

# **KASB STOCK** **MARKET FUND**

Annual  
Report **2007**

Managed by:

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**FUND'S INFORMATION****Management Company**

KASB Funds Limited

**Registered Office:**

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

**Principal Office :**

11th Floor, Trade Centre, I.I. Chundrigar Road, Karachi-74200, Pakistan.

UAN: (92-21) 111 535 535

Fax: (92-21) 263 9188

URL: www.kasbfunds.com

**Board of Directors of KASB Funds Limited**

Mr. Robert Owen

Chairman

Ms. Naz Khan

Director &amp; Chief Executive

Mr. Muneer Kamal

Director

Mr. Farid Arshad Masood

Director

Syed Muhammad Rehmanullah

Director

**Chief Financial Officer**

Mr. Muhammad Imran Khalil

**Company Secretary**

Mr. Irfan Saleem

**Audit Committee**

Mr. Muneer Kamal

Chairman

Mr. Robert Owen

Member

Mr. Farid Arshad Masood

Member

**Trustee**

Central Depository Company of Pakistan Limited

CDC House, 99-B, Block "B"

SMCHS, Main Shahrah-e-Faisal, Karachi.

**Bankers to the Fund**

KASB Bank Limited

**Auditors**

KPMG Taseer Hadi &amp; Co. - Chartered Accountants

First Floor, Shiekh Sultan Trust Building No.2,

Beaumont Road, P.O.Box 8517, Karachi.

**Legal Advisor**

Bawaney &amp; Partners

Room No. 404, 4th Floor, Beaumont Plaza, 6-cl-10,

Beaumont Road, Civil Lines, Karachi-75530.

**Registrar**

Noble Computer Services (Pvt.) Limited

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

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

**Distributors**

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Atlas Capital Markets (Private) Limited

**Management Company Rating "AM3+" by PACRA**

## **MISSION STATEMENT**

*KASB Stock Market Fund seeks to generate long-term capital appreciation and income from a portfolio that is substantially constituted of equity and equity related securities*

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR KASB STOCK MARKET FUND

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Stock Market Fund (KSMF, the Fund), is pleased to present the first Annual Report, together with the audited financial statements of the Fund for the period from March 1, 2007 to June 30, 2007.

### Financial Highlights

	<b>For the period from March 1, 2007 to June 30, 2007</b>
Net Income (Rs. in Million)	38.28
Net Assets as at June 30 (Rs. in Million)	411.60
NAV per Unit as on June 30, 2007 (Rs.)*	59.64
Yield for the period	19.28%

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

### Capital Market

In FY07, market capitalization of the Karachi Stock Exchange increased by 43% on year on year basis to close at Rs. 4,019 billion while the KSE-100 Index touched its peak of 13,772 during the year. One of the major positives for the year was the record portfolio investments in FY07 where a net inflow in Special Convertible Rupee Account was recorded at USD 978 million.

The outgoing fiscal year witnessed concerted foreign interest in Pakistan's stock market due to attractive relative valuations and as a result of better coverage of the market by foreign brokers. The current year also witnessed merger and acquisition activity, which provided support to stock market valuations. Key transactions that took place during the year were; 1) Acquisition of Union Bank by Standard Chartered Bank; 2) Acquisition of Prime Bank by ABN AMRO ; 3) Acquisition of PICIC by Temasek of Singapore and 4) Acquisition of Paktel by China Mobile.

### Income and Return of the Fund

The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 59.64. The net income before distribution for the period from March 21, 2007 to June 30, 2007 was Rs. 38.28 million.

### Income Distribution

The Board of Directors of KASB Funds Limited approved the distribution of bonus units of Rs.4.87 per unit to the unit holders of the Fund for the period from March 1, 2007 to June 30, 2007 which translates into a distribution of 99% of realised income to the unit holders of KASB Stock Market Fund. As the Fund has distributed more than 90% of the accounting income among the unit holders, its income will not be subject to income tax under clause 99 of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001.

### Investment Strategy

KSMF seeks to generate long term capital appreciation and income, from portfolio that is substantially constituted of equity and equity related securities. The fund aims to maximize total returns and outperform the benchmark.

The funds strategy has been to be exposed to first tier liquid scrips. Along with that the focus has been on under-valued stocks i.e. stocks that are expected to offer growth and those which offer a high dividend yield potential.

### **Fund Performance**

KASB Stock Market Fund has managed to earn a return of 19.28% for FY07 since the fund's inception (March 26, 2007) as against a return of 20.5% of the KSE 30 Index and 21.9% for the KSE-100 index in the same period.

### **Sale and redemption of units**

KSMF was publicly launched on March 21-22, 2007 with a fund size of Rs. 260 million which increased by 58.31% in less than 4 months to close at Rs. 411.60 million on June 30, 2007. During the period, units worth Rs.474.74 million were issued and units with a value of Rs.135.32 million were redeemed. As on June 30, 2007, the total number of outstanding units was 6,901,959 with a value of Rs. 411.60 million.

### **Compliance with the Code of Corporate Governance**

The Fund was listed on the Karachi Stock Exchange on April 16, 2007. The Board of Directors state that:

- a. Financial statements, prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund;
- b. Proper books of account of the Fund have been maintained;
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and account estimates are based on reasonable and prudent judgment;
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements;
- e. The system of internal control is sound in design and has been effectively implemented and monitored;
- f. There is no significant doubt upon the Fund's ability to continue as going concern;
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations;
- h. Key financial data is summarized in note 24 of the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- j. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company; and
- k. The detailed pattern of unit holding, as required by the Code of Corporate Governance is enclosed.

### Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors from July 1, 2006 to June 30, 2007 is as under:

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

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

S. No.	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Mr. Farid Arshad Masood	Director	3,000	-
2.	Ms. Naz Khan	Director & Chief Executive	9,393	-

### Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2007, banks and financial institutions held 85.28% out of the total units; individuals 3.56% units; insurance companies, retirement funds and other corporate sector entities held 11.16% of the total units. Detailed pattern is also annexed.

### Market Outlook

Current market valuations remain one of the cheapest in the region. As political uncertainties in the current environment become clearer, the market is expected to respond accordingly as its impact is assessed.

### 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 Stock Market Fund for the financial year ending June 30, 2008. The Board has approved the appointment.

### Acknowledgement

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

For and on behalf of the Board

August 30, 2007  
Karachi

**Naz Khan**  
Chief Executive

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

	<b>Units Held</b>	<b>Units Held (%)</b>
<b>Associated companies</b>		
KASB Bank Limited	2,205,967	31.96
KASB Securities Limited	1,804,882	26.15
<b>Directors and Chief Executive</b>		
Chief Executive		
Ms. Naz Khan	9,393	0.14
Director		
Mr. Farid Arshad Masood	3,000	0.04
<b>Banks and Financial Institutions</b>	1,874,824	27.16
<b>Individuals</b>	233,588	3.38
<b>Retirement Funds</b>	701,899	10.17
<b>Insurance Companies</b>	20,064	0.29
<b>Other Corporate Sector Entities</b>	48,342	0.70
<b>TOTAL</b>	<b>6,901,959</b>	<b>100.00</b>



**REPORT OF THE TRUSTEE  
KASB STOCK MARKET FUND**

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

The KASB Stock Market Fund, an Open-ended Scheme established under a trust deed executed between KASB Funds Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on January 09, 2007. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on February 23, 2007.

In our opinion, KASB Funds Limited, the Management Company of KASB Stock Market Fund has in all material respects managed KASB Stock Market Fund during the period from March 01, 2007 to June 30, 2007 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

September 12, 2007  
Karachi

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

**STATEMENT OF COMPLIANCE WITH THE  
CODE OF CORPORATE GOVERNANCE  
FOR THE PERIOD FROM MARCH 1, 2007 TO JUNE 30, 2007**

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

1. The Company encourages representation of independent non-executive directors. All the directors except the Chief Executive Officer (CEO) of the Company are non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During this period, a casual vacancy occurred in the Board which has been filled by the appointment of Syed Muhammad Rehmanullah within 30 days of the casual vacancy. As this appointment is subject to the approval of the Securities and Exchange Commission of Pakistan ("Commission"), the Company has applied to the Commission for seeking approval in accordance with the NBFC Rules (Establishment and Regulation) 2003.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and has also been signed by the Board of Directors and employees of the Company.
6. The Company has developed a mission statement and significant policies for the Fund that has been approved by the Board of Directors of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board will arrange an orientation course for its existing and new director(s) to apprise them of their duties and responsibilities. This shall also serve as an update for those directors who have participated in the previous orientation course held by the Company.
10. The roles and responsibilities of the Chairman and CEO have been approved by the Board of Directors. The Board has approved appointment and terms of employment of CFO and Company Secretary of the Company.
11. The Directors' report for the period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
13. The financial statements of the Fund were duly endorsed by CEO and CFO of the Company before approval of the Board.
14. The Company has complied with all the significant corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and annual financial statements of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for its compliance.
17. The Company has outsourced the internal audit function of the Fund to a firm of Chartered Accountants which is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 30, 2007  
Karachi

**Naz Khan**  
Chief Executive

**REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE  
WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

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

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

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

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

August 30, 2007  
Karachi

**KPMG Taseer Hadi & Co.**  
Chartered Accountants

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of KASB Stock Market Fund, which comprise the statement of assets and liabilities as at 30 June 2007, and the income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from 1 March 2007 to 30 June 2007, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2007, and of its financial performance, cash flows and transactions for the period from 1 March 2007 to 30 June 2007 in accordance with approved accounting standards as applicable in Pakistan.

### Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and NBFC Rules.

August 30, 2007  
Karachi

**KPMG Taseer Hadi & Co.**  
Chartered Accountants

**STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2007**

	Note	2007 (Rupees in '000)
<b>Assets</b>		
Bank balances	5	15,678
Receivable against sale of investments		36,511
Investments	6	385,431
Dividend and profit receivable	7	1,503
Deposits	8	1,100
Preliminary expenses and floatation costs	9	2,457
<b>Total assets</b>		<b>442,680</b>
<b>Liabilities</b>		
Payable against purchase of investments		26,088
Payable to KASB Funds Limited - Management Company	10	4,554
Payable to Central Depository Company of Pakistan Limited - Trustee	11	78
Accrued expenses and other liabilities	12	357
<b>Total liabilities</b>		<b>31,077</b>
<b>Net assets</b>		<b>411,603</b>
<b>Unit holders' funds (as per statement attached)</b>		<b>411,603</b>
		<b>(Number of units)</b>
<b>Number of units in issue</b>		<b>6,901,959</b>
		<b>(Rupees)</b>
<b>Net asset value per unit</b>		<b>59.64</b>

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

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

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

\_\_\_\_\_  
Director

**INCOME STATEMENT**  
**FOR THE PERIOD FROM MARCH 1, 2007 TO JUNE 30, 2007**

	Note	From March 1, 2007 to June 30, 2007 (Rupees in '000)
<b>Income</b>		
Capital gain on sale of investments		41,017
Dividend income		1,342
Profit on bank deposits		2,129
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' - 'held for trading'	6.3	1,083
<b>Total income</b>		45,571
<b>Expenses</b>		
Remuneration of KASB Funds Limited - Management Company	10.1	3,340
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11.1	224
Annual fee - the Securities and Exchange Commission of Pakistan	13	111
Transaction costs on securities		730
Settlement and bank charges		30
Legal and professional charges		35
Fees and subscription		35
Printing expense		19
Auditors' remuneration	14	210
Amortisation of preliminary expenses and floatation costs		143
<b>Total expenses</b>		4,877
		40,694
Realised element of income and capital gains included in prices of units issued less those in units redeemed		(2,411)
<b>Net income for the period</b>		38,283
<b>Earning Per Unit</b>	15	

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

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

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

\_\_\_\_\_  
**Director**

**DISTRIBUTION STATEMENT  
FOR THE PERIOD FROM MARCH 1, 2007 TO JUNE 30, 2007**

	Note	From March 1, 2007 to June 30, 2007 (Rupees in '000)
Net income for the period		38,283
Unrealised element of income and capital gains included in prices of units issued less those in units redeemed		(3,264)
Undistributed income carried forward		<u>35,019</u>

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

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

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

\_\_\_\_\_  
**Director**



**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS  
FOR THE PERIOD FROM MARCH 1, 2007 TO JUNE 30, 2007**

	Note	From March 1, 2007 to June 30, 2007 (Rupees in '000)
Issue of 9,241,171 units		474,739
Redemption of 2,339,212 units		<u>(135,316)</u>
		339,423
Element of income and capital gains included in prices of units issued less those in units redeemed		
- amount representing accrued income and realised capital gains - transferred to the Income Statement		2,411
- amount representing unrealised appreciation in fair value of investments - transferred directly to Distribution Statement		3,264
		5,675
Net unrealised appreciation in fair value of investments classified as available for sale during the period	6.4	31,486
Net income available for distribution (excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' - 'held for trading')		33,936
Net unrealised appreciation in fair value of investments 'at fair value through profit or loss' - 'held for trading'		1,083
Net income available for distribution (Including unrealised element of income and capital gains included in prices of units issued less those in units redeemed)		35,019
Net assets as at the end of the period		<u><u>411,603</u></u>

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

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

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

\_\_\_\_\_  
Director

**CASH FLOW STATEMENT**  
**FOR THE PERIOD FROM MARCH 1, 2007 TO JUNE 30, 2007**

	Note	From March 1, 2007 to June 30, 2007 (Rupees in '000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period		38,283
Adjustments for:		
Dividend income		(1,342)
Profit on bank deposits		(2,129)
Net unrealised appreciation in fair value of investments classified as at fair value through profit or loss' - 'held for trading'		(1,083)
Amortisation of preliminary expenses and floatation costs		143
Realised element of income and capital gains included in prices of units issued less those in units redeemed		2,411
Profit before working capital changes		36,283
<b>Increase in assets</b>		
Receivable against sale of investments		(36,511)
Investments		(352,862)
Deposits		(1,100)
Preliminary expenses and floatation costs		(2,600)
		(393,073)
<b>Increase in liabilities</b>		
Payable against purchase of investments		26,088
Payable to KASB Funds Limited - Management Company		4,554
Payable to Central Depository Company of Pakistan Limited - Trustee		78
Accrued expenses and other liabilities		357
		31,077
Cash used in operations		(325,713)
Dividend received		148
Profit on bank deposits received		1,820
<b>Net cash outflow from operating activities</b>		(323,745)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net receipts from sale and redemption of units		339,423
Net increase in cash and cash equivalents during the period		15,678
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents at end of the period		15,678

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

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

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

\_\_\_\_\_  
**Director**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM MARCH 1, 2007 TO JUNE 30, 2007**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

KASB Stock Market Fund ("KSMF", the "Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on January 9, 2007 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on February 23, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

KSMF is an open-ended mutual fund and is listed on the Karachi Stock Exchange (Guarantee) Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder, except for the units issued to core investors which are not redeemable for a period of two years from the date of issue.

KSMF seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities. The Fund may also invest a certain portion of its corpus in debt and money market securities in order to meet liquidity requirements from time to time.

**2. STATEMENT OF COMPLIANCE**

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

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

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

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

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

### **3. BASIS OF PREPARATION**

#### **3.1 Measurement**

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

#### **3.2 Use of estimates and judgments**

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

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

In particular, information about significant areas of estimation uncertainty and critical judgment in applying the accounting policies that have most significant effect on the amount recognised in the financial statements are described in note 22.

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 Investments**

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

The Fund classifies its investments in the following categories:

##### *Financial assets at fair value through profit or loss*

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

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

After initial recognition, the above investments are remeasured at fair value determined with reference to the rates prevailing in the stock exchange, where applicable. Gains or losses on investments on remeasurement of these investments are recognised in income statement.

#### *Held to maturity*

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

#### *Available for sale*

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

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

The Fund follows trade date accounting for purchase and sale of investments.

## **4.2 Derivatives**

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

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

## **4.3 Securities under repurchase / resale agreements (including balance receivable against Continuous Funding System arrangement)**

Transactions of purchase under resale (reverse-repo) of marketable and government securities, including the securities purchased under continuous funding system, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repos) are not recognised in the statement of assets and liabilities.

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

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

All reverse repurchase / continuous funding system transactions are recorded using settlement date accounting.

#### **4.4 Issue and redemption of units**

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

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

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

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

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

#### **4.6 Net asset value - per unit**

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

#### **4.7 Taxation**

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

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

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

#### **4.8 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised capital gains / (losses) arising on the revaluation of investments classified as 'financial assets at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Income on reverse repurchase transactions, continuous funding system transactions and bank deposits is recognised on a time proportionate basis.

- Income on debt securities is recognised on time proportion basis using effective interest rate method.
- Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the Income Statement.
- Dividend income is recognised when the right to receive the dividend is established.

#### **4.9 Expenses**

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

#### **4.10 Impairment**

The carrying amount of the Fund's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceed its recoverable amount. Impairment losses are recognised in the Income Statement.

#### **4.11 Provisions**

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

#### **4.12 Preliminary expenses and floatation costs**

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

#### **4.13 Financial instruments**

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

#### **4.14 Offsetting of financial instruments**

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

#### **4.15 Cash and cash equivalents**

Cash and cash equivalents comprise of bank balances.

#### **4.16 Other assets**

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

#### **4.17 Dividend and bonus units**

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



**5. BANK BALANCES**
**2007**  
**(Rupees in '000)**

In current accounts		5
In deposit accounts	5.1	15,673
		<u>15,678</u>

**5.1** Profit rates on deposit accounts range between 9.75% to 10.25% per annum.

**6. INVESTMENTS**

Marketable securities - 'at fair value through profit or loss' - 'held for trading'	6.1	52,939
Marketable securities - 'available for sale'	6.2	332,492
		<u>385,431</u>

**6.1 Marketable securities - 'at fair value through profit or loss' - 'held for trading'**

Name of the investee company	----- Number shares / certificates -----					Market value value as at June 30, 2007	Percentage of net assets on the basis of market value
	As at March 1, 2007	Purchases during the period	Bonus issue during the period	Sales during the period	As at June 30, 2007		

Shares / certificates of listed companies / mutual funds

(Rupees in '000)

- Fully paid ordinary shares / certificates of Rs. 10/- each unless stated otherwise

**Commercial Banks**

Allied Bank Limited	-	112,600	-	84,100	28,500	3,960	0.96
Askari Bank Limited	-	137,500	-	100,000	37,500	3,936	0.96
The Bank of Punjab	-	55,000	-	55,000	-	-	-
MCB Bank Limited	-	2,000	-	-	2,000	730	0.18
National Bank of Pakistan	-	22,000	-	13,000	9,000	2,358	0.57
PICIC Commercial Bank Limited	-	18,500	-	18,500	-	-	-
United Bank Limited	-	4,500	-	4,500	-	-	-

**Oil & Gas Exploration Companies**

Oil & Gas Development Company Limited	-	119,600	-	70,500	49,100	5,882	1.43
Pakistan Oilfields Limited	-	19,200	-	19,200	-	-	-
Pakistan Petroleum Limited	-	38,400	-	25,100	13,300	3,491	0.85

**Oil & Gas Marketing Companies**

Attock Petroleum Limited	-	15,200	-	6,300	8,900	4,462	1.08
Pakistan State Oil Company Limited	-	14,500	-	14,500	-	-	-
Sui Southern Gas Company Limited	-	110,000	-	110,000	-	-	-

**Investment Banks/Companies/Securities**

P.I.C.I.C.	-	30,000	-	30,000	-	-	-
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**Power Generation and Distribution**

Hub Power Company Limited	-	91,000	-	56,000	35,000	1,285	0.31
Kot Addu Power Company Limited	-	3,000	-	3,000	-	-	-

**Cement**

D.G. Khan Cement Company Limited	-	61,500	-	55,000	6,500	757	0.18
Lucky Cement Limited	-	128,500	-	95,500	33,000	4,546	1.10
Pioneer Cement Limited	-	85,000	-	20,000	65,000	2,431	0.59



Name of the investee company	----- Number of shares / certificates -----					Market value value as at June 30, 2007	Percentage of net assets on the basis of market value
	As at March 1, 2007	Purchases during the period	Bonus issue during the period	Sales during the period	As at June 30, 2007		
(Rupees in '000)							
<b>Textile Composite</b>							
Nishat Mills Limited	-	44,000	-	44,000	-	-	-
<b>Insurance</b>							
Adamjee Insurance Company Limited	-	18,500	-	2,500	16,000	5,215	1.27
EFU General Insurance Limited	-	5,000	-	5,000	-	-	-
<b>Paper &amp; Board</b>							
Packages Limited	-	5,000	-	2,000	3,000	957	0.23
<b>Refinery</b>							
National Refinery Limited	-	10,400	-	10,400	-	-	-
<b>Technology &amp; Communication</b>							
Pakistan Telecommunication Company Limited 'A'	-	57,000	-	30,000	27,000	1,539	0.37
Telecard Limited	-	64,000	-	64,000	-	-	-
<b>Fertilizer</b>							
Engro Chemical Pakistan Limited	-	42,600	-	26,100	16,500	4,175	1.01
Engro Chemical Pakistan Limited - Letter of right	-	3,450	-	-	3,450	442	0.11
Fauji Fertilizer Company Limited	-	1,300	-	-	1,300	158	0.04
Fauji Fertilizer Bin Qasim Limited	-	26,500	-	26,500	-	-	-
<b>Automobile Assembler</b>							
Indus Motor Company Limited	-	1,500	-	1,500	-	-	-
Pak Suzuki Motor Company Limited	-	4,000	-	1,000	3,000	1,176	0.29
<b>Chemicals</b>							
ICI Pakistan Limited	-	12,300	-	8,900	3,400	568	0.14
Sitara Chemical Industries Limited	-	82,600	-	52,000	30,600	4,871	1.18
<b>Closed End Mutual Fund</b>							
PICIC Growth Fund	-	94,500	-	94,500	-	-	-
						<u>52,939</u>	

**6.2 Marketable securities - 'available for sale'**

Name of the investee company	----- Number of shares / certificates -----					Market value value as at June 30, 2007	Percentage of net assets on the basis of market value
	As at March 1, 2007	Purchases during the period	Bonus issue during the period	Sales during the period	As at June 30, 2007		

Shares / certificates of listed companies / mutual funds

(Rupees in '000)

- Fully paid ordinary shares / certificates of Rs. 10/- each unless stated otherwise

**Commercial Banks**

Allied Bank Limited	-	97,900	-	18,500	79,400	11,033	2.68
Askari Bank Limited	-	88,500	-	88,500	-	-	-
Bank Alfalah Limited	-	195,000	-	125,000	70,000	4,557	1.11
The Bank of Punjab	-	407,500	-	407,500	-	-	-
Faysal Bank Limited	-	18,000	-	-	18,000	1,332	0.32
Habib Metropolitan Bank Limited	-	5,300	-	5,300	-	-	-
MCB Bank Limited	-	76,500	-	17,000	59,500	21,718	5.28
Meezan Bank Limited	-	190,500	-	190,500	-	-	-
National Bank of Pakistan	-	150,500	-	50,500	100,000	26,200	6.37
PICIC Commercial Bank Limited	-	43,500	-	43,500	-	-	-
Soneri Bank Limited	-	105,500	-	105,500	-	-	-
Standard Chartered Bank (Pakistan) Limited	-	5,000	-	5,000	-	-	-
United Bank Limited	-	142,500	-	60,700	81,800	17,992	4.37

**Oil & Gas Exploration Companies**

Oil & Gas Development Company Limited	-	572,000	-	112,000	460,000	55,108	13.39
Pakistan Oilfields Limited	-	73,000	-	47,600	25,400	8,052	1.96
Pakistan Petroleum Limited	-	134,500	-	50,900	83,600	21,941	5.33

**Oil & Gas Marketing Companies**

Attock Petroleum Limited	-	33,600	-	7,000	26,600	13,336	3.24
Pakistan State Oil Company Limited	-	33,500	-	17,000	16,500	6,459	1.57

**Power Generation and Distribution**

Hub Power Company Limited	-	700,000	-	224,000	476,000	17,469	4.24
Kohinoor Energy Limited	-	63,500	-	63,500	-	-	-
Kot Addu Power Company Limited	-	97,000	-	97,000	-	-	-

**Cement**

Fauji Cement Company Limited	-	50,000	-	50,000	-	-	-
D.G. Khan Cement Company Limited	-	280,500	-	251,000	29,500	3,437	0.84
Lucky Cement Limited	-	360,000	-	334,200	25,800	3,554	0.86

**Technology & Communication**

Pakistan Telecommunication Company Limited	-	550,000	-	173,500	376,500	21,461	5.21
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**Fertilizer**

Engro Chemical Pakistan Limited	-	65,000	-	54,600	10,400	2,631	0.64
Fauji Fertilizer Company Limited	-	165,000	-	80,500	84,500	10,246	2.49
Fauji Fertilizer Bin Qasim Limited	-	625,000	-	290,000	335,000	13,065	3.17

**Automobile Assembler**

Indus Motor Company Limited	-	68,700	-	25,100	43,600	13,320	3.24
Pak Suzuki Motor Company Limited	-	30,500	7,700	5,000	33,200	13,014	3.16

**Chemicals**

ICI Pakistan Limited	-	65,200	-	47,300	17,900	2,991	0.73
Sitara Chemical Industries Limited	-	103,100	-	18,600	84,500	13,457	3.27

Name of the investee company	----- Number of shares / certificates -----					Market value value as at June 30, 2007	Percentage of net assets on the basis of market value
	As at March 1, 2007	Purchases during the period	Bonus issue during the period	Sales during the period	As at June 30, 2007		
(Rupees in '000)							
<b>Insurance</b>							
Adamjee Insurance Company Limited	-	137,500	-	115,100	22,400	7,301	1.77
EFU General Insurance Limited	-	50,700	-	50,700	-	-	-
<b>Paper &amp; Board</b>							
Packages Limited	-	22,200	-	-	22,200	7,083	1.72
<b>Textile Composite</b>							
Nishat Mills Limited	-	198,100	-	145,000	53,100	6,927	1.68
<b>Tobacco</b>							
Pakistan Tobacco Company Limited	-	400	-	400	-	-	-
<b>Refinery</b>							
National Refinery Limited	-	70,000	-	70,000	-	-	-
<b>Food &amp; Personal Care Product</b>							
Nestle Pakistan Limited	-	500	-	500	-	-	-
Unilever Pakistan Limited (Rs. 50/- each)	-	1,340	-	360	980	2,190	0.53
<b>Investment Banks/Companies/Securities</b>							
Arif Habib Securities Limited	-	25,000	-	-	25,000	2,915	0.71
P.I.C.I.C.	-	151,000	-	151,000	-	-	-
<b>Synthetic &amp; Rayon</b>							
Ibrahim Fibres Limited	-	88,500	-	23,500	65,000	3,703	0.90
						332,492	

**6.2.1** As per clause 2.5.17, of the offering document of the Fund, as approved by the SECP, the investment of the Fund in any company shall not, at any time, exceed an amount equal to ten percent of the total net assets of the Fund at the time of investment or weight of that company in KSE 100 index, whichever is higher.

**6.3 Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' - 'held for trading'**

**2007**  
(Rupees in '000)

Fair value of investments	6.1	52,939
Less: Cost of investments		(51,856)
		1,083

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

Fair value of investments	6.2	332,492
Cost of investments		(301,006)
		31,486

**7. DIVIDEND AND PROFIT RECEIVABLE**

Dividend receivable	1,194
Profit accrued on bank deposits	309
	1,503

**8. DEPOSITS**

Deposit with National Clearing Company of Pakistan Limited		1,000
Deposit with Central Depository Company of Pakistan Limited		100
		<u>1,100</u>

**9. PRELIMINARY EXPENSES AND FLOATATION COSTS**

Preliminary expenses and floatation costs	9.1	2,600
Amortisation during the period		(143)
Balance as at June 30		<u>2,457</u>

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

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

Management fee		776
Sales load payable		28
Other payable		3,750
		<u>4,554</u>

**10.1** As per Rule 66 of NBFC Rules, 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 3 percent per annum of the average annual net assets of the Fund for the current period.

**10.2** In accordance with Clause 6.2.1.2 of the offering document, Management Company has issued type 'B' Units. The Management Company offers a special rebate on the management fee to type 'B' units, (currently rebate is applicable at one-third of the management fee applicable to type 'B' units). However, difference between normal rates and reduced rates is passed on to type 'B' unit holders by way of issuance of additional units, as a result the management fee charged to Income Statement remains at the rate of 3 percent per annum of the average annual net asset of the Fund. Total 14,104 additional units were issued during the period to type 'B' unit holders at a value of Rs. 0.771 million.

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

Trustee fee	11.1	68
CDS charges		10
		<u>78</u>

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

**12. ACCRUED EXPENSES AND OTHER LIABILITIES**

Auditors' remuneration	14	210
Fee payable to the Securities and Exchange Commission of Pakistan	13	111
Legal and professional charges payable		35
Others		1
		<u>357</u>

**13. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE**

According to Rule 79 of NBFC Rules, a Unit Trust scheme is required to pay as annual fee to the SECP, an amount equal to one-tenth of one percent of the average annual net assets of the Scheme.

**14. AUDITORS' REMUNERATION**

Audit fee	75
Other certifications and services	135
	<u>210</u>

**15. EARNINGS PER UNIT**

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

**16. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS**

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

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

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

<b>16.1 Transactions with connected persons can be summarised as follows:</b>	<b>Note</b>	<b>From March 1, 2007 to June 30, 2007 (Rupees in '000)</b>
<b>KASB Funds Limited - Management Company</b>		
Remuneration	10.1	3,340
Sales load		<u>195</u>
Amounts paid on behalf of the Fund		<u>3,750</u>
Payments during the period		<u>2,731</u>
<b>KASB Securities Limited - Brokerage house</b>		
Brokerage	16.3	94
Payments during the period		<u>87</u>
Investment in the Fund: 1,800,000 units		<u>90,000</u>
Additional units: 4,882 units issued		<u>267</u>
Interest / profit paid	16.4	<u>294</u>
<b>KASB Bank Limited</b>		
Profit accrued		2,129
Profit received		<u>1,820</u>
Bank charges		<u>3</u>
Investment in the Fund: 2,200,000 units		<u>110,000</u>
Additional units: 5,967 units		<u>326</u>
Interest / profit paid	16.4	<u>359</u>
<b>First Capital Equities Limited - Brokerage house</b>		
Brokerage	16.3	125
Payments during the period		<u>115</u>
<b>Central Depository Company of Pakistan Limited-Trustee</b>		
Remuneration		224
CDS charges		<u>27</u>
Payments during the period		<u>173</u>

		2007 (Rupees in '000)
<b>Directors and officers of the Management Company</b>		
Investment in the Fund: 3,998 units		200
Redemption from the Fund: 400 units		20
Conversion in the Fund: 9,393 units		500
<b>16.2 Balances with connected persons can be summarised as follows:</b>		
<b>KASB Funds Limited - Management Company</b>		
Payable to the Management Company	10	4,554
<b>KASB Securities Limited - Brokerage house</b>		
Brokerage payable		7
Receivable against sale of investments		3,848
Payable against purchase of investments (excluding brokerage payable)		4,302
Units held: 1,804,882 units		107,643
<b>KASB Bank Limited</b>		
Profit receivable on bank deposits	7	309
Bank balance	16.5	15,673
Units held: 2,205,967 units		131,564
<b>Central Depository Company of Pakistan Limited-Trustee</b>		
Payable to the Central Depository Company of Pakistan Limited-Trustee	11	78
Security Deposit	8	100
<b>Directors and officers of the Management Company</b>		
Units held: 12,991 units		775

**16.3** 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.

**16.4** This represents profit / mark up earned and received by the Fund, after deducting any expenses incurred, on investment made during the Pre-IPO and IPO period of the Fund and has been paid to the core investors as per the offering document of the Fund.

**16.5** The profit earned on this deposit ranges between 9.75% to 10.25% per annum.

<b>17. NUMBER OF UNITS IN ISSUE</b>	<b>2007 (Units in '000)</b>	<b>2007 (Rupees in '000)</b>
The units in issue as at June 30, 2007 in each class were as follows:		
Type 'A' Units	17.1	1,702
Type 'B' Units	17.2	5,200
	<u>6,902</u>	<u>411,603</u>

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

17.2 Type 'B' units are meant for the core investors. (Refer note 10.1)

## 18. MARK-UP / PROFIT RATE RISK

Mark-up / profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund has minimal mark-up / profit risk exposure as it primarily invest in listed equity securities, except for bank balances that are exposed to mark-up / profit rate of 9.75% to 10.25%.

## 19. MATURITIES OF ASSETS AND LIABILITIES

	Total	Upto three months	More than three months and upto one year	More than one year
-----Rupees in '000-----				
<b>Assets</b>				
Bank balances	15,678	15,678	-	-
Receivable against sale of investments	36,511	36,511	-	-
Investments	385,431	385,431	-	-
Dividend and profit receivable	1,503	1,503	-	-
Deposits	1,100	-	-	1,100
Preliminary expenses and floatation costs	2,457	131	389	1,937
	442,680	439,254	389	3,037
<b>Liabilities</b>				
Payable against purchase of investments	26,088	26,088	-	-
Payable to KASB Funds Limited - Management Company	4,554	4,554	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	78	78	-	-
Accrued expenses and other liabilities	357	357	-	-
	31,077	31,077	-	-
<b>Net Assets</b>	<b>411,603</b>	<b>408,177</b>	<b>389</b>	<b>3,037</b>

## 20. RISK MANAGEMENT

The Fund is primarily a stock market fund which invests in shares of listed companies. Investment in shares of companies carries a risk that is considered higher than that of investment in debt securities. Capital invested in the stock market could, in extreme circumstances, lose its entire value. However, studies show that diversification of the investment into a number of shares and industrial sectors with a reasonably longer-term investment horizon reduces the risk associated with investing in the stock market. The risk emanates from various factors that include, but are not limited to:

### 20.1 Market risk

Market risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. The volatility in share prices results in volatility in the NAV based price of the Fund. The value of investments may fluctuate due to:

- change in business cycles affecting the business of the investee company;
- change in business circumstances of the Fund;
- its business sector; and
- industry and / or the economy in general.

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

## **20.2 Credit risk**

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions, placements or other arrangements to fulfill their obligations. The risk is generally limited to principal amounts and accrued interest thereon, if any.

### **Credit risk management**

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

### **Concentration of credit risk**

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Financial assets subject to credit risk amount to Rs.440 million. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk. Moreover, the Fund limits its exposure to any group through its investment policy.

## **20.3 Liquidity risk**

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

## **20.4 Mark-up / profit rate risk**

Mark-up / profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund has minimal mark-up / profit risk exposure as it primarily invest in listed equity securities.

## **21. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

## **22. ACCOUNTING ESTIMATES AND JUDGMENTS**

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



**Investments stated at fair value**

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

**Other assets**

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

**23. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company have approved a distribution of bonus units of Rs. 4.87 per unit to the unit holders of the Fund for the period ended June 30, 2007, amounting to Rs. 33.613 million in total, in their meeting held on July 6, 2007. These financial statements do not reflect this approved issue.

**24. PERFORMANCE TABLE**
**2007 \***

Total net assets as at June 30 (Rs. '000)	411,603
Net asset value per unit as at June 30 (Rs.)	59.64

	<b>Offer</b>	<b>Redemption</b>
Highest price per unit (Rs.)	61.17	59.64
Lowest price per unit (Rs.)	50.00	49.81

\*The Initial public offer (IPO) date of the Fund were March 21 and 22, 2007.

**25. DATE OF AUTHORISATION FOR ISSUE**

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

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

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**Chief Executive**

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**Director**



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