return of 30.22% on annualized basis, against benchmark return of 7.05%. Since inception the fund provided annualized return of 7.05% and 7.18% during FY09.

The AUM of the fund were PKR 671 million (NAV per unit: Rs 100.76) on June 30, 2008 and at the end of the period the AUM of the fund stood at PKR 542 million (NAV per unit: Rs 102.28).

Significant changes in asset allocation during the period

As compared to the last year the fund's overall exposure towards Sukuk investments increased to 45.8% on average. Cash and placements comprised around 48.85% of the portfolio.

Distribution

The fund distributed Rs 5.0 during FY09, in the form of Rs 3 per unit as 1st interim distribution and Rs 2 per unit as 2nd interim distribution. Rs 3.75 were distributed as a final dividend on 30th June 2009.

Date of Distribution	Amount of Distribution (PKR)	NAV (PKR)	Ex-NAV of Fund (PKR)
October 22, 2008	3.00	103.87	100.87
June 8, 2009	2.00	103.30	101.30
July 4, 2009	3.75	102.28	98.53

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, Modaraba 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/Sukuk 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 sukuk and TFCs.

Circumstances materially affecting the interests of the unit holders

Changes in market rates of TFCs/ Sukuk and other debt instruments based on a new pricing mechanism by SECP, severely affected the fund returns as overnight fall in NAV was witnessed.

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.

Investment objective

The primary objective of the Fund is to provide investors with Halal and regular income by investing in Shariah compliant income products.

Inception Date

June 07, 2008

Type & Category of Fund

Open-end Islamic Income

Fund Size

PKR 542 million

Current NAV

PKR 102.2820 (30-06-09)

Load Structure

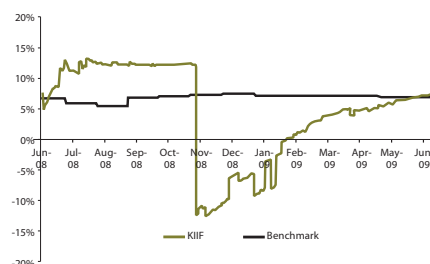
Front-end 1%

Back-end Nil

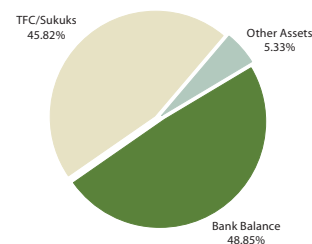
Performance Return (p.a. basis)

	KIIF	Benchmark
Since inception	7.50%	6.79%
1 Year	7.18%	6.79%
Last 6 months	30.22%	7.05%
Last 3 months	15.78%	7.01%
For the month	15.92%	6.94%

KIIF VS AVG. 3 MTH RATES OF 3 ISLAMIC BANKS



ASSET ALLOCATION AS AT JUNE 30, 2009



Trustee Report To The Unit Holders Of KASB Islamic Income 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 Islamic Income Fund (the Fund), an open-end scheme was established under a trust deed dated February 29, 2008, 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 however 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

Report of the Shari'ah Advisor - KASB Islamic Income Fund

Karachi
August 21, 2009

Alhamdulillah, the period from 1 July, 2008 to 30 June, 2009 was the second year of operations of KASB Islamic Income Fund. This report is issued in accordance with clause 7.4 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shari'ah Compliance of the Fund's activities.

In the capacity of Shar'iah Advisor, we have prescribed a criteria and procedure to be followed in ensuring Shari'ah Compliance in every investment.

It is the responsibility of the management company of the fund to established and maintain a system of internal controls to ensure Shari'ah compliance with the Shari'ah guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries from the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

- i. We have reviewed and approved the mode of investments of KASB Islamic Income Fund in light of Shari'ah guidelines.
- ii. All the provisions of the scheme and investments made on account of KASB Islamic Income Fund by KASB Funds Limited are Shari'ah Compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all operations of KASB Islamic Fund for the period ended June 30, 2009 have been in compliance with the Shari'ah principles.

May Allah bless us with best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Bilal Ahmed Qazi
Shari'ah Advisor

For and on behalf of Meezan bank Limited
Shari'ah Technical Services and Support Provider

Independent Assurance Provider's Report On Shariah Compliance To The Unit Holders

We have performed our independent assurance engagement of KASB Islamic Income Fund (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor of the Fund for the year ended 30 June 2009.

Management Company's responsibility

Management Company of the Fund is responsible for the appointment of Shariah Advisor of the Fund and for compliance with the Shariah Guidelines prescribed by the Shariah Advisor. This responsibility includes: designing, implementing and maintaining internal control to ensure compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund.

Responsibility of independent assurance providers

Our responsibility is to express our conclusion on the compliance based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagements (ISAE 3000) 'Assurance Engagement other than Audits or Review of Historical Financial Information'. This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the Fund has complied with the guidelines issued by the Shariah Advisor.

The procedures selected depend on our judgement, including the assessment of the risks of material non-compliances with the Shariah guidelines. In making those risk assessments, we have considered internal controls relevant to the entity's compliance with the guidelines in order to design our procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the guidelines. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Conclusion

In our opinion, the Fund was, in all material respects, in compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund for the year ended 30 June 2009.

21 August 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

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 Islamic Income Fund ("the Fund"). The Fund being an open-end scheme doesn't have its own Board of Directors ("the Board"). The Management Company, which manages the affairs of the Fund, has applied the principles contained in the Code to the Fund, whose Units are listed on the Stock Exchange, in the following manner:

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 NBFII 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

Naz Khan
Chief Executive Officer

25 August 2009
Karachi

Review Report To The Unit Holders On KASB Islamic Income 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 Islamic Income 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 Regulations, 2008.

25 August 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

Statement of Assets and Liabilities As at June 30, 2009

	<i>Note</i>	2009	2008
		(Rupees in '000)	
Assets			
Bank balances	4	264,855	492,326
Income receivable	5	26,962	6,499
Investments	6	248,424	173,055
Deposits and other receivables	7	3,307	100
Preliminary expenses and floatation costs	8	787	987
Total assets		544,335	672,967
Liabilities			
Payable on redemption of units		28	58
Payable to KASB Funds Limited - Management Company	9	683	1,712
Payable to Central Depository Company of Pakistan Limited - Trustee	10	95	99
Payable to The Securities and Exchange Commission of Pakistan	11	575	53
Accrued expenses and other liabilities	12	788	345
Total liabilities		2,169	2,267
Net assets		542,166	670,700
Unit holders' funds		542,166	670,700
		(Number of units)	
Number of units in issue		5,300,695	6,656,534
		(Rupees)	
Net asset value per unit		102.2820	100.7581
Commitments	13		

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Income Statement

For the year ended June 30, 2009

	Note	2009	For the period from May 2, 2008 to June 30, 2008
(Rupees in '000)			
Income			
Income from sukuk certificates		53,065	546
Income from term deposit receipts		8,614	691
Income from placements		225	-
Profit on bank deposits		32,947	3,653
Capital loss on sale of investments		(21,425)	-
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	6.4	-	30
Total income		73,426	4,920
Expenses			
Remuneration of KASB Funds Limited - Management Company	9.1	8,209	560
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	1,313	108
Annual fee - The Securities and Exchange Commission of Pakistan	11.1	575	45
Transaction costs on securities		438	69
Settlement and bank charges		105	7
Legal and professional charges		43	114
Fees and subscription		100	35
Auditors' remuneration	14	686	130
Amortisation of preliminary expenses and floatation costs		200	13
Printing and other expenses		142	25
Total expenses		11,811	1,106
		61,615	3,814
Net realised element of loss and capital losses included in prices of units issued less those in units redeemed		(4,292)	(48)
Net income for the year / period		57,323	3,766
Earnings per unit	15		

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Distribution Statement For the year ended June 30, 2009

	<i>Note</i>	2009	For the period from May 2, 2008 to June 30, 2008
		(Rupees in '000)	
Undistributed income brought forward	16	3,760	-
Net income for the year / period		57,323	3,766
Net unrealised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		7,417	(6)
Final distribution @ Rs. 0.55 per unit for the period ended June 30, 2008 declared on July 02, 2008		(3,661)	-
1st Interim distribution @ Rs. 3 per unit for the year ended June 30, 2009 declared on October 22, 2008		(23,811)	-
2nd Interim distribution @ Rs. 2 per unit for the year ended June 30, 2009 declared on June 08, 2009		(10,805)	-
		(30,860)	(6)
Undistributed income carried forward		30,223	3,760

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

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

	Note	2009	For the period from May 2, 2008 to June 30, 2008
		(Rupees in '000)	
Net assets at the beginning of the year		670,700	-
Issue of 11,642,400 units (2008: 7,360,538 units)		1,176,724	736,352
Issue of 143,624 bonus units (2008: Nil units)		14,502	-
Redemption of 13,141,863 units (2008: 704,004 units)		(1,323,685)	(70,753)
Element of income and capital gains included in prices of units issued less those in units redeemed		(132,459)	665,599
-amount representing accrued loss and realised capital losses - transferred to the Income Statement		4,292	48
-amount representing unrealised capital (gains) / losses- transferred directly to Distribution Statement		(7,417)	6
		(3,125)	54
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' at the end of the year / period	6.5	(18,126)	1,287
Unrealised appreciation in fair value of investments classified as 'available for sale' at the beginning of the year		(1,287)	-
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' during the year / period	6.5	(19,413)	1,287
Distributions during the year:			
- Issue of bonus units		(14,502)	-
- Dividend		(23,775)	-
		(38,277)	-
Net income (excluding unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital loss)		78,748	3,736
Capital loss on sale of investments		(21,425)	-
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and future contracts		-	30
Net unrealised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		7,417	(6)
		64,740	3,760
Net assets at the end of the year / period		542,166	670,700
		(Rupees)	
Net asset value per unit as at the beginning of the year		100.7581	-
Net asset value per unit as at the end of the year / period		102.2820	100.7581

The annexed notes 1 to 25 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

	2009	For the period from May 2, 2008 to June 30, 2008
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year / period	57,323	3,766
Adjustments		
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	-	(30)
Net realised element of loss and capital losses included in prices of units issued less those in units redeemed	4,292	48
Amortisation of preliminary expenses and floatation costs	200	13
	61,815	3,797
Increase in assets		
Investments	(94,782)	(171,738)
Income receivable	(20,463)	(6,499)
Deposits and other receivables	(3,207)	(100)
	(118,452)	(178,337)
(Decrease) / increase in liabilities		
Payable to KASB Funds Limited - Management Company	(1,029)	712
Payable to Central Depository Company of Pakistan Limited - Trustee	(4)	99
Payable to The Securities and Exchange Commission of Pakistan	522	53
Accrued expenses and other liabilities	443	345
	(68)	1,209
Net cash used in operating activities	(56,705)	(173,331)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend Paid	(23,775)	-
Net (payments) / receipts from sale and redemption of units	(146,991)	665,657
Net cash (used in) / generated from financing activities	(170,766)	665,657
Net (decrease) / increase in cash and cash equivalents during the year / period	(227,471)	492,326
Cash and cash equivalents at beginning of the year / period	492,326	-
Cash and cash equivalents at end of the year / period	264,855	492,326

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Notes to Financial Statements

For the year ended June 30, 2009

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Islamic Income 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 February 29, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on May 02, 2008 in accordance with the Non-Banking Finance Companies & Notified Entities Regulations, 2007.

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 by 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 Islamic income fund and is listed on the Karachi Stock Exchange. 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.

The primary objective of the Fund is to provide investors with halal and regular income by investing in shariah compliant income products. The Scheme is a purely shariah based unit trust which shall make investment only in designated authorised shariah compliant investments and shall thus offer shariah compliant returns to the investors in the units of the scheme.

2. BASIS OF PREPARATION

The transactions undertaken by the Fund are in accordance with the process prescribed under the Shariah guidelines issued by the Shariah Advisory Board.

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 thier 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 periods 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 judgements

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, 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 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 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

Notes to Financial Statements

For the year ended June 30, 2009

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 Sukuk Certificates

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 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 Mutual Fund Association of Pakistan (MUFAP) and contain criteria for the provisioning of non-performing debt securities. Accordingly, investment in 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 sukuks 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 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 Regulations, 2007.

Had all the 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.

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 expire or it transfers the financial assets and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

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

Offsetting of financial instruments

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

3.2 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the net assets 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 for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

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

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

An equalisation account called the 'element of income / (loss) 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 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

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

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

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on sukuk certificates, term deposit receipts and bank deposits is recognised on 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.

6.2 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)	
Cement							
D.G. Khan Cement Company Limited	242,500	11,000	-	253,500	-	-	-
	242,500	11,000	-	253,500	-	-	

3.10 Expenses

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

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of deposit 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	703	-
In deposit accounts	4.1 264,152	352,326
Term deposit receipts	-	140,000
	<u>264,855</u>	<u>492,326</u>

- 4.1 These deposit accounts carry mark-up at the rate of 11% to 16.5% per annum (2008: 10.9% to 11.1% per annum).

5. INCOME RECEIVABLE

	2009	2008
	(Rupees in '000)	
Income accrued on bank deposits	22,131	3,626
Income accrued on term deposit receipts	-	692
Income accrued on sukuk certificates	4,831	2,181
	<u>26,962</u>	<u>6,499</u>

6. INVESTMENTS

At fair value through profit or loss

- Quoted equity securities	-	16,281
- Derivatives	-	23
	-	16,304

Available for sale

- Fixed income and other debt securities	6.3 248,424	156,751
	<u>248,424</u>	<u>173,055</u>

- 6.1 The cost of the above investments as at June 30, 2009 amounted to Rs. 266.550 million (June 30, 2008: Rs. 171.738 million.)

Notes to Financial Statements

For the year ended June 30, 2009

6.3 Fixed income and other debt securities - available for sale

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 / value as at June 30, 2009	Percentage of total investments on the basis market value	
									------(Number of Certificates)-----
Maple Leaf Cement Factory Limited	6.3.1	15.44	14,000	4,400	11,000	-	7,400	33,304	13.41
Pak Electron Limited	6.3.2	14.52	10,000	8,800	-	-	18,800	85,601	34.46
Pak-American Fertilizers Limited	6.3.3	16.72	-	20,000	10,000	-	10,000	44,830	18.05
Eden Builders Limited	6.3.4	15.94	-	11,480	6,000	-	5,480	27,441	11.05
GOP IJARA	6.3.5	12.12	-	100	-	-	100	10,000	4.03
Kohat Cement Company Limited	6.3.6	14.71	-	10,350	-	-	10,350	37,493	15.09
Century Paper & Board Mills Limited	6.3.7	13.79	-	15,000	13,000	-	2,000	9,755	3.93
Engro Chemicals Pakistan Limited			7,000	15,000	22,000	-	-	-	-
WAPDA Second Sukuk Company Limited			-	10,000	10,000	-	-	-	-
								248,424	

6.3.1 This Sukuk Issue has a tenor of Six (6) Years with Two (2) years grace period, carrying profit equal to 6 months KIBOR plus 170 basis points per annum. Rentals will be payable semi-annually in arrears calculated on a 365 day year basis on the outstanding Musharaka Investment of the Investors. The first such rental payment will fall due Six (6) months from the date of first contribution and subsequently every Six (6) months thereafter. The certificates will mature on December 03, 2013.

6.3.2 This privately placed sukuk (diminishing musharakah based) has a tenor of Five (5) Years inclusive of 18 months grace period and carrying profit equal to 3 months KIBOR plus 175 basis points per annum with floor of 10% and cap of 25%. Rentals are payable quarterly in arrears to be purchased in fourteen (14) consecutive quarterly units, the first such unit falling due not later than the end of twenty one (21) months from the issue date. The certificates will mature on September 28, 2012.

6.3.3 These privately placed sukuk certificates will mature on January 14, 2015 and carry mark-up equal to the 6 month KIBOR plus 175 basis points per annum with no floor or cap. The principal redemption and rentals are payable semi-annually in arrears.

6.3.4 These privately placed sukuk certificates are unsecured and will mature on December 08, 2013. The sukuk certificate carries profit equal to 3 months KIBOR plus 230 basis points per annum payable semi-annually in arrears.

6.3.5 These privately placed sukuk certificates have a tenor up to three (3) years starting from the date of first contribution under the facility. The rentals are payable semi-annually in arrears on the basis of rental rate announced by the State Bank of Pakistan prior to start of each half year.

6.3.6 These are privately placed sukuk certificates with Kohat Cement Company Limited (KCCL) having original maturity on December 20, 2012. However on May 11, 2009, KCCL in consultation with sukuk certificate holders worked out successful restructuring plan and has extended the maturity to June 20, 2013. These certificates carry markup equal to the 6 months KIBOR plus 180 basis points per annum receivable semi annually in arrears with no floor or cap till December 20, 2009 and there after carry mark-up at 3 months KIBOR plus 180 basis points per annum receivable quarterly in arrears with no floor or cap. On June 20, 2009, owing to financial difficulties, KCCL

made partial payment and defaulted on the remaining markup. In view of the default, the management has suspended further markup on such investment. Subsequent to year end, the outstanding markup has been paid in full to the Fund by KCCL and hence the Fund has resumed accrual of markup on the same.

6.3.7 These privately placed sukuk certificates have a tenor up to seven (7) years starting from the date of first contribution under the facility and carry profit equal to last five days average 6 months KIBOR plus 135 basis points per annum payable semi-annually in arrears. The first rental payment will fall due and payable at the end of the 6th month from the date of first contribution under the Facility. The certificates will mature on September 25, 2014.

6.4 Unrealised appreciation in fair value of investments classified as at fair value through profit or loss

	2009	2008
	(Rupees in '000)	
Fair value of investments	-	16,304
Less: Cost of investments	-	(16,274)
	-	30

Unrealised appreciation in fair value of investments

classified as 'available for sale' at the beginning of the year / period	(30)	-
Realised on disposal during the year / period	30	-
	-	-
	-	30

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

	2009	2008
	(Rupees in '000)	
Fair value of investments	248,424	156,751
Less: Cost of investments	(266,550)	(155,464)
	(18,126)	1,287
Unrealised (appreciation) / diminution in fair value of investments classified as 'available for sale' at the beginning of the year / period	(1,287)	-
	(19,413)	1,287

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

7. DEPOSITS AND OTHER RECEIVABLES

	2009	2008
	(Rupees in '000)	
Deposit with Central Depository Company of Pakistan Limited	100	100
Receivable from KASB Liquid Fund	2,595	-
Receivable from KASB Stock Market Fund	612	-
	<u>3,307</u>	<u>100</u>

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

	2009	2008
Preliminary expenses and floatation costs	987	1,000
Less: Amortisation during the year / period	(200)	(13)
Balance as at June 30	<u>787</u>	<u>987</u>

9. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY

	9.1	2009	2008
Management fee payable	9.1	592	560
Sales load payable		91	5
Other payable		-	1,147
		<u>683</u>	<u>1,712</u>

- 9.1** Under the provisions of Non Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.25 percent per annum of the average annual net assets of the Fund for the current period.

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

	2009	2008
	(Rupees in '000)	
Trustee fee	10.1	95
CDS charges	-	1
	<u>95</u>	<u>99</u>

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

11. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

	11.1	2009	2008
		<u>575</u>	<u>53</u>

- 11.1** As per Schedule II of the NBFC Regulations 2008, an income fund is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Scheme. Uptill November 20, 2008 annual fee is accrued at the rate of one tenth of one percent under the provisions of NBFC Regulations 2007

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	2009	2008
	(Rupees in '000)	
Auditors' remuneration	521	130
Brokerage	-	69
Others	267	146
	<u>788</u>	<u>345</u>

13. COMMITMENTS

	2009	2008
	(Rupees in '000)	
Purchase of Sukuk Certificates	<u>-</u>	<u>70,000</u>

14. AUDITORS' REMUNERATION

	2009	2008
Audit fee	187	50
Other certifications and services	478	80
Out of pocket expenses	21	-
	<u>686</u>	<u>130</u>

15. EARNINGS PER UNIT

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

16. UNDISTRIBUTED INCOME / (LOSS) BROUGHT FORWARD / CARRIED FORWARD

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

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 Stock Market Fund and KASB Balanced 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 with 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 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.

Notes to Financial Statements

For the year ended June 30, 2009

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

	2009	For the period from from May 2 2008 to June 30, 2008
	(Rupees in '000)	
17.1 Transactions		
KASB Funds Limited		
Remuneration expense	9.1 <u>8,209</u>	<u>560</u>
Sale load	<u>91</u>	<u>5</u>
Amount paid on behalf of the Fund	<u>-</u>	<u>1,147</u>
KASB Bank Limited		
Bank charges	<u>7</u>	<u>-</u>
Investment in the Fund: Nil units (2008: 1,999,600 units)	<u>-</u>	<u>200,000</u>
Transfer in the Fund: 44,265 units (2008: Nil units)	<u>1,923</u>	<u>-</u>
Bonus Units issued: 409 units (2008: Nil units)	<u>41</u>	<u>-</u>
Dividend paid	<u>11,098</u>	<u>-</u>
KASB Capital Limited		
Transfer in the Fund: 23,090 units (2008: Nil units)	<u>2,106</u>	<u>-</u>
Bonus Units issued: 456 units (2008: Nil units)	<u>46</u>	<u>-</u>
Transfer out of the Fund: 23,546 units (2008: Nil units)	<u>2,393</u>	<u>-</u>
KASB Modarba Limited		
Transfer in the Fund: 19,828 units (2008: Nil units)	<u>1,812</u>	<u>-</u>
Redemption from the Fund: 19,828 units (2008: Nil units)	<u>1,883</u>	<u>-</u>
KASB Securities Limited - Brokerage house		
Brokerage expense	17.3 <u>125</u>	<u>-</u>
KASB Liquid Fund		
Purchase of Sukuk Certificates: 14,750 certificates (2008: 14,000 certificates)	<u>75,548</u>	<u>70,721</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	<u>1,313</u>	<u>108</u>
CDS charges	<u>7</u>	<u>1</u>
Directors and Officers of the Management Company		
Investment in the Fund: 393,989 units (2008: 1,800 units)	<u>40,090</u>	<u>180</u>
Transfer in the Fund: 2,161 units (2008: Nil units)	<u>220</u>	<u>-</u>
Conversion in the Fund: 130,761 units (2008: 92 units)	<u>13,193</u>	<u>9</u>
Bonus Units issued: 4,426 units (2008: Nil units)	<u>447</u>	<u>-</u>
Conversion out of the Fund: 78,753 units (2008: Nil units)	<u>8,037</u>	<u>-</u>
Transfer out of the Fund: 2,470 units (2008: Nil units)	<u>249</u>	<u>-</u>
Redemption from the Fund: 335,646 units (2008: Nil units)	<u>31,702</u>	<u>-</u>
17.2 Balances		
KASB Funds Limited		
Payable to the Management Company	<u>683</u>	<u>1,712</u>
KASB Bank Limited		
Units held: 22,044,275 (2008: 1,999,600 units)	<u>209,093</u>	<u>201,480</u>
Central Depository Company of Pakistan Limited - Trustee		
Payable to the Trustee	<u>95</u>	<u>99</u>
Security deposit	<u>100</u>	<u>100</u>
Directors & Officers of the Management Company		
Units held: 116,588 units (2008: 1,892 units)	<u>11,925</u>	<u>191</u>
KASB Liquid Fund		
Receivable from KASB Liquid Fund	<u>2,595</u>	<u>-</u>
KASB Stock Market Fund		
Receivable from KASB Stock Market Fund	<u>612</u>	<u>-</u>

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 counterparties are not connected persons.

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 provide investors with halal and regular income by investing in shariah compliant income products. The Scheme is a purely shariah based unit trust which shall make investment only in designated authorised shariah compliant investments and shall thus offer shariah compliant returns to the investors in the units of the scheme.

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

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

	Effective rate of mark-up/return (%)	June 30, 2009				Total
		Exposed to MROR risk			Not exposed to MROR risk	
		Upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial assets						
Bank balances	11 - 16.5	264,855	-	-	-	264,855
Investments	12.12 - 16.72	177,627	70,797	-	-	248,424
Income receivable		-	-	-	26,962	26,962
Deposits and other receivables		-	-	-	3,307	3,307
		442,482	70,797	-	30,269	543,548
Financial liabilities						
Payable on redemption of units		-	-	-	28	28
Payable to KASB Funds Limited - Management Company		-	-	-	683	683
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	95	95
Accrued expenses and other liabilities		-	-	-	788	788
		-	-	-	1,594	1,594
On-balance sheet gap 2009		442,482	70,797	-	28,675	541,954

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.

Yield / profit rate risk

Yield / profit rate risk arises from the possibility that changes in prevailing level of profit rates will affect future cash flows or the fair values of financial instruments. The Fund holds floating rate sukuk certificates that expose the Fund to cash flow profit rate risk.

As at June 30, 2009, the investment in Sukuk Certificates exposed to cash flow profit rate risk is detailed in Note 6.3. Cash and cash equivalents, deposits and term deposit receipts do not expose the Fund to fair value interest rate risk.

Sensitivity analysis for variable rate instruments

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 0.305 million (2008: 0.17 million) with consequential effect on net income for the year. This arises substantially from the increase / decrease in interest income and receivable on sukuk certificates

The Fund has direct exposure to profit rate changes on the cash flows of its interest bearing assets. However, it may also be indirectly affected by the impact of profit rate changes on the earnings of certain companies in which the Fund invests. Further the composition of the Fund's investment portfolio and KIBOR rates is expected to changer 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 / profit rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

Notes to Financial Statements

For the year ended June 30, 2009

	Effective rate of mark-up/return (%)	June 30, 2008				Total
		Exposed to MROR risk			Not exposed to MROR risk	
		Upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial assets						
Bank balances	10.9 - 11.1	492,326	-	-	-	492,326
Investments	11.76 - 15.57	102,649	70,406	-	-	173,055
Income receivable		-	-	-	6,499	6,499
Deposits and other receivable		-	-	-	100	100
		<u>594,975</u>	<u>70,406</u>	<u>-</u>	<u>6,599</u>	<u>671,980</u>
Financial liabilities						
Payable on redemption of units		-	-	-	58	58
Payable to KASB Funds Limited - Management Company		-	-	-	1,712	1,712
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	99	99
Accrued expenses and other liabilities		-	-	-	345	345
		<u>-</u>	<u>-</u>	<u>-</u>	<u>2,214</u>	<u>2,214</u>
On-balance sheet gap 2008		<u>594,975</u>	<u>70,406</u>	<u>-</u>	<u>4,385</u>	<u>669,766</u>

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. Presently, the Fund is not exposed to equity price risk, as the Fund does not hold any equity securities as at June 30, 2009.

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. The Fund kept surplus liquidity with banks having credit rating from

AA+ to A-. Investment in GOP Ijarah sukuk do not expose the Fund to credit risk as the counter party is the 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	264,855	
Investments in fixed income and other debt securities	248,424	173,055
Income receivable	26,962	6,499
Deposits and other receivables	3,307	100
	<u>543,548</u>	<u>671,980</u>

None of the above financial assets were considered to be past due or impaired in 2009 and 2008 except for exposure as provided in note 6.3.6. For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated except stated otherwise.

The analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates, sukuk certificates as at June 30:

Debt Securities by rating category	2009	2008
	(%)	
A-	13.97	44.92
A+	35.90	32.27
AA-	22.89	-
AA	-	22.81
A	11.51	-
BBB-	15.73	-

Concentration of credit risk

Concentration of credit risk exists when changes in economic or

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

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 applicable redemption price 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 tradeable 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,

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

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 extraordinary circumstances in the financial markets, Management Company announced temporary suspension of redemption of units of the Fund with effect from November 07, 2008 till January 20, 2009. 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.

	June 30, 2009			Total
	Up to three months	More than three months and upto one year	More than one year	
	(Rupees in '000)			
Payable on redemption of units	28	-	-	28
Payable to KASB Funds Limited - Management Company	683	-	-	683
Payable to Central Depository Company of Pakistan Limited-Trustee	95	-	-	95
Payable to The Securities and Exchange Commission of Pakistan	575	-	-	575
Accrued expenses and other liabilities	788	-	-	788
	<u>2,169</u>	<u>-</u>	<u>-</u>	<u>2,169</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 on redemption of units	58	-	-	58
Payable to KASB Funds Limited - Management Company	1,712	-	-	1,712
Payable to Central Depository Company of Pakistan Limited - Trustee	99	-	-	99
Payable to The Securities and Exchange Commission of Pakistan	53	-	-	53
Accrued expenses and other liabilities	345	-	-	345
	<u>2,267</u>	<u>-</u>	<u>-</u>	<u>2,267</u>

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.

Notes to Financial Statements

For the year ended June 30, 2009

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 provide investors with halal and regular income by investing in shariah compliant income products. The Scheme is a purely shariah based unit trust which shall make investment only in designated authorised shariah compliant investments and shall thus offer shariah compliant returns to the investors in the units of the scheme.

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	318	107	202,836	116,650	37.41	17.39
Associated companies	1	1	206,931	201,480	38.17	30.04
Directors	2	-	5,497	-	1.01	-
Bank / Financial Institution	1	4	102,282	307,298	18.87	45.82
Insurance Companies	1	-	2,097	-	0.39	-
Non Banking Finance Companies	1	2	62	25,248	0.01	3.76
Retirement Funds	4	-	7,232	-	1.33	-
Public Limited Companies	-	1	-	20,024	-	2.99
Others	3	-	15,229	-	0.03	-
Total	331	115	542,166	670,700	100%	100%

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

Broker Name	2009 (Percentage)
JS Global Capital Limited	30%
KASB Securites Limited	25%
Alfalah Securities (Private) Limited.	24%
Atlas Capital Market (Private) Limited	9%
BMA Capital Management Limited	5%
Live Securities (Private) Limited.	5%
Global Securities Pakistan Limited	2%

The operations of the Fund started on June 9, 2008 and no brokerage was paid till June 30, 2008 for the period ended June 30, 2008.

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

Name of the person	Designation	Total	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.

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

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 MEMBERS OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (years)
Naz Khan	Chief Executive Officer	B.A (U.S.A)	16
Muhammad Faisal Potrik	Head of Fund Management	MBA	9
Mir Taimur Ali	Fund Manager	CFA , ACCA	6
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 Liquid Fund under the management of KASB Funds Limited.

24. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management company has approved bonus of Rs. 3.75 per unit (June 30, 2008: Rs. 0.55 per unit) for the year ended June 30, 2009 amounting to Rs. 19.878 million (June 30, 2008 : 3.661 million) in total in their meeting held on July 04, 2009 (2008: July 02, 2008).

25. 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

