

Annual

REPORT

for the Year Ended June 30, 2010

Report

Managed by:



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FUND INFORMATION

Management Company

KASB Funds Limited

Registered Office:

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

Principal Office:

11th Floor, Trade Centre, I. I. Chundrigar Road,
Karachi-74200, Pakistan
UAN: (92-21) 111 535 535
Fax: (92-21) 3263 9188
URL: www.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman
Ms. Naz Khan - Chief Executive
Mr. Syed Muhammad Rehmanullah
Mr. Muzaffar Ali Shah Bukhari
Mr. Masood Karim Sheikh

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Muhammad Imran Khalil

Audit Committee

Mr. Masood Karim Sheikh - Chairman
Mr. Robert John Richard Owen
Mr. Syed Muhammad Rehmanullah

Trustee

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

Fund Rating

BBB(f) by PACRA
(July 2010)

Bankers to the Fund

Al Baraka 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

Bawaneey & 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 Shakra-e-Faisal Karachi-75350

Distributors

KASB Funds Limited
KASB Bank Limited
KASB Securities Limited
IGI Investment Bank Limited
Atlas Capital Markets (Private) Limited
Standard Chartered Bank (Pakistan) Limited

Management Company Rating

Rated AM3+ by JCR-VIS
(May 2010)

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 the year ended June 30, 2010

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 third Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2010.

Financial Highlights	FY 2010	FY 2009	Increase / (Decrease) (%)
Net Income (Rs. in Million)	5.02	57.32	(91.24)
Net Assets as at June 30 (Rs. in Million)	267.39	542.17	(50.68)
NAV per Unit as on June 30 (Rs.)**	99.3295*	102.2820*	(2.89)
Annualised yield (%)	4.38	7.18	(38.99)

* Ex-NAV after distributions during the year.

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

Economic Environment

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD18.78bn), robust workers' remittances of over USD 8 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy and water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity.

Interest rates in the economy continue to remain firm as the central bank strictly followed a tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

Capital Market

Lack of liquidity for corporate debt continues to prevail as does pricing volatility. A few instruments were restructured during the quarter as most of the companies that were having financial difficulties in a lean economic patch have managed to negotiate a restructuring with their investors. Market continues to be risk averse as investors find government papers yield attractive resulting in very few trades in TFCs/Sukuks. Assets under management of the industry declined by Rs 7 billion during the year and there was a shift from income to money market and government securities funds.

The rates on Islamic deposits remained on the lower side as compared to conventional rates and the market relatively dull. We continue with our strategy to bring down Sukuk allocation in the fund.

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 has continued with its strategy to be invested in Islamic instruments and placements with sound Islamic banks. As the fund AUMs have declined, the fund remained primarily focused on rebalancing in longer terms instruments as well as generating liquidity. The overall asset allocation of the Fund stood at 57% and 43% for Sukuk/Government backed securities and Cash/Placements respectively as at June 30, 2010. The fund did not make any new investments during the year.

Fund Performance

For the year ended June 30, 2010, the fund earned a return of 4.38% on annualised basis and the Net Asset Value per unit of the Fund at the close of the period stood at Rs. 99.3295. The net income for the year ended June 30, 2010 was Rs. 5.02 million. While the benchmark (Average 3 month rates of three Islamic Banks) posted annualized returns of 6.82% and 6.42% for one year and three months respectively, the Fund recorded annualized returns of 4.38% and 17.30% for one year and three months respectively resulting from restructuring and market price movements of a few Sukuks held by the fund. The fund aims to generate consistent shariah compliant returns while maintaining its asset quality and refraining from taking any additional sukuk exposures.

Income Distribution

The Board of Directors of KASB Funds Limited approved an interim dividend distribution of Rs. 3.50 per unit to the unit holders of the Fund for the year ended June 30, 2010.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the financial year ended June 30, 2010, as reduced by capital gains whether realized or unrealized, therefore, its income will not be subject to income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Sale and redemption of units

The fund size of KIIF was Rs. 542.17 million on June 30, 2009 which decreased by 50.68% by the end of the financial year to close at Rs. 267.39 million on June 30, 2010. During the year, units worth Rs.487.08 million were issued and units with a value of Rs.764.02 million were redeemed. As on June 30, 2010, the total number of outstanding units was 2,692,102 with a value of Rs. 267.39 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.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2010

- c) Appropriate accounting policies have been consistently applied in preparation of financial statements of the Fund except for the change in accounting policy as discussed in note 2.2 of the financial statements and accounting estimates are based on reasonable and prudent judgments.
- d) Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k) The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2010 is disclosed in note 22 of the financial statements.

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

S. No	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Ms. Naz Khan	Director & Chief Executive	Nil	53,567

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2010, banks and financial institutions held 75.67% out of the total units; individuals held 12.11% units and Insurance Companies, Retirement Funds and other Corporate Sector Entities held 12.22% units. Detailed pattern is also annexed.

Future Outlook

The country remains on the path of economic stabilization with an improvement on a number of key economic indicators. Inflationary pressures in the economy continue to prevail constraining the central bank to use monetary policy to stimulate economic growth. Fiscal deficit continues to remain a concern with massive government borrowing crowding out the private sector. Impact of the vast devastation caused by the recent floods remains to be quantified and is likely to have a negative impact on the fiscal deficit as well as the economy for at least a couple of years. The trend of global commodity prices and external bi/multilateral inflows will remain critical for the direction of the country's economy.

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, 2011. 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

 August 27, 2010
Karachi

 Naz Khan
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS)

As at June 30, 2010

	Units held	Units held (%)
Associated companies		
KASB Bank Limited	1,037,084	38.52
Directors & Chief Executive		
Director		
Mr.Fareed Arshad Masood	1,217	0.05
Spouse and Minor Children of Directors & CEO		
Ms.Naseem Chohan	3,676	0.14
Banks and Financial Institutions	1,000,000	37.15
Individuals	321,185	11.92
Retirement Funds	8,487	0.32
Insurance Companies	10,872	0.40
Other Corporate Entities	309,581	11.50
	<u>2,692,102</u>	<u>100.00</u>

PERFORMANCE TABLE

	2010	2009	2008
Total net asset value as at June 30 (Rs. '000)	267,386	542,166	670,700
Net asset value per unit as at June 30 (Rs.)	99.3225	102.2820	100.7581
Selling price for units as at June 30 (Rs.)	100.3258	103.3152	101.7759
Repurchase price for units as at June 30 (Rs.)	99.3225	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.)	3.50	3.00	-
Date of 1st Interim distribution	October 23, 2009	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.)	103.0830	104.9177	101.7759
Lowest selling price per unit (Rs.)	96.0030	91.9653	100.0000
Highest repurchase price per unit (Rs.)	102.0522	103.8685	100.7759
Lowest repurchase price per unit (Rs.)	95.0430	91.0456	100.0000
Annualised return	4.38%	7.18%	12.06%
Weighted average portfolio duration	54 days	52 days	41 days

Return since inception is 5.98%
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 MANAGER'S REPORT
Type & Category of Fund

Open - end Islamic Income

Inception Date

June 07, 2008

Investment objective

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

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.

Benchmark

Average 3 month rates of 3 Islamic Banks

Performance Return

	KIIF Return (%)	Benchmark return (%)
Since inception	5.98	7.02
1 Year	4.38	6.82
Last 6 months	3.13	6.40
Last 3 months	17.30	6.42
For the month	41.80	6.71

Strategies and policies employed during the period

During the year the fund took a very cautious approach and refrained from taking further exposure in sukuk and placed funds with sound Islamic banks only. The fund also brought down its exposure in Sukuk, due to increased credit and liquidity risk. The Sukuk's proportion reached above 64% during the year which has been brought down to 57%. Overall the fund maintained a handsome chunk in cash, and on average remained around 38%.

Asset Allocation

	June 30, 2010 (%)	June 30, 2009 (%)
Sukuk	57.2	45.8
Bank Balance	38.8	48.9
Other Assets	4.0	5.3

Significant changes in asset allocation during the period

As compared to the last year the fund's overall exposure towards Sukuk investments increased to 57.2% on average. Cash and placements comprised around 38.8% of the portfolio.

Fund Performance

While the benchmark (Average 3 month rates of three Islamic Banks) posted annualized returns of 6.82% and 6.42% for one year and three months respectively, the Fund recorded annualized returns of 4.38% and 17.30% for one year and three months respectively resulting from restructuring of some Sukuk as well as pricing impact on Sukuk during the year.

The AUM of the fund were PKR 542 million (NAV per unit: Rs 102.2820) on June 30, 2009 and at the end of the year the AUM of the fund stood at PKR 267 million (NAV per unit: Rs 99.3225).

ANNUAL FUND MANAGER'S REPORT

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

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD16.76bn), robust workers' remittances of over USD 8 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy & water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity

Interest rates in the economy continue to remain firm as the central bank strictly follows tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

Lack of liquidity for corporate debt continues to prevail amid pricing volatility. A few instruments were restructured during the quarter as most of the companies that were having financial difficulties in a lean economic patch have managed to negotiate a restructuring with its investors. Market continues to be risk averse as investors find government papers yield attractive resulting in very few trades in Sukuks. The rates on Islamic deposits remained on the lower side as compared to conventional rates and the market relatively dull.

Fund performance by market(s) and by instruments

For details, please refer to the full yearly accounts.

Distribution

The fund distributed Rs 3.50 during FY10, in the form of interim distribution.

Date of Distribution	Amount of Distribution (PKR)	NAV (PKR)	Ex-NAV of Fund (PKR)
October 23, 2009	3.50	102.0522	98.5522

Significant changes in the state of affairs

During the period under review market liquidity crunch and risk aversion continued. Government has been relying heavily on the banking sector to finance its fiscal deficit by providing higher returns on the govt. papers, resulting in the non-availability of credit to private sector. Therefore, many cement companies which rely heavily on borrowing were unable to pay their principal and markup commitments, putting pressure on the fund's return.

Breakdown of unit holdings by size

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

Unit Splits

There were no unit splits during the period.

Circumstances materially affecting the interests of the unit holders

Changes in market rates of TFCs/ Sukuks and other debt instruments based on the new pricing mechanism severely affected fund returns. In addition, mark to market impacts of secondary market trades also affected fund performance. Furthermore default on few sukuk coupon payments and subsequent restructuring also hampered the fund's returns. The fund was able to generate return of 4.38% for the year.

Soft Commission

The management company received soft commission from the brokers in the form of research reports which were sent in both soft and hard copies.

TRUSTEE REPORT TO THE UNIT HOLDERS OF KASB 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

The KASB Islamic Income Fund (the Fund), an open-end fund 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, 2010 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 (NBFC Regulations) and the constitutive documents of the Fund.

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

Karachi, September 22, 2010

REPORT OF THE SHARI'AH ADVISOR – KASB ISLAMIC INCOME FUND

Karachi
August 30, 2010

Alhamdulillah the period from 1 July, 2009 to 30 June 2010 was the third 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 Shari'ah 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 establish 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.

1. We have reviewed and approved the modes of investments of KASB Islamic Income Fund in light of Shari'ah guidelines.
2. During the year an amount of Rs.3,750/- has been declared as Non compliant income in respect of a certain transaction, which can not be taken into consideration while calculating the assets valuation of the fund, for onward disbursement to charitable institutions.
3. 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.
4. On the basis of information provided by the management, all operations of KASB Islamic Income Fund for the period ended June 30, 2010 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 REPORT ON SHARIAH COMPLIANCE TO THE
UNIT HOLDERS OF KASB ISLAMIC INCOME FUND

We have performed our independent assurance engagement of KASB Islamic Income Fund ("the Fund") to provide assurance on the Fund's compliance with the Shariah Guidelines prescribed by the Shariah Advisor of the Fund for the year ended 30 June 2010.

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 carry out a reasonable assurance engagement and to express a conclusion based on work performed. We conducted our engagement 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 in all material respects with the Shariah Guidelines issued by the Shariah Advisor.

A reasonable assurance engagement in respect of compliance of Shariah Guidelines issued by Shariah advisor involves performing procedures on a test basis to obtain evidence about compliance of Shariah Guidelines. 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 Shariah Guidelines in order to design our procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence whether the Fund was not materially non-compliant with the Shariah 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 2010.

Date: 30 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2010

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 February 12, 2010, Mr. Amir Zahoor Khan resigned from the Board of the Management Company. Mr. Muzaffar Ali Shah Bukhari was appointed in his place to duly fill the vacancy. Further, on February 19, 2010 Mr. Fard Arshad Masood resigned from the Board of the Management Company and the Board appointed Mr. Masood Karim Sheikh in his place. However, application for appointment of Mr. Masood Karim Sheikh as Director on Board of the Management Company has been filed with the Securities and Exchange Commission of Pakistan and is currently under process.
5. The Management Company has prepared a ‘Statement of Ethics and Business Practices’, which has been signed by all the directors and employees of the Management Company.
6. The Board has developed a vision/mission statement and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman of the Board. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
10. During the year, there was a change of the Company Secretary and the Internal Auditors; however, there was no change of Chief Financial Officer.
11. The directors’ report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit-holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for compliance.
17. The Management Company had outsourced the internal audit function to a firm of Chartered Accountants (Ernst and Young Ford Rhodes Sidat Hyder & Co.) up to March 31, 2010. However, since Ernst and Young Ford Rhodes Sidat Hyder & Co. have been appointed as the Statutory Auditors of the Management Company for the year ending December 31, 2010, the Board Audit Committee has appointed Ms. Saman Hasan Qadri as the Internal Auditor of the Management Company. The said person is conversant with the policies and procedures of the Company and involved in the Internal Audit function on a full time basis.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors of the Fund or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions have been placed before the Audit Committee and approved by the Board with necessary justification for non arm’s length transactions (if any) and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm’s length transactions only if such terms can be substantiated.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 27, 2010
Karachi

Naz Khan
Chief Executive

REVIEW REPORT TO THE UNIT HOLDERS OF 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 Regulations of Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. 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 Company 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 controls.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2010.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **KASB Islamic Income Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, cash flow statement, distribution statement, statement of movement in Unit Holders' Funds for the year ended 30 June 2010 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 2010, and of its financial performance, cash flows and transactions for the year ended 30 June 2010 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 (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2010

Note	2010	2009
(Rupees in '000)		
ASSETS		
4	103,706	264,855
5	13,342	26,962
6	152,967	248,424
7	123	3,307
8	587	787
	270,725	544,335
LIABILITIES		
	42	28
9	273	683
10	58	95
11	275	575
12	2,691	788
	3,339	2,169
	267,386	542,166
Net assets		
	267,386	542,166
Unit holders' funds		
	267,386	542,166
(Number of units)		
	2,692,102	5,300,695
Number of units in issue		
	2,692,102	5,300,695
(Rupees)		
	99.3225	102.2820
Net asset value per unit		
	99.3225	102.2820

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT

For the year ended June 30, 2010

	Note	2010	2009
(Rupees in '000)			
Income			
Income from sukuk certificates		32,400	53,065
Income from term deposit receipts		-	8,614
Income from placements		-	225
Profit on bank deposits		14,850	32,947
Capital loss on sale of investments		<u>(10,519)</u>	<u>(21,425)</u>
Total income		<u>36,731</u>	<u>73,426</u>
Expenses			
Remuneration of KASB Funds Limited - Management Company	9.1	4,577	8,209
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	829	1,313
Annual fee - The Securities and Exchange Commission of Pakistan	11.1	275	575
Transaction costs on securities		58	438
Settlement and bank charges		66	105
Legal and professional charges		315	43
Fees and subscription		330	100
Auditors' remuneration	13	528	686
Amortization of preliminary expenses and floatation costs		200	200
Printing and other expenses		94	142
Provision for Workers' Welfare Fund	14	1,248	-
Provision against non-performing investments		<u>12,483</u>	<u>-</u>
Total expenses		<u>21,003</u>	<u>11,811</u>
		<u>15,728</u>	<u>61,615</u>
Net realised element of loss and capital losses included in prices of units issued less those in units redeemed		(10,707)	(4,292)
Net income for the year		<u>5,021</u>	<u>57,323</u>
Earnings per unit	15		

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2010

	2010	2009
(Rupees in '000)		
Net income for the year	5,021	57,323
Other comprehensive income		
Net unrealised diminution in fair value of investments classified as 'available for sale'	(7,512)	(19,413)
Provision against non-performing 'available for sale' investments	12,483	-
Net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / (diminution)	12,719	7,417
Other comprehensive income / (loss) for the year	17,690	(11,996)
Total comprehensive income for the year	<u>22,711</u>	<u>45,327</u>

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT

For the year ended June 30, 2010

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Undistributed income brought forward	16	30,223	3,760
Net income for the year		5,021	57,323
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed		12,719	7,417
Final distribution @ Rs. 3.75 per units for the year ended June 30, 2009 (June 30, 2008: Rs. 0.55 per unit)		(17,876)	(3,661)
Interim distribution @ Rs. 3.5 per units as on October 23, 2009 (October 22, 2008: Rs. 3 per unit)		(16,754)	(23,811)
Interim distribution @ Rs. 2 per unit declared on June 07, 2009		-	(10,805)
Undistributed income carried forward		<u>(16,890)</u>	<u>26,463</u>
		<u>13,333</u>	<u>30,223</u>

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended June 30, 2010

	2010 (Rupees in '000)	2009 (Rupees in '000)
Net assets at beginning of the year	542,166	670,700
Issue of 4,914,418 units (2009: 11,642,400 units)	487,083	1,176,724
Issue of 183,532 bonus units (2009: 143,624 units)	18,086	14,502
Redemption of 7,706,543 units (2009: 131,141,863 units)	<u>(764,016)</u>	<u>(1,323,685)</u>
	(258,847)	(132,459)
Element of income and capital gains included in prices of units issued less those in units redeemed		
- amount representing accrued loss and realised capital losses - transferred to the Income Statement	10,707	4,292
- amount representing unrealised capital gains- transferred directly to Distribution Statement	<u>(12,719)</u>	<u>(7,417)</u>
	(2,012)	(3,125)
Unrealised diminution in fair value of investments classified as available for sale' at end of the year	<u>(25,638)</u>	<u>(18,126)</u>
Provision against non-performing 'available for sale' investments	12,483	-
Unrealised (appreciation) / diminution in fair value of investments classified as 'available for sale' at beginning of the year	<u>18,126</u>	<u>(1,287)</u>
Unrealised (appreciation) / diminution in fair value of investments classified as 'available for sale' during the year	4,971	(19,413)
Distributions during the year:		
- Issue of bonus units	<u>(18,086)</u>	<u>(14,502)</u>
- Dividend	<u>(18,546)</u>	<u>(23,775)</u>
	(36,632)	(38,277)
Net income	15,540	78,748
Capital loss on sale of investments	<u>(10,519)</u>	<u>(21,425)</u>
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed-representing unrealised appreciation / (diminution)	<u>12,719</u>	<u>7,417</u>
Net income (including net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / (diminution))	<u>17,740</u>	<u>64,740</u>
Net assets at the end of the year	<u>267,386</u>	<u>542,166</u>
	(Rupees)	
Net asset value per unit as at beginning of the year	<u>102.2820</u>	<u>100.7581</u>
Net asset value per unit as at end of the year	<u>99.3225</u>	<u>102.2820</u>

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

CASH FLOW STATEMENT

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	5,021	57,323
Adjustments for:		
Net realised element of loss and capital losses included in prices of units issued less those in units redeemed	10,707	4,292
Amortization of preliminary expenses and flotation costs	200	200
	10,907	4,492
Decrease / (increase) in assets		
Investments	100,428	(94,782)
Income receivable	13,620	(20,463)
Deposits, prepayments and other receivables	3,184	(3,207)
	117,232	(118,452)
Increase / (decrease) in liabilities		
Payable to KASB Funds Limited - Management Company	(410)	(1,029)
Payable to Central Depository Company of Pakistan Limited - Trustee	(37)	(4)
Payable to The Securities and Exchange Commission of Pakistan	(300)	522
Accrued expenses and other liabilities	1,903	443
	1,156	(68)
Net cash generated from / (used in) operating activities	134,316	(56,705)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend Paid	(18,546)	(23,775)
Payable on redemption of units	14	-
Net payments from sale and redemption of units	(276,933)	(146,991)
Net cash used in financing activities	(285,465)	(170,768)
Net decrease in cash and cash equivalents during the year	(161,149)	(227,471)
Cash and cash equivalents at beginning of the year	264,855	492,326
Cash and cash equivalents at end of the year	103,706	264,855

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Islamic Income Fund ("KIIF", 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 the Fund 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 issued by the SECP. The registered office of the Management Company is situated at 9th floor, Trade Centre, I. I. Chundrigar Road, Karachi, Pakistan. JCR-VIS has assigned management quality rating of AM3+ to the Management Company and the Pakistan Credit Rating Agency (PACRA) has assigned a stability rating of 'BBB(f)' (Triple B – Fund Rating) to the Fund.

KIIF is an open-end Islamic Income fund and is listed on the Karachi Stock Exchange (Guarantee) Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder.

The 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.

Under circular 7 of 2009 dated March 06, 2009 issued by the SECP, all Collective Investment Schemes (CISs) are required to categorise open end CISs on the basis of investment parameters including eligible assets classes with pre-specified risk profile with the approval of Board of Directors of Asset Management Company. Funds are also required to disclose in the offering document the authorised investments and rating of securities that it would invest in. Accordingly, the Fund has submitted the amended trust deed with the SECP for approval purposes and intends to assign Shariah Compliant Islamic Income or Shariah Compliant Islamic Aggressive Income category to the Fund, based on the discussions and guidelines issued by the SECP. The Management Company would make the requisite amendments along with aligning investment portfolio, once it receives the required approval from SECP.

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

2. BASIS OF PREPARATION
2.1 Statement of compliance

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

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

2.2 Change in accounting policy

Starting July 01, 2009 the Fund has changed its accounting policy with respect to "Revised IAS 1 Presentation of Financial Statements (2007)". The revision to IAS 1 requires the Fund to present all unit holders changes and all non-unit holders changes in the Statement of Unit Holders' Funds separately. Where the Fund restates / reclassifies comparative information, they are required to present a restated Statement of Asset and Liabilities as at the beginning of the comparative period. In addition, the standard introduces the Statement of Comprehensive Income: it presents all items of recognized income and expense, either

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

in one single statement (i.e. Statement of Comprehensive Income), or in two linked statements (i.e. Income Statement and Statement of Comprehensive Income). The Fund has elected to present two statements. Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policy only effects presentation / disclosures of financial statements, there is no impact on net income for the year or previous year.

2.3 Other accounting developments

Disclosures pertaining to fair values and liquidity risk of financial instruments

The Fund has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments. Apart from above other standards, amendments to published standards and interpretations of accounting standards became effective during the year, however they did not affect the Fund's financial statements.

2.4 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, 2010 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:

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.

International Accounting Standard (IAS) 24 (Revised): Related Party Disclosures (effective for annual period beginning on or after January 01, 2011). The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party.

Amendments to IAS 32: Classification of Rights Issues (effective for period beginning on or after February 01, 2010). Under the amendment to IAS 32 rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for period beginning on or after July 01, 2010). IFRIC 19 clarifies the accounting when an entity extinguish the liability by issuing its own equity instruments to the creditor.

Amendments to IFRIC 14: Prepayment of a Minimum Funding Requirement (effective for period beginning on or after July 01, 2011). IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.

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

2.5 Basis of measurement

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

2.6 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

2.7 Critical accounting estimates and judgments

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

Investments stated at fair value and derivative financial instruments

The management company has determined fair value of certain investments by using rates notified by Mutual Funds 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 judgements (e.g. valuation, profit rates, etc.) and therefore, cannot be determined with precision.

Other assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented, except for change as disclosed in note 2.2 to the financial statements.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments as '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 as '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 and 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'.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

d) Financial liabilities

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

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

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

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

Basis of valuation of Sukuk Certificates

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

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

Impairment

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

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

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

Derecognition

The Fund derecognizes 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 derecognized when the obligation specified in the contract is discharged, cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.2 Unit holders' Funds

Unit holders' Funds representing the units issued by the Fund, is carried at the net assets value representing the investors' right to a residual interest in the Funds 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 Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in Unit Holders' Funds 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 amortized over a period of five years commencing from the last day of the IPO period as per the Trust Deed of the Fund.

3.6 Provisions

Provisions are recognized 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 realized or unrealized, 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 these will be available for set off against future taxable profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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 realized or unrealized, to its unit holders. Accordingly, no current tax and deferred tax has been recognized in these financial statements.

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on sukuk certificates is recognized on time proportion basis using effective interest rate method.
- Unrealized gains / (losses) arising on valuation of investments classified as financial assets 'at fair value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

All expenses including management fee and trustee fee are recognized 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

		2010	2009
		(Rupees in '000)	
In current accounts		605	703
In deposit accounts	4.1	<u>103,101</u>	<u>264,152</u>
		<u>103,706</u>	<u>264,855</u>

4.1 These deposit accounts carry profit at the rate of 5% to 9.5% per annum (2009: 11% to 16.5% per annum).

5. INCOME RECEIVABLE

Income accrued on bank deposits	3,201	22,131
Income accrued on sukuk certificates	13,009	4,831
Less: Provision for doubtful income receivable	<u>(2,868)</u>	<u>-</u>
	<u>13,342</u>	<u>26,962</u>

6. INVESTMENTS

Available for sale			
- Fixed income and other debt securities	6.2	<u>152,967</u>	<u>248,424</u>

6.1 The cost of the above investments as at June 30, 2010 amounted to Rs. 178.605 million (June 30, 2009: Rs. 266.55 million.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

6.2 Fixed income and other debt securities - available for sale - Sukuk Certificates

Name of the Investee Company	Profit rate %	----Number of certificates----				Market value as at June 30, 2010	Percentage of total investments on the basis market value	
		As at July 01, 2009	Purchases during the year	Sales during the year	As at June 30, 2010			
(Rupees in '000)								
Maple Leaf Cement Factory Limited	6.2.1	13,22	7,400	-	-	7,400	25,889	16.92
Eden Builders Limited	6.2.2	14.55	5,480	5,000	5,000	5,480	24,568	16.06
GOP IJARA	6.2.3	12.79	100	-	-	100	10,162	6.64
Kohat Cement Company Limited	6.2.4	14.12	10,350	-	-	10,350	36,988	24.18
Century Paper & Board Mills Limited	6.2.5	13.77	2,000	-	-	2,000	8,620	5.64
AgriTech Limited (formerly: Pak American Fertilizers Limited)	6.2.6	14.26	10,000	-	-	10,000	46,740	30.56
Pak Electron Limited			18,800	5,000	23,800	-		
							<u>152,967</u>	

6.2.1 This represents sukuk certificates of Maple Leaf Cement Factory Limited (MLCFL). The investment in MLCFL is secured against collaterals.

On December 3, 2009, owing to financial difficulties, no payment was made against the profit amounting to Rs. 2.85 million. However, on March 30, 2010, MLCFL in consultation with sukuk certificate holders, worked out a restructuring plan and issued revised redemption schedule and an amount of Rs. 1.45 million has been received as per the restructuring agreement, against outstanding profit receivable amounting to Rs. 2.85 million up to December 3, 2009, while the remaining, net of certain related expenses, has been adjusted against additional sukuk certificates. As at June 30, 2010, the Fund has recognized a partial provision against the respective investment and has also suspended further accrual of profit thereagainst.

The above provision against said investment and related markup are in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and related SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

6.2.2 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.

6.2.3 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.

6.2.4 These privately placed sukuk certificates will mature on December 20, 2015 and carry mark-up equal to the 3 month KIBOR plus 180 basis points per annum upto December 20, 2011 and thereafter 3 months KIBOR plus 250 basis points per annum upto maturity.

6.2.5 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.

6.2.6 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
6.3 Unrealised appreciation / (diminution) in fair value of investments classified as 'available for sale'		
Fair value of investments	152,967	248,424
Less: Cost of investments	<u>(178,605)</u>	<u>(265,550)</u>
	<u>(25,638)</u>	<u>(18,126)</u>
Unrealised diminution / (appreciation) in fair value of investments classified as 'available for sale' at the beginning of the year	18,126	(1,287)
Provision against non-performing investment	<u>12,483</u>	<u>-</u>
	<u>30,609</u>	<u>(1,287)</u>
	<u>4,971</u>	<u>(19,413)</u>
7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Deposit with Central Depository Company of Pakistan Limited	100	100
Receivable from KASB Liquid Fund	-	2,595
Receivable from KASB Stock Market Fund	-	612
Others	<u>23</u>	<u>-</u>
	<u>123</u>	<u>3,307</u>
8. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs	787	987
Less: Amortization during the year	<u>(200)</u>	<u>(200)</u>
Balance as at June 30	<u>587</u>	<u>787</u>
9. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY		
Management fee payable	9.1	267
Sales load payable	<u>6</u>	<u>91</u>
	<u>273</u>	<u>683</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 year.		
10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
Trustee fee	10.1	58
	<u>58</u>	<u>95</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	275
	<u>275</u>	<u>575</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.		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
12. ACCRUED EXPENSES AND OTHER LIABILITIES		
Auditors' remuneration	336	521
Payable to KASB Cash Fund	720	-
Others	<u>1,635</u>	<u>267</u>
	<u>2,691</u>	<u>788</u>
13. AUDITORS' REMUNERATION		
Audit fee	13.1	316
Other certifications and services	<u>144</u>	<u>421</u>
Out of pocket expenses	<u>68</u>	<u>21</u>
	<u>528</u>	<u>686</u>
13.1 Audit fee includes services for audit of annual financial statements and limited review of condensed interim financial information for the six months period.		
14. PROVISION FOR WORKERS' WELFARE FUND		
In pursuance of the order passed by the Honorable High Court of Sindh against the constitutional petition filed by Mutual Funds Association of Pakistan (MUFAP), the Management Company recorded provision for Workers' Welfare Fund (WWF) for the year ended June 30, 2009 and June 30, 2010 amounting to Rs. 1,146 million and Rs. 0.102 million respectively in these financial statements. However, subsequent to the year end, Ministry of Labor has issued certain clarifications regarding applicability of WWF on mutual funds and the matter is currently under review and discussion.		
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 BROUGHT FORWARD / CARRIED FORWARD		
As per Schedule V to the NBFC Regulations 2008, undistributed income brought forward / carried forward needs to be bifurcated in to realised and unrealised gains. However, it has not been bifurcated as it is impracticable to do so.		
17. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS		
Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company, KASB Securities Limited, KASB Modaraba and New Horizon Exploration and Production Limited being the companies under common management, Central Depository Company of Pakistan Limited being the Trustee, other Funds managed by the management company (including KASB Stock Market Fund, KASB Balanced Fund, KASB Liquid Fund, KASB Cash Fund and KASB Capital Protected Gold Fund) and directors, key management personnel and officers of the Management Company.		
Transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.		
Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations, 2008 and the Trust Deed respectively.		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

17.1 Transactions	2010	2009
	(Rupees in '000)	
KASB Funds Limited		
Remuneration expense 9.1	4,577	8,209
Sales lead	667	91
KASB Bank Limited		
Bank charges	8	7
Conversion out of the Fund: 501,693 units (2009: Nil units)	50,000	-
Redemption from the Fund: 505,497 units (2009: Nil units)	50,000	1,923
Bonus Units: Nil units (2009: 409 units)	-	41
Transfer in the Fund: Nil units (2009: 44,265 units)	-	1,923
Dividend paid	11,296	11,098
KASB Capital Limited		
Transfer in the Fund: Nil units (2009: 23,090 units)	-	2,106
Bonus Units: Nil units (2009: 456 units)	-	46
Transfer out of the Fund: Nil units (2009: 23,546 units)	-	2,393
KASB Modaraba		
Transfer in the Fund: Nil units (2009: 19,828 units)	-	1,812
Redemption from the Fund: Nil units (2009: 19,828 units)	-	1,883
KASB Securities Limited - Brokerage house		
Brokerage expense 17.3	57	125
KASB Liquid Fund		
Purchase of sukuk certificates: Nil certificates (2009: 14,750 certificates)	-	75,548
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	829	1,313
CDS charges	7	7
Directors and Officers of the Management Company		
Investment in the Fund: 12,077 units (2009: 393,989 units)	1,214	40,090
Redemption from the Fund: 108,564 units (2009: 335,846 units)	10,846	31,702
Conversion in the Fund: 319,344 units (2009: 130,761 units)	31,996	13,193
Conversion out of the Fund: 177,695 units (2009: 78,753 units)	17,772	8,037
Bonus units issued: 8,628 units (2009: 4,426 units)	850	447
Transfer in the Fund: 114 units (2009: 2,161 units)	11	220
Transfer out of the Fund: 38 units (2009: 2,470 units)	4	249

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

17.2 Balances	2010	2009
	(Rupees in '000)	
KASB Funds Limited		
Payable to the Management Company	273	683
KASB Bank Limited		
Units held: 1,037,084 (2009: 22,044,275 units)	103,006	209,093
Central Depository Company of Pakistan Limited - Trustee		
Payable to the Trustee	58	95
Security deposit	100	100
Directors & Officers of the Management Company		
Units held: 5,012 units (2009: 116,588 units)	498	11,925
KASB Liquid Fund		
Receivable from KASB Liquid Fund	-	2,595
KASB Stock Market Fund		
Receivable from KASB Stock Market Fund	-	612
17.3 The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as ultimate counter-parties are not connected persons.		
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 analyze the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.		
The Fund's activities expose it to a variety of financial risks such as:		
- Market risk;		
- Credit risk; and		
- Liquidity risk.		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Market risk

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

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

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

Currency risk

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

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, 2010, the investment in Sukuk Certificates exposed to cash flow profit rate risk is detailed in Note 6.2. Cash and cash equivalents comprising deposits with Islamic Banks measured at cost do not expose the Fund to fair value yield / profit rate risk.

Sensitivity analysis for variable rate instruments

In case 100 basis points increase / decrease in KIBOR on June 30, 2010 with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs 0.281 million (2009: 0.305 million) with consequential effect on net income for the year. This arises substantially from the increase / decrease in mark-up 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 change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the effect on the Fund's net assets and income statement of future movements in profit rates.

Yield / profit rate sensitivity position for financial instruments reported on statement of assets and liabilities is based on the earlier of contractual repricing or maturity date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	June 30, 2010			Not exposed to MROR Risk	Total
		Exposed to MROR Risk				
		Up to three months	More than three months and up to one year	More than one year		
----- (Rupees in '000) -----						
Financial assets						
Bank balances	5 - 9.5	103,706	-	-	-	103,706
Investments	12.79 - 14.55	152,967	-	-	-	152,967
Income receivable		-	-	-	13,342	13,342
Deposits, prepayments and other receivables		-	-	-	123	123
		<u>256,673</u>	<u>-</u>	<u>-</u>	<u>13,465</u>	<u>270,138</u>
Financial liabilities						
Payable on redemption of units		-	-	-	42	42
Payable to KASB Funds Limited - Management Company		-	-	-	273	273
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	58	58
Accrued expenses and other liabilities		-	-	-	1,443	1,443
		-	-	-	1,816	1,816
On-balance sheet gap 2010		<u>256,673</u>	<u>-</u>	<u>-</u>	<u>11,649</u>	<u>268,322</u>

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	June 30, 2009			Not exposed to MROR Risk	Total
		Exposed to MROR Risk				
		Up to three months	More than three months and up to one year	More than one year		
----- (Rupees in '000) -----						
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 receivable		-	-	-	3,307	3,307
		<u>442,482</u>	<u>70,797</u>	<u>-</u>	<u>30,269</u>	<u>543,548</u>
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		<u>442,482</u>	<u>70,797</u>	<u>-</u>	<u>28,675</u>	<u>541,954</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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, 2010.

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 fulfill their obligation resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

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

Credit risk management

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

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

	2010	2009
	(Rupees in '000)	
Bank balances	103,706	264,855
Investments in fixed income and other debt securities	152,967	248,424
Income receivable	13,342	26,962
Deposits, prepayments and other receivables	123	3,307
	<u>270,138</u>	<u>543,548</u>

None of the above financial assets were considered to be past due or impaired in 2010 and 2009 except for exposures as provided in note 6.2.1, against which the Fund has recognized provision in accordance with Circular 1 of 2009 issued by SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated except stated otherwise.

Settlement risk

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

Bank balances

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

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognized as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. Investment in GOP Ijarah sukuk do not expose the Fund to credit risk as the counter party to the investment is the Government.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

The analysis below summarizes the credit quality of the Fund's investment in sukuk certificates as at June 30:

Debt Securities by rating category	2010	2009
	(%)	(%)
Government Guaranteed	6.53	-
A-	-	13.97
A+	6.16	35.90
AA-	-	22.89
A	16.84	11.51
BBB-	-	15.73
Non-rated	23.78	-
Below Investment Grade	46.69	-

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counter parties 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 its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by the Securities and Exchange Commission of Pakistan (SECP).

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

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with the condition to repay the amount with in 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

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

	June 30, 2010			Total
	Up to three months	More than three months and up to one year	More than one year	
	------(Rupees in '000)-----			
Payable on redemption of units	42	-	-	42
Payable to KASB Funds Limited - Management Company	273	-	-	273
Payable to Central Depository Company of Pakistan Limited - Trustee	58	-	-	58
Accrued expenses and other liabilities	1,443	-	-	1,443
	<u>1,816</u>	<u>-</u>	<u>-</u>	<u>1,816</u>

	June 30, 2009			Total
	Up to three months	More than three months and up to 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
Accrued expenses and other liabilities	788	-	-	788
	<u>1,594</u>	<u>-</u>	<u>-</u>	<u>1,594</u>

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

Unit Holders' Funds risk management

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

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

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

Investment in debt securities as disclosed in note 6 to the financial statements, are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009 and Circular 3 of 2010. Therefore the fair value of debt securities are included within Level 3 of the fair value hierarchy as the inputs used for the valuation are not based on observable market data.

20. PATTERN OF UNIT HOLDING

Category	Number of unit holders		Investment amount		Percentage of total investment	
	2010	2009	2010	2009	2010	2009
	(Numbers)		---(Rupees in '000)---		(%)	
Individuals	143	318	32,387	202,836	12.11	37.41
Associated companies & Directors	2	3	103,006	212,428	38.52	39.18
Banks / Financial Institutions	1	1	99,322	102,282	37.15	18.87
Insurance Companies	2	1	1,080	2,097	0.40	0.39
Non-Banking Finance Companies	-	1	-	62	-	0.01
Retirement Funds	3	4	843	7,232	0.32	1.33
Others	2	3	30,748	15,229	11.50	2.81
Total	<u>153</u>	<u>331</u>	<u>267,386</u>	<u>542,166</u>	<u>100.00</u>	<u>100.00</u>

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

Broker Name	2010 (Percentage)	Broker Name	2009 (Percentage)
KASB Securities Limited	97.71	JS Global Capital Limited	29.98
IGI Finex Securities Limited	2.29	KASB Securities Limited	24.81
		Alfalah Securities (Private) Limited	23.92
		Atlas Capital Market (Private) Limited	9.43
		BMA Capital Management Limited	4.96
		Live Securities (Private) Limited	4.92
		Global Securities Pakistan Limited	1.98

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

Name of the Person	Designation	Meetings	
		Attended	Leave Granted
Mr. Robert John Richard Owen	Chairman	8	-
Mr. Amir Zahooh Khan	Director	5	-
Mr. Farid Arshad Masood	Director	7	1
Ms. Naz Khan	Chief Executive & Director	8	-
Mr. Syed Muhammad Rehmanullah	Director	8	-
Mr. Muhammad Imran Khalil	Chief Financial Officer & Company Secretary	8	-
Mr. Irfan Saleem Awan	Company Secretary	3	-
Mr. Mirza Mahmood-ul-Hassan	Company Secretary	4	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

*Mr. Amir Zahoor Khan resigned from the Board in the meeting held on February 12, 2010 and Mr. Muzaffar Ali Shah Bukhari was appointed Director after SECP granted approval on March 5, 2010.

**Mr. Faisal Anshad Masood resigned from the Board on February 19, 2010.

***Mr. Irfan Saleem Awan resigned on October 1, 2009.

****Mr. Mirza Mahmood-ul-Hasan resigned on June 10, 2010 and Mr. Muhammad Imran Khalil was appointed as Company Secretary on June 11, 2010 at his place.

Dates of the meetings of the Board of Directors

Thirty-second meeting	July 4, 2009
Thirty-third meeting	July 21, 2009
Thirty-fourth meeting	August 25, 2009
Thirty-fifth meeting	October 23, 2009
Thirty-sixth meeting	November 20, 2009
Thirty-seventh meeting	February 12, 2010
Thirty-eighth meeting	February 19, 2010
Thirty-ninth meeting	April 22, 2010

23. DETAILS OF MEMBERS OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	B.A (U.S.A)	17
Muhammad Faisal Potrik	Chief Investment Officer	MBA	10
Mir Taimur Ali	Fund Manager	CFA , ACCA	07
Muhammad Kashif Masood	Representative of Risk Management & Compliance	M Sc.(Economics)	03

23.1 Details of other funds managed by the Fund Manager

KASB Liquid Fund and KASB Cash Fund under the management of KASB Funds Limited.

24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 27, 2010 by the Board of Directors of the Management Company.

For KASB Funds Limited
(Management Company)

Chief Executive

Director