

managed by



THE PRIMARY OBJECTIVE OF THE SCHEME IS TO SEEK TO GENERATE LONG TERM CAPITAL APPRECIATION AND INCOME, FROM A PORTFOLIO THAT IS SUBSTANTIALLY CONSTITUTED OF EQUITY AND EQUITY RELATED SECURITIES.

THE SCHEME MAY ALSO INVEST A CERTAIN PORTION OF ITS CORPUS IN SHORT TERM GOVERNMENT SECURITIES IN ORDER TO MEET LIQUIDITY REQUIREMENTS FROM TIME TO TIME.

KASB STOCK MARKET FUND

ANNUAL REPORT
June 30, 2012

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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

5th 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

Mr. Amer Maqbool - Chief Executive

Mr. Qaiser P. Mufti

Mr. Muzaffar Ali Shah Bukhari

Chief Financial Officer

Syed Adnan Abdali

Company Secretary

Syed Adnan Abdali

Audit Committee

Mr. Qaiser P. Mufti

Mr. Robert John Richard Owen

Mr. Muzaffar Ali Shah Bukhari

Trustee

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

Fund Ranking

2 star (Short Term)

3 star (Long Term)

Bankers to the Fund

KASB Bank Limited

Auditors

A. F. Ferguson & Company

State Life Building # 1-C, I.I. Chundrigar Road,
P.O. Box No. 4716, Karachi-74000 Pakistan.

Legal Advisor

Bawany & Partners

Room No. 404, 4th Floor, Beaumont Plaza,
6-cl-10, Beaumont Road, Civil Lines,
Karachi-75530

Registrar

KASB Funds Limited

5th Floor, Trade Centre, I.I. Chundrigar
Road, Karachi-74200, Pakistan

Distributors

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Standard Chartered Bank (Pakistan) Limited

Rating of KASB Funds Limited

Rated AM3 by JCR-VIS

MISSION STATEMENT

The Funds seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities.

KASB STOCK MARKET FUND

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2012

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 Sixth Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2012.

Financial Highlights

	FY 2012	FY 2011	Increase / (Decrease) (%)
Net Income (Rs. in million)	5.871	22.220	(73.58)
Net Assets as at June 30 (Rs. in million)	125.995	124.420	(1.27)
NAV per Unit as on June 30 (Rs.) **	27.66*	29.37	(5.82)
Return (%)	4.90	17.35	(71.76)

*Ex-NAV after final distribution.

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

Economic Environment

Pakistan's economy proved to trudge along on its now too familiar irregular path during financial year 2012 as well. Its financial woes continued to trouble its economic managers who struggled unsuccessfully to contain its fiscal deficit within the revised target of 5.5% and also to build on a current account surplus of 0.11% achieved in FY11. Instead, it registered a whopping consolidated fiscal deficit of 8.5% (including a one off subsidy amounting to 1.9% of GDP), current account deficit of 1.9% of GDP, continued subsidies, discretionary developmental expenditures and increasing cost of debt servicing. The country has yet been unable to craft its way out of the quagmire of electricity and gas shortages which have bogged economic growth for some time now (GDP grew by a trivial 3.7% as against 4.1% last year). Energy shortages are increasing leading to lower production and consequently hampering exports and increasing imports, while rising unemployment and rapid deterioration in the overall quality of life is giving way to wide spread social unrest.

Amid an inconclusive end to the IMF program in Sep-11 and a worsening external account, Pakistan's forex reserves lost the attained stability gained in FY11. The first tranche of repayments of the Stand-By Arrangement loan to the IMF was also made in Feb-2012. As a result, the PKR lost 9.9% in FY12 against the USD and exerted further pressure on the reserves (Rs 14.6bln) already dwindling due to a higher oil import bill due to increasing reliance on thermal electricity and a bulging current account deficit.

However all is not dark on the horizon as positives are also visible in improved tax collection, and extension of record run of remittances (USD 13bln) which have enormously helped in narrowing the current account deficit to 1.9%. Further, CPI inflation averaged 11.1% in FY12, remaining well within the government's inflation target of target of 12% for the year. This decline in headline inflation, caused due to improved supply and high base effect coupled with a restraint in government borrowing, led the Central Bank to cut the policy rate by 200bps, which will boost private credit off take.

Capital Markets

The domestic equity market ended the year with a modest return of 10.4%, after recording a loss of 9% in the first half, thus outperforming most of its regional peers in the period. The drastic change in fortunes was caused by the introduction of the CGT relief package which promised numerous benefits to the investors, including freezing of CGT rates at current levels, calculation and collection of CGT by a central body (NCCPL), doing away with withholding tax on sale and the investor being absolved of the answerability of the source of the invested funds in the market.

Sectorally, cements were the main performers of the market, broadly outperforming the index owing to hefty increase in sector profitability owing to higher cement prices, substantial growth in volumes and reduction in costs due to lower coal prices and innovative cost reduction strategies, in addition to reduction in finance cost in a decreasing interest rate environment.

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 Fund strives to invest in fundamentally undervalued stocks that have business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

Fund Performance

For the year ended June 30, 2012 the Fund earned a return of 4.9% as against the benchmark return of 2.90% and the Net Asset Value per unit of the fund at the close of the period stood at Rs. 27.66. The net income for the year ended June 30, 2012 was Rs 5.871 million.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2012

Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 1.70 per unit to the unit holders of the Fund for the year ended June 30, 2012.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the period ended June 30, 2012, 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 KSMF was Rs. 124.420 million on June 30, 2011. During the year, units worth Rs. 1.868 million were issued and units with a value of Rs. 6.235 million were redeemed. As on June 30, 2012, the total number of outstanding units was 4,554,751 with a value of Rs. 125.995 million.

Code of Corporate Governance

The Board of Directors states that:

- a) The Financial Statement prepared by the Management Company, present fairly the state of affairs of the fund and result of its operations, cash flows and movement in unit holders fund;
- b) Proper books of accounts of the Fund have been maintained during the year;
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements of the fund and accounting estimates are based on reasonable and prudent judgments;
- d) Approved accounting standards comprising of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinances, 1984, the requirement 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, 2003 the NBFC Regulations, 2008, and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, 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 has been no material departure from the best practices of corporate governance, as detailed in the listing regulations, except for the following:
 - Dissemination of 'Code of Conduct'; and
 - Formation of Human Resource and Remuneration (HR&R) Committee (however the same has been formed subsequent to year end).
- g) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- h) Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements;
- i) 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; hence no disclosure has been made in the Directors' Report of the Management Company;
- j) The detailed pattern of unit holding, as required by the Code of Corporate Governance is enclosed;
- k) The Management Company has planned to conduct orientation course for its directors, where necessary, in the near future to appraise them with their duties and responsibilities.

As detailed in note 1 of these financial statements, KASB Stock Market Fund has been merged with and into Crosby Dragon Fund with effect from July 26, 2012.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2012 is disclosed in note 24 of the financial statements.

During the year, no trades were carried out in the units of the Fund by the Directors, CEO, Company Secretary & CFO, their spouses and minor children of the Management Company.

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2012, associated companies held 88.93 % out of the total units; individuals held 2.99% and 8.08% units held by retirement Funds. The pattern is annexed.

Future Outlook

Improvement in foreign relations and realization of pending funds is expected to augur well for the economy. However, higher discretionary spending and subsidies, keeping in view election year considerations, may go to keep the nozzle tight on fiscal pressures.

KASB STOCK MARKET FUND

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2012

The SBP curtailed the policy rate by 150bps in the latest monetary policy review during August 2012 to support the private sector credit effected the decision on the basis of subdued headline inflation numbers during FY13. The average headline inflation for FY13 currently stands at 9.3% which again raises the hopes of a further cut in the policy rate going forward.

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

October 04, 2012
Karachi

Amer Maqbool
Chief Executive



KASB STOCK MARKET FUND

DETAILS OF PATTERN OF HOLDING (UNITS)

As at June 30, 2012

	Units held	
	Numbers	Percentage
Associated Companies		
KASB Bank Limited	4,050,346	88.93
Individuals	136,148	2.99
Retirement Funds	368,257	8.08
	4,554,751	100.00

PERFORMANCE TABLE

	2011	2010	2009
Total net asset value as at June 30 (Rs. '000)	125,995	124,420	217,846
Net asset value per unit as at June 30 (Rs.)	27.66	29.37	36.53
Selling price for units as at June 30 (Rs.)	28.37	30.13	37.47
Repurchase price for units as at June 30 (Rs.)	27.66	29.37	36.53
Final dividend distribution per unit (Rs.)	1.70	3.00	11.50
Date of final distribution	July 5, 2012	July 8, 2011	July 3, 2010
Highest selling price per unit (Rs.)	29.39	32.43	44.53
Lowest selling price per unit (Rs.)	24.29	25.36	43.41
Highest repurchase price per unit (Rs.)	28.65	31.62	34.25
Lowest repurchase price per unit (Rs.)	23.68	24.72	33.39
Return (%)	4.90	17.35	10.80

Return since inception is -2.08%

Launch date of the Fund is March 22, 2007

Disclaimer:

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



ANNUAL FUND MANAGERS' REPORT

1. Type & Category of Fund

Open-end equity market

2. Inception Date

March 22, 2007

3. Investment objective

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

4. Accomplishment of objective

The fund has successfully achieved its stated objective and has outperformed its benchmark since inception by a significant margin.

5. Benchmark

KSE 30 Index

6. Performance Return (please insert the return comparison chart, if necessary)

	KSMF Return	Benchmark return
Since inception	-2.08%	+15.84%
FY 2012	4.90%	2.90%
CY 2012	16.81%	17.12%
For June 12	-1.49%	-0.24%

7. Strategies and policies employed during the period

The Fund invested in fundamentally undervalued stocks that had business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

8. Weighted Asset allocation (June 30, 2009) (please insert chart as per June FMR)

Asset Allocation	30th June 2012	30th June 2011
General Industrials	0.00%	-0.2%
Oil & Gas	32.68%	29.34%
Power	6.17%	7.3%
Comm. Banks	24.73%	17.34%
Personal Goods	3.32%	11.95%
Chemicals	9.80%	8.66%
Construction % Materials	11.24%	4.48%
Non- Life Insurance	-0.00%	5.14%
Food Producers	7.30%	-0.00%
Misc Equity	-0.00%	5.56%
Cash & Other Assets	4.76%	10.21%

9. Significant changes in asset allocation during the period

Asset allocation of the Fund changes dynamically as per sector and market outlook.

10. Fund Performance

KSMF return has outperformed its benchmark since inception and during the review period as well. In FY12, it provided a return of 4.90% and outperformed its benchmark by 2%, whereas it recorded a return of 16.81% for the half year CY12, nearly at par with its benchmark. The Fund was able to outperform its benchmark due to timely allocation within different stocks which reaped higher returns.

The AUM of the fund were PKR 124 million (NAV per unit: Rs 29.37 on June 30, 2011) and at the end of the period the AUM of the fund stood at PKR 126 million (NAV per unit: Rs 27.66).

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

Pakistan's economic performance proved to be a mixture of sorts during the period under review. GDP growth was recorded at 3.7%, while fiscal deficit stood at 8.5% of GDP (including a one off subsidy amounting to 1.9% of GDP). The current account ran into a deficit of 1.9% of GDP, as against a surplus of 0.11% last year, even though foreign remittances continued on their growth trajectory and attained a high level of \$13 billion during the year. Though tax targets were met, the SBP printed a mammoth amount of PKR 1.8 trillion to bridge the fiscal gap.

ANNUAL FUND MANAGERS' REPORT

On the positive side, CPI inflation was recorded at an average of 11.1% during the year, remaining well within the government's inflation target of target of 12%. Keeping in view these trends in inflation, the central bank reduced the policy rate by 200 basis points to boost the private credit off take amidst high fiscal deficit and resulting printing of money. However, the private sector continues to be crowded out due to the high government borrowing needs, liquidity constraints in the market, and risk aversion by lenders amid high propensity of banks to lend to the government.

The equity market also tared nominally during the period under review, as the broader KSE -100 registered a return of 10.45%. While the first half of the year gave a return of negative 9.19%, the second half proved to be a table turner as the introduction of the CGT relief package which promised numerous benefits to the investors (including freezing of CGT rates at current levels, calculation and collection of CGT by a central body (NCCPL), and doing away with withholding tax on sale and the investor being absolved of the answerability of the source of the invested funds in the market) caused investors to flock back to the bourses, also causing average trading volumes to increase to 130mn shares, up 37% from last year. Only four IPOs were conducted throughout FY12.

12. Fund performance by market(s) and by instruments

For details, please refer to the full yearly accounts.

13 . Distribution

The Fund distributed PKR 1.70 per unit (Par Value of PKR 50) for the year ended June 30, 2012.

14 . Significant changes in the state of affairs

During the year, the Fund was merged into Crosby Dragon Fund (also managed by KASB Funds Ltd.) with the view to combine the synergies of the two identical Funds under management of the Management Company and to reduce operational redundancies, thereby benefitting investors of both the Funds.

15. Breakdown of unit holdings by size

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

16. Unit Splits

There were no unit splits during the period.

17. Circumstances materially affecting the interests of the unit holders

Any significant change in market rates of the instruments invested in and any significant change in the credit profile of the counterparties can materially affect the interests of unit holders.

18. 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 STOCK MARKET 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

We, Central Depository Company of Pakistan Limited, being the Trustee of KASB Stock Market Fund (the Fund) are of the opinion that KASB Funds Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

Muhammad Hanif Jakhura

Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi, October 18, 2012

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2012

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 Limited 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 (the Board) of KASB Funds Limited (the Management Company), an unlisted public company, manages the affairs of KASB Stock Market Fund (the Fund). The Fund being a unit trust open end 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 as a security on the Exchange, in the following manner:

- The Management Company encourages representation of independent non-executive directors. At present, the Board includes:

Category	Names
Independent Directors	Mr. Qaisar P. Muffi Mr. Robert C. Richard Owen
Executive Director	Mr. Amer Maqbool
Non-Executive Directors	Mr. Muzaffar Ali Shah Bukhari

The independent directors meet the criteria of independence under clause i (b) of the Code.

- The directors have confirmed that none of them are serving as a director in more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
- All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFJ or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange. Mr. Syed Muhammad Rehmanullah has not been re-elected on Board at elections held in October 2011.
- The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non-executive directors have been taken by the Board.
- The meetings of the Board were presided over by the Chairman and 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.
- The Management Company has planned to conduct an orientation course for its directors, in the near future to apprise them of their duties and responsibilities.
- The Board has approved the appointments of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit including the remuneration and terms and conditions of employment.
- The Directors' report relating to the Fund for the year ended June 30, 2012 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
- The Directors, CEO, and executives do not hold any interest in the units of the Fund other than disclosed in the pattern of unit-holding.
- The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
- The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee who is an independent director.
- The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
- The board has set up an effective internal audit function which comprises of personnel who are considered suitably qualified and experienced for the purpose and are conversant with policies and procedures of the company.
- 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 (ICAP), 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 the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
- 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.
- The "closed period", prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
- Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
- The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transaction that were made on terms equivalent to those that prevail in the arm's length transactions only if such term can be substantiated.
- We confirm that all other material principles contained in the Code have been complied with except for:

- * the development of Code of Conduct towards which reasonable progress is being made by the Management Company to seek compliance by the end of next accounting year; and
- the formation of Human Resource and Remuneration Committee which has been formed on October 04, 2012.

For and on behalf of the Board

Amer Maqbool
Chief Executive Officer

Karachi, October 4, 2012

**REVIEW REPORT TO THE UNIT HOLDERS OF KASB STOCK MARKET 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 KASB Stock Market Fund, to comply with the Listing Regulation No. 35 (Chapter XII) of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the 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 Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the 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.

Regulation 35 (x) of the Listing Regulation No. 35 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 the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2012.

We draw attention to paragraph 22 of the annexed statement which highlights that the requirements of clauses (v)(a) and (xxv) of the Code of Corporate Governance with respect to the formulation of Code of Conduct and formation of Human Resource and Remuneration Committee have not been complied with. However, the Management Company has formed the Human Resource and Remuneration Committee in their meeting held on October 4, 2012.

Karachi
Dated: 10 October 2012

A. F. Ferguson & Company
Chartered Accountants

KASB STOCK MARKET FUND

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of KASB Stock Market Fund (here in after referred to as "the Fund"), which comprise the statement of assets and liabilities as at June 30, 2012, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Emphasis of matter paragraph

We draw attention to note 12.1 to the accompanying financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh. Our opinion is not qualified in respect of this matter.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at June 30, 2012, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTER

The financial statements of the Fund for the year ended June 30, 2011 were audited by another firm of Chartered Accountants. Their audit report dated September 15, 2011 contained an emphasis of matter paragraph on the same issue as described above.

Chartered Accountants
Engagement Partner: **Rashid A. Jaffer**
Dated: 10 October 2012
Karachi

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2012

	Note	2012	2011
----- (Rupees in '000) -----			
ASSETS			
Balances with banks	4	3,335	11,631
Receivable against sale of investments		-	5,017
Investments	5	122,558	111,716
Dividend receivable		124	419
Advances, deposits and other receivables	6	2,841	2,862
Preliminary expenses and floatation costs	7	-	376
Total assets		128,858	132,021
LIABILITIES			
Payable to the Management Company	8	228	29
Payable to Central Depository Company of Pakistan Limited - Trustee	9	63	60
Payable to Securities and Exchange Commission of Pakistan	10	116	198
Payable against purchase of investments		-	4,745
Accrued expenses and other liabilities	11	2,456	2,569
Total liabilities		2,863	7,601
NET ASSETS		125,995	124,420
Unit holders' fund (as per statement attached)		125,995	124,420
CONTINGENCIES AND COMMITMENTS			
----- Number of units -----			
NUMBER OF UNITS IN ISSUE	13	4,554,751	4,235,793
----- Rupees -----			
NET ASSET VALUE PER UNIT		27.66	29.37

The annexed notes 1 to 28 form an integral part of these financial statements.

Chief Executive

For KASB Funds Limited
(Management Company)

Director

INCOME STATEMENT
For the year ended June 30, 2012

	Note	2012	2011
----- (Rupees in '000)-----			
INCOME			
Dividend income		5,105	8,652
Capital gain on sale of investments		7,175	31,157
Profit on bank deposits		4,195	4,430
Unrealised (diminution) / appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	5.1	(2,088)	9,802
Total income		14,387	54,041
EXPENSES			
Remuneration of the Management Company	8.1	3,303	6,267
Sindh Sales Tax on Management Company's remuneration	8.3	442	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	700	700
Annual fee - Securities and Exchange Commission of Pakistan	10	116	198
Transaction costs on securities		2,030	1,985
Settlement and bank charges		271	283
Legal and professional charges		397	484
Fees and subscription		170	140
Auditors' remuneration	14	520	448
Amortisation of preliminary expenses and floatation costs	7	376	520
Printing and related costs		120	120
Reversal against non-performing investment		-	(605)
Total expenses		8,445	10,540
Net income from operating activities		5,942	43,501
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(71)	(21,281)
Net income for the year before taxation		5,871	22,220
Taxation	15	-	-
Net income for the year after taxation		5,871	22,220
Earnings per unit	16		

The annexed notes 1 to 28 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, 2012

	2012	2011
	----- (Rupees in '000) -----	
Net income for the year after taxation	5,871	22,220
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>5,871</u>	<u>22,220</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

KASB STOCK MARKET FUND

DISTRIBUTION STATEMENT

For the year ended June 30, 2012

	2012	2011
	----- (Rupees in '000)-----	
Accumulated losses brought forward		
Realised loss	(136,843)	(62,404)
Unrealised gain / (loss)	<u>9,802</u>	<u>(18,272)</u>
	(127,041)	(80,676)
Final Distribution at the rate of Rs. 3.00 per unit for the year ended June 30, 2012 (2011: Rs. 11.50 per unit)		
- Issue of bonus units	<u>(12,707)</u>	<u>(68,575)</u>
- Cash distribution	<u>-</u>	<u>(10)</u>
	(12,707)	(68,585)
Net income for the year	5,871	22,220
Accumulated losses carried forward	<u>(133,877)</u>	<u>(127,041)</u>
Accumulated losses comprising:		
Realised loss	(131,789)	(136,843)
Unrealised gain / (loss)	<u>(2,088)</u>	<u>9,802</u>
	<u>(133,877)</u>	<u>(127,041)</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

Chief Executive

For KASB Funds Limited
(Management Company)

Director

KASB STOCK MARKET FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended June 30, 2012

	2012	2011
	----- (Rupees in '000) -----	
Net assets at beginning of the year	124,420	217,846
Issue of 70,168 units (2011: 2,250,371 units)	1,868	66,319
Issue of 481,888 bonus units (2011: 2,739,701 units)	12,707	68,575
Redemption of 233,098 units (2011: 6,718,184 units)	(6,235)	(203,236)
	8,340	(68,342)
Element of income/ (loss) and capital gains/ (losses) in the prices of units issued less those in units redeemed - amount representing accrued loss and realised capital losses - transferred to the Income Statement	71	21,281
Distribution during the year:		
- Issue of bonus units	(12,707)	(68,575)
- Cash dividend	-	(10)
	(12,707)	(68,585)
Capital gain on sale of investments	7,175	31,157
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	(2,088)	9,802
Other net (loss) / income for the year	764	(18,739)
	5,871	22,220
Net assets as at end of the year	<u>125,995</u>	<u>124,420</u>

The annexed notes 1 to 28 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, 2012

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** KASB Stock Market Fund ("the Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on January 9, 2007 and the Fund 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).
- 1.2** The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as a non-banking finance company under the NBFC Rules issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Trade Centre, I. I. Chundrigar Road, Karachi, Pakistan. The JCR-VIS has assigned management quality rating of AM3 to the Management Company and Pakistan Credit Rating Agency Limited (PACRA) has assigned long term rating of 3 star and short term rating of 2 star to the Fund.
- 1.3** On July 15th 2011, The Securities and Exchange Commission of Pakistan (SECP) vide its letter SCD/PR&DD/AMCW/GAML/KFL/333/2011 sanctioned the scheme of amalgamation in terms of section 282L of the Companies Ordinance 1984, for acquisition and simultaneous merger of Crosby Asset Management (Pakistan) Limited (CAML) with and into KASB Funds Limited (KFL) and the rights to manage Crosby Phoenix Fund, Crosby Dragon Fund and AMZ Plus Income Fund have been transferred to KFL with effect from July 20, 2011.
- 1.4** The Fund is an open end mutual fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The Fund has been categorized as an "Equity Scheme" by the Management Company.
- 1.5** The objective of the Fund is to seek 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 funds in short term government securities in order to meet liquidity requirements from time to time.
- 1.6** The Board of Directors of KASB Funds Limited in their meeting held on February 15, 2012, decided to merge KASB Stock Market Fund (KSMF) with and into Crosby Dragon Fund (CDF) vide a board resolution. The management company initiated the process of merger in accordance with the terms laid out in Regulation 58(1)(m) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the "Regulations") and SECP Circular No. 20 of 2009. Majority unit holders of both funds have approved the scheme of amalgamation presented before them in the Unit Holders' meeting held on May 29th, 2012, through a resolution, subsequent to which CDC has granted its approval of the merger vide its letter reference no CDC/T&C U1/DH/0122/2012 dated June 04, 2012.

Subsequent to the year ended June 30, 2012, the Securities and Exchange Commission of Pakistan (SECP) vide its letter number SCD/AMCW/KASB/223/2012 dated July 23, 2012 has sanctioned the scheme of amalgamation as per Regulation 58(1)(m) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the "Regulations") and SECP Circular No. 20 of 2009, for merger of KASB Stock Market Fund (KSMF) with and into Crosby Dragon Funds (CDF). The management company has decided July 26, 2012 to be the effective date of merger, and the Funds have been merged accordingly.

- 1.7** Title to the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as a trustee of the Fund.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with 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) 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 or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Fund's accounting periods beginning on or after July 1, 2011:

- a)** IFRS 7, 'Financial Instruments: Disclosures' (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements, other than certain additional disclosures.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

- b) IFRS 7, 'Financial Instruments: Disclosures' (effective July 1, 2011). This amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any impact on the Fund's financial statements as currently no items are being reported in other comprehensive income.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.3 Standards, interpretations and amendments to published approved accounting standards, that are not yet effective and have not been early adopted

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any effect on the Fund's financial statements as presently no items are reported in other comprehensive income.
- b) IAS 32, 'Financial Instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and 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 revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.2 and 5).

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement'.

2.6 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

3.1 Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks and short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried in the statement of assets and liabilities at cost.

3.2 Financial assets

3.2.1 Classification

The Fund classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss
- loans and receivables
- Available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices are classified as held for trading in the financial assets at fair value through profit or loss category.

b) Loans and receivables

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

c) Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Fund commits to purchase or sell the asset.

3.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

3.2.4 Subsequent measurement

a) Financial assets 'at fair value through profit or loss' and 'available for sale'

Subsequent to initial recognition, financial assets designated by the management as 'at fair value through profit or loss' and 'available for sale' are valued as follows:

- Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange. A security listed on the stock exchange for which no sale is reported on the reporting date is valued at its last sale price on the next preceding date on which such exchange is open and if no sale is reported for such date the security is valued at an amount neither higher than the closing asked price nor lower than the closing bid price.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

- Basis of valuation of debt securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Fund Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 1 of 2009 dated January 6, 2009. In the determination of the rates MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

b) Loans and receivable

Subsequent to initial recognition financial assets classified as 'loans and receivables' are carried at amortised cost using the effective interest method.

Gain or loss is also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired.

3.2.5 Impairment

The Fund assesses at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. For financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. Provision is made in accordance with the criteria specified in circular No. 1 dated January 6, 2009 and circular No. 13 dated May 4, 2009 issued by the SECP.

3.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

3.3 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

3.4 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.5 Offsetting of financial assets and liabilities

Financial assets and financial 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.

3.6 Provisions

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

3.7 Proposed distributions

Distributions declared subsequent to the reporting date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

3.8 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 date. The offer price represents the Net Asset Value per unit as of the close of the business day plus the allowable sales load (if applicable), provision for transaction costs and any provision for duties and charges, if applicable.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications during business hours of 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 (if applicable), any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.9 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 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is credited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net asset value and included in the sale proceeds of units. Upon redemption of units, the "element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed" account is debited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net asset value and included in the redemption price.

The net 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' during an accounting period is transferred to the income statement.

3.10 Net asset value per unit

The net asset value (NAV) 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 circulation at the year end.

3.11 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 for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

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 asset on unutilised tax losses to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.12 Revenue recognition

- Capital 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 marking to market 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.
- Dividend income is recognised when the right to receive the dividend is established.
- Income bank deposits is recognised on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

4	BALANCES WITH BANKS	Note	2012	2011
			----- (Rupees in '000) -----	
	In current account		-	14
	In savings accounts	4.1	3,335	11,617
			<u>3,335</u>	<u>11,631</u>

4.1 This savings account carries profit at the rate of 10.50% (2011: 5% to 12%) per annum.

5	INVESTMENTS	Note	2012	2011
			----- (Rupees in '000) -----	
	At fair value through profit or loss - held for trading			
	- Listed equity securities	5.1	122,558	111,716
	Available for sale			
	- Term finance certificates	5.2	-	-
			<u>122,558</u>	<u>111,716</u>

5.1 Listed equity securities

Shares of listed companies - Fully paid up ordinary shares of Rs 10 each unless otherwise stated

Name of (Investor Company)	Number of Shares				As at June 30, 2012	Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of Shareholders	Fair value as percentage of book value of Shareholder Company
	As at July 1, 2011	Purchased during the year	Sold/Agro sales during the year	Sales during the year		Carrying value	Market value	Appreciation (Decrease)			
----- (Rupees in '000) -----											
Oil and Gas											
Attock Petroleum Limited	19,016	42,650	-	52,068	-	-	-	-	-	-	-
Attock Refinery Limited	10,050	117,200	-	127,250	-	-	-	-	-	-	-
National Refinery Limited	-	44,874	-	32,567	11,907	2,736	2,753	19	2.19	2.25	0.01
Oil & Gas Development Company Limited	2,122	224,793	-	170,029	56,806	9,127	9,114	(13)	7.23	7.44	0.03
Pakistan Oilfields Limited	31,728	188,815	-	200,428	30,115	11,164	11,050	(114)	8.77	6.03	0.31
Pakistan Petroleum Limited	48,881	189,870	4,238	186,260	58,627	10,838	10,674	(212)	8.47	8.77	0.03
Pakistan State Oil Company Limited	36,654	217,135	-	217,758	36,080	8,945	8,497	(448)	8.74	6.33	0.32
					<u>42,858</u>	<u>42,090</u>	<u>(768)</u>	<u>33.40</u>	<u>34.30</u>		
Chemicals											
Arif Habib Corporation Limited	-	140,000	-	140,000	-	-	-	-	-	-	-
Engro Corporation Limited	39,251	398,625	7,500	436,376	-	-	-	-	-	-	-
Fertilizer Company Limited	38,820	298,250	-	337,100	-	-	-	-	-	-	-
Fertilizer Bin Qasim Company Limited	-	693,200	-	693,200	-	-	-	-	-	-	-
Fertico Fertilizer Company Limited	-	2,146,653	-	1,869,881	258,792	6,403	6,235	(68)	5.03	5.17	0.03
Lafar Pakistan PTA Limited	-	1,031,051	-	987,794	43,757	370	304	(66)	0.34	0.25	0.09
					<u>5,773</u>	<u>6,839</u>	<u>(1,066)</u>	<u>5.27</u>	<u>5.42</u>		
Automobile and Parts											
Pakistan Suzuki Motor Company Limited	20,000	-	-	20,000	-	-	-	-	-	-	-
Construction and Materials											
Lucky Cement Limited	35,530	358,135	-	393,665	91,835	11,576	10,557	(979)	9.41	8.85	0.03
D. G. Khan Cement Company Limited	-	486,500	-	486,500	-	-	-	-	-	-	-
Attock Cement Company Limited	62,208	47,643	-	62,209	47,643	3,900	3,000	900	3.06	3.17	0.07
Kohat Cement Limited	-	145,336	-	145,336	145,336	5,665	5,959	293	4.65	4.76	0.11
					<u>21,942</u>	<u>20,336</u>	<u>(1,606)</u>	<u>16.14</u>	<u>16.80</u>		
General Industrials											
Emrack Limited	23,301	-	-	23,301	-	-	-	-	-	-	-
Media											
Jam Network Limited	244,265	-	-	244,265	-	-	-	-	-	-	-
Personal Goods											
Nishat Mills Limited	45,000	670,880	-	625,000	89,880	4,750	4,276	(474)	3.39	3.49	0.03
Nishat (Chemicals) Limited	48,985	-	-	48,985	-	-	-	-	-	-	-
Green Film Limited	272,554	-	-	272,554	-	-	-	-	-	-	-
					<u>4,750</u>	<u>4,276</u>	<u>(474)</u>	<u>3.39</u>	<u>3.49</u>		
Fixed Line Telecommunication											
Pakistan Telecommunication Company Limited 'A'	63,900	963,700	-	727,600	-	-	-	-	-	-	-
Electricity											
Indus Power Company Limited	88,501	826,330	-	732,931	182,900	8,162	8,024	661	5.42	5.57	0.01
Nishat Power Limited	75,000	822,600	-	907,600	-	-	-	-	-	-	-
Nishat Churnah Power Limited	-	1,134,700	-	1,134,700	-	-	-	-	-	-	-
Kot Addu Power Company Limited	124,807	25,000	-	124,907	25,000	1,380	1,125	255	0.89	0.93	0
					<u>7,253</u>	<u>7,949</u>	<u>(696)</u>	<u>6.31</u>	<u>7.49</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

Name of investee Company	Number of Shares				Balance as of June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of investments	Par value as percentage of issued capital of investee company
	As of July 1, 2011	Purchases during the year	Bonus/ right issues during the year	Sales during the year	As of June 30, 2012	Carrying value	Market value			
Rupees in '000										
Financial Services										
Jahangeir Siddiqui & Company Limited	170,000	-	-	170,000	-	-	-	-	-	-
Banks										
MCB Bank Limited	43,381	267,000	1,460	249,341	52,500	10,490	10,390	(100)	8.25	8.40
National Bank of Pakistan	87,500	1,034,100	-	977,600	144,000	6,674	5,270	(404)	4.98	5.12
Bank Al Habib Limited	-	385,179	17,456	158,501	244,134	6,790	6,950	160	5.82	5.67
Bank Alfab Limited	-	463,900	-	220,000	243,900	4,270	4,171	(105)	3.31	3.40
United Bank Limited	130,738	-	-	130,738	-	-	-	-	-	-
NIB Bank Limited	282,448	500	-	282,948	-	-	-	-	-	-
Askari Bank Limited	-	419,000	-	118,583	300,417	4,568	4,077	(491)	3.24	3.33
						32,795	31,858	(940)	25.30	26.00
Non Life Insurance										
Adamiye Insurance Company Limited	98,389	-	-	98,389	-	-	-	-	-	-
Food Producers										
Engro foods Limited	-	265,433	-	119,433	146,000	9,172	9,410	238	7.47	7.68
Total - June 30, 2012						124,640	122,558	(2,088)		
Total - June 30, 2011						101,914	111,716	9,802		

5.2 Investments include shares with market value of Rs 23.310 million (2011: 18,759 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular no 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

5.3 Term Finance Certificates

Name of the investee company	Rate	Number of certificates			Carrying value as of June 30, 2012	Carrying value as a percentage of net assets	Outstanding principal value as a percentage of total debt issue
		As of July 01, 2011	Purchases during the period	Sales during the period			
New Allied Electronics Industries (Private) Limited - II	5.31	6,400	-	-	5,400	-	4.27

5.3.1 On December 3, 2008, New Allied Electronics Industries (Private) Limited defaulted on account of payment of profit amounting to Rs. 2.42 million. However, subsequently the Fund received partial payments against the outstanding mark-up. Moreover, during the last financial year the Fund received an amount of Rs 0.605 million in respect of insurance proceeds. The Fund recognised full provision against this investment and outstanding profit receivable accordingly and suspended further accruals of profit there against.

The above provision against this investment and related profit is according to the 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 is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognised profit and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

5.4 Details of non-compliant investments with the investment criterion of assigned category

The Securities and Exchange Commission of Pakistan (SECP) vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. KASB Funds Limited (the Management Company) has classified the Fund as 'Equity Scheme' in accordance with the said circular. As at June 30, 2012, the Fund is compliant with all the requirements of the said circular except for clause 1 (ii) which requires that the remaining net assets shall be invested in cash and/or near cash instruments which include cash in bank accounts (excluding TDRs) and treasury bills not exceeding 90 days maturity. The following investment was held by the Fund which was not a cash and/or near cash instrument:

Name of non-compliant investment	Type of instrument	Value of investment before provision	Provision held	Value of investment after provision	%age of net assets	%age of gross assets
(Rupees in '000)						
New Allied Electronics Industries (Private) Limited - II	Stock	32,000	32,000	-	-	-

6 ADVANCES, DEPOSITS AND OTHER RECEIVABLES

Profit receivable on savings accounts
Deposit with Central Depository Company of Pakistan Limited
Deposit with National Clearing Company of Pakistan Limited
Advance tax

Note **2012** **2011**
----- (Rupees in '000) -----

88	109
100	100
2,500	2,500
153	153
<u>2,841</u>	<u>2,862</u>

7 PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs
Less: Amortisation during the year

376	896
(376)	(520)
<u>-</u>	<u>376</u>

8 PAYABLE TO THE MANAGEMENT COMPANY

Management Company's remuneration
Sindh Sales tax on Management Company's remuneration
Sales load

8.1	196	18
8.3	32	-
-	-	11
<u>228</u>	<u>228</u>	<u>29</u>

8.1 Under the provisions of the 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. Management fee is currently being charged at the rate of two percent of the average annual net assets of the Fund. The remuneration is paid to the Management Company monthly in arrears.

8.2 In accordance with Clause 6.2.1.2 of the offering document, the Management Company has issued type 'B' Units to core investors. The Management Company offers a special rebate on the management fee to type 'B' units, (currently rebate is applicable at one-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 type 'A' additional units, as a result the management fee charged to the Income Statement remains at the rates specified in note 8.1. Total 20,792 additional units were issued during the year to type 'B' unit holders at a value of Rs. 0.54 million, (38,178 additional units were issued during the year ended June 30, 2011 at a value of Rs. 1.07 million). The management has allowed this offer till June 6, 2012.

8.3 During the current year, the Provincial Government of Sindh levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company through the Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

9 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

Note	2012	2011
	----- (Rupees in '000) -----	
Trustee fee	57	57
CDS charges	6	3
	<u>63</u>	<u>60</u>

9.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2012 is as follows:

Amount of Funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.2% per annum of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.1% per annum of NAV exceeding Rs 1,000 million

The remuneration is paid to the Trustee monthly in arrears.

10 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)

Under the provisions of the NBFC Regulations, a collective investment scheme categorised as 'Equity Scheme' is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the scheme.

11 ACCRUED EXPENSES AND OTHER LIABILITIES

Note	2012	2011
	----- (Rupees in '000) -----	
Auditor's remuneration	375	335
Transactions cost payable	107	-
Legal and professional charges payable	230	221
Credit rating fee payable	120	100
Provision for Workers' Welfare Fund	1,485	1,485
Others	139	428
	<u>2,456</u>	<u>2,569</u>

12 CONTINGENCIES AND COMMITMENTS

12.1 Contribution to Workers' Welfare Fund

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh ("the Court"), challenging the applicability of WWF to the CISs, which is pending adjudication.

During the year ended June 30, 2011, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on July 8, 2010 which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

During the current year ended, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

However, pending the decision of the said constitutional petition, the Management Company believes that the KASB Stock Market Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company from July 1, 2010. However, as a matter of abundant caution the Management Company has decided to retain the provision for WWF amounting to Rs 1.49 million representing a charge accrued upto June 30, 2010. The aggregate unrecognized amount of WWF as at June 30, 2012 amounted to Rs 0.562 million.

12.2 There were no other contingencies and commitments outstanding as at June 30, 2012 and June 30, 2011.

13 NUMBER OF UNITS IN ISSUE

	Type 'A' Units - Note 13.1	Type 'B' Units - Note 13.2	Total	Total
	(Number of units)			
			2012	2011
Total units outstanding at beginning of the year	1,835,793	2,400,000	4,235,793	5,963,905
Add: Sales during the year	70,168	-	70,168	2,250,371
Add: Bonus issue during the year	481,888	-	481,888	2,739,701
	2,387,849	2,400,000	4,787,849	10,953,977
Less: Repurchases during the year	233,098	-	233,098	6,718,184
Total units in issue at end of the year	2,154,751	2,400,000	4,554,751	4,235,793

13.1 Type 'A' consists of units issued to investors other than core investors.

13.2 Type 'B' consists of units issued to core investors at the time of inception of the Fund (Refer Note B.2).

13.3 Pattern of unit holding

Pattern of unit holding as at June 30, 2012 and June 30, 2011 is as follows:

Category

Individuals
Associated companies
Retirement funds

As at June 30, 2012		
Number of Unit Holders	Investment Amount	Percentage
(Rupees in '000)		
51	3,767	2.99%
1	112,042	88.93%
1	10,186	8.08%
53	125,995	100.00%

Category

Individuals
Associated companies
Retirement funds

As at June 30, 2011		
Number of Unit Holders	Investment Amount	Percentage
(Rupees in '000)		
62	8,438	6.78%
1	105,317	85.45%
1	9,665	7.77%
64	124,420	100.00%

14 AUDITORS' REMUNERATION

	(Rupees in '000)	
Statutory audit fee	300	275
Interim review fee	100	75
Other certifications	75	60
Out of pocket expenses	45	38
	520	448

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

15 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 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded provision for taxation as the Management Company intends to distribute at least 90 percent of the Fund's accounting income for the current year as reduced by capital gains (whether realised or unrealised) to its unit holders.

11. EARNINGS PER UNIT

Due to the specific nature of open ended collective investment schemes in respect of daily issuance and redemptions of units, determination of weighted average number of units for calculation of earnings per unit is not practical.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2012		
	Financial assets at fair value through profit or loss	Loans and receivables	Total
	Rupees in '000		
Assets			
Balances with banks	-	3,335	3,335
Investments	122,558	-	122,558
Dividend receivable	-	124	124
Advances, deposits and other receivables	-	2,688	2,688
	<u>122,558</u>	<u>6,147</u>	<u>128,705</u>

	As at June 30, 2012		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees in '000		
Liabilities			
Payable to the Management Company	-	228	228
Payable to Central Depository Company of Pakistan Limited - Trustee	-	63	63
Accrued expenses and other liabilities	-	961	961
	<u>-</u>	<u>1,252</u>	<u>1,252</u>

	As at June 30, 2011		
	Financial assets at fair value through profit or loss	Loans and receivables	Total
	Rupees in '000		
Assets			
Balances with banks	-	11,631	11,631
Receivable against sale of investments	-	5,017	5,017
Investments	111,716	-	111,716
Dividend receivable	-	419	419
Advances, deposits and other receivables	-	2,709	2,709
	<u>111,716</u>	<u>19,776</u>	<u>131,492</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

	As at June 30, 2011		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities	----- Rupees in '000 -----		
Payable to the Management Company	-	29	29
Payable to Central Depository Company of Pakistan Limited - Trustee	-	60	60
Payable against purchase of investments	-	4,745	4,745
Accrued expenses and other liabilities	-	1,083	1,083
	<u>-</u>	<u>5,917</u>	<u>5,917</u>

18 TRANSACTIONS WITH CONNECTED PERSONS

18.1 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, KASB Technology Services Limited, KASB Modaraba Management (Private) Limited, Structured Venture (Private) Limited (indirectly through KASB Securities Limited) being the subsidiary companies of KASB Bank Limited, Shakarganj Food Products Limited, New Horizon Exploration and Production Limited and KASB International Limited being the associated companies of KASB Bank Limited, Central Depository Company of Pakistan Limited (CDC) being the Trustee of the Fund, other collective investment schemes managed by the management company, any person or company beneficially owning directly or indirectly ten percent or more of the capital of the Management Company or the net assets of the Fund and directors, key management personnel and officers of the Management Company.

18.2 Transactions with connected persons essentially comprise sale and repurchase of units, fee on account of managing the affairs of the Fund, sales load and other charges and dividend payments to connected persons. The transactions with connected persons are in the normal course of business, at contracted rates and at terms determined in accordance with market rates.

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

18.4 Details of transactions with connected persons are as follows:

	2012	2011
	----- (Rupees in '000) -----	
KASB Funds Limited - Management Company		
Remuneration	3,303	6,267
Sindh Sales tax	442	-
Sales Load	-	35
Bonus Units: Nil units (2011: 20,615 units)	-	516
Redemption of Nil units (2011: 65,483 units)	-	1,686

	2012	2011
	----- (Rupees in '000) -----	
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of the Trustee	700	700
CDS charges	38	50
KASB Securities Limited		
Bonus units: Nil Units (2011: 841,082)	-	21,052
Redemption of Nil units (2011: 2,681,627 units)	-	84,793
Issue of Nil additional units (2011: 9,912 units)	-	268
Brokerage expense	186	314
KASB Bank Limited		
Profit accrued on bank deposits	4,183	4,417
Bank charges	2	4
Issue of 411,776 bonus units (2011: 1,132,551 units)	10,859	28,348
Issue of 19,057 additional units (2011: 22,000 units)	493	627

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

	2012	2011
 (Rupees in '000).....	
Directors and Officers of the Management Company		
Issue of 390 units (2011: 1,334 units)	10	36
Redemption of 390 units (2011: 55,821 units)	9	1,442
18.5 Amounts outstanding as at June 30		
KASB Funds Limited - Management Company		
Remuneration payable	196	29
Sindh Sales Tax Payable	32	
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	57	60
Security deposit	100	100
CDS charges payable	6	
KASB Securities Limited		
Brokerage payable	12	20
KASB Bank Limited		
Profit receivable on bank deposits	88	109
Bank balance	3,335	10,906
Units held: 4,050,346 units (2011: 3,619,513 units)	12,042	106,307
Directors and Officers of the Management Company		
Units held: Nil (2011: 781 units)	-	79

19 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

19.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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.

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

19.1.1 Currency risk

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

19.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund does not hold any variable rate instruments and is not exposed to cash flow interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

b) Sensitivity analysis for fixed rate instruments

Presently, the Fund does not hold any fixed rate instruments and is not exposed to fair value interest rate risk.

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

	As at June 30, 2012					
	Effective yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
		Upto three months	More than three months and up to one year	More than one year		
Rupees in '000						
On-balance sheet financial instruments						
Financial Assets						
Balances with banks	10.50%	3,335	-	-	3,335	
Investments		-	-	122,558	122,558	
Dividend receivable		-	-	124	124	
Advances, deposits and other receivables		-	-	2,688	2,688	
		3,335	-	125,370	128,705	
Financial Liabilities						
Payable to the Management Company		-	-	228	228	
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	63	63	
Accrued expenses and other liabilities		-	-	961	961	
		-	-	1,252	1,252	
On-balance sheet gap		3,335	-	124,118	127,453	

	As at June 30, 2011					
	Effective yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
		Upto three months	More than three months and up to one year	More than one year		
Rupees in '000						
On-balance sheet financial instruments						
Financial Assets						
Balances with banks	5% - 12%	11,631	-	-	11,631	
Receivable against sale of investments		-	-	5,017	5,017	
Investments		-	-	111,716	111,716	
Dividend Receivable		-	-	415	415	
Advances, deposits, prepayments and other receivables		-	-	2,709	2,709	
		11,631	-	119,861	131,492	
Financial Liabilities						
Payable to the Management Company		-	-	29	29	
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	60	60	
Payable against purchase of investments		-	-	4,745	4,745	
Accrued expenses and other liabilities		-	-	1,083	1,083	
		-	-	5,917	5,917	
On-balance sheet gap		11,631	-	113,944	125,575	

19.1.3 Price Risk

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 interest 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 instruments traded in the market.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as 'at fair value through profit or loss'. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the Trust Deed. The NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 30% of the net assets or index weight of securities whichever is higher, subject to maximum of 35% of net assets.

In case of 5% increase / decrease in the KSE 100 index on June 30, 2012, net income for the year would increase / (decrease) by Rs. 1.958 million (2011: Rs 5.586 million) and net assets of the Fund would increase / (decrease) by the same amount as a result of gains / (losses) on equity securities classified as 'at fair value through profit or loss.'

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE 100 index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of the KSE 100 Index.

19.2 Credit risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. Credit risk arises from deposits with banks and financial institutions, credit exposure arising as a result of dividends receivable on equity securities, receivable against sale of investments and investments in debt securities. For banks and financial institutions, only reputed parties are accepted. Credit risk on dividend receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the National Clearing Company of Pakistan Limited. The risk of default is considered minimal due to inherent systematic measures taken therein.

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. The Fund does not expect to incur material credit losses on its financial assets.

The analysis below summarises the credit quality of the Fund's financial assets as at June 30, 2012 and June 30, 2011.

Bank balances by rating category

	2012	2011
A1+	0.00%	6.08%
A-1+	0.00%	0.12%
A-1+	0.00%	0.03%
A2	0.00%	93.77%
A3	100.00%	0.00%
	<u>100.00%</u>	<u>100.00%</u>

The maximum exposure to credit risk before any credit enhancement as at June 30, 2012 is the carrying amount of the financial assets. Investments in equity securities, however, are not exposed to credit risk.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is mostly concentrated in equity securities and deposits held with commercial banks.

19.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

The Fund is exposed to the daily settlement of equity securities and to daily cash redemptions, if any. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed of. The Fund's listed securities are considered readily realisable, as they are listed on the Karachi Stock Exchange.

The Fund has the ability to borrow in the short term to ensure settlement. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

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 Fund did not withhold any redemption requests during the year.

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

----- As at June 30, 2012 -----				
Total	Upto three months	Over three months and upto one year	Over one year	
----- Rupees in '000 -----				
228	228	-	-	
63	63	-	-	
961	961	-	-	
<u>1,252</u>	<u>1,252</u>	<u>-</u>	<u>-</u>	
----- As at June 30, 2011 -----				
Total	Upto three months	Over three months and upto one year	Over one year	
----- Rupees in '000 -----				
29	29	-	-	
60	60	-	-	
4,745	4,745	-	-	
1,083	1,083	-	-	
<u>5,917</u>	<u>5,917</u>	<u>-</u>	<u>-</u>	

Financial liabilities

Payable to the Management Company
Payable to Central Depository Company of Pakistan Limited - Trustee
Accrued expenses and other liabilities

Financial liabilities

Payable to the Management Company
Payable to Central Depository Company of Pakistan Limited - Trustee
Payable against purchase of investment
Accrued expenses and other liabilities

20 UNIT HOLDERS' FUND RISK MANAGEMENT

The unit holders' fund is represented by redeemable units. They are entitled to distributions and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the 'Statement of Movement in Unit Holders' Fund'.

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable to the Fund.

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns to the unit holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 19, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

21 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are traded in an open market are revalued at the market prices prevailing at the close of trading on the reporting date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

International Financial Reporting Standard "Financial Instruments: Disclosure" requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3) Investments of the Fund carried at fair value are categorised as follows:

Assets	As at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Financial assets classified as 'at fair value through profit or loss'				
- Investment in listed equity securities	122,558	-	-	122,558

Assets	As at June 30, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets classified as 'at fair value through profit or loss'				
- Investment in listed equity securities	111,716	-	-	111,716

22 TRANSACTIONS WITH TOP TEN BROKERS / DEALERS

List of top ten brokers by percentage of commission paid for the year ended June 30, 2012

	Percentage
(i) Kasb Securities Limited	10.72
(ii) Foundation Securities (Private) Limited	9.71
(iii) Fortune Securities Limited	8.31
(iv) Standard Capital Securities (Private) Limited	7.79
(v) Habib Metropolitan Financial Services Limited.	7.64
(vi) Arif Habib Limited	7.28
(vii) Invest & Finance Securities Limited	6.87
(viii) Pearl Securities Limited	6.38
(ix) Al Habib Capital Market (Private) Limited	6.10
(x) Taurus Securities Limited	6.03

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

List of top ten brokers by percentage of commission paid for the year ended June 30, 2011

(i) Next Capital Limited	25.77
(ii) KASB Securities Limited	18.34
(iii) Global Securities Pakistan Limited	11.74
(iv) Fortune Securities Limited	9.51
(v) Foundation Securities (Private) Limited	9.48
(vi) Taurus Securities Pakistan Limited	6.64
(vii) AKD Securities Limited	4.75
(viii) M.R.A. Securities (Private) Limited	4.64
(ix) First Capital Equities Limited	4.59
(x) Elixir Securities Pakistan (Private) Limited	4.51

23 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of the investment committee of the Fund are as follow:

Name of Member	Designation	Qualification	Experience in years
1 Amer Maqbool	Chief Executive Officer	MBA	16
2 Jaimshed A. Khan	Chief Investment Officer	BSc (Hons)	13
3 Syed Adnan Abdali	Chief Financial Officer	ACMA	8
4 Irfan Nepal	Fund Manager	B.Com	16
5 Shehzad Mubashir	Research Analyst	MBA	3
6 Veronica Pong	Secretary Investment Committee	MA Economics	9

23.1 Mr. Irfan Nepal is the Manager of the Fund. He is also the Fund Manager of Crosby Dragon Fund.

24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 50th, 51st, 52nd, 53rd, 54th, 55th, 56th, 57th, 58th and 59th Board meetings were held on July 04, 2011, August 03, 2011, August 19, 2011, September 15, 2011, October 28, 2011, February 15, 2012, March 16, 2012, April 02, 2012, April 27, 2012, May 18, 2012 respectively. Information in respect of attendance by the Directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
1 Mr. Robert G. Richard Owen	10	10	-	-
2 Mr. Syed Muhammad Rohmanullah*	4	4	-	-
3 Mr. Muzaffar Ali Shah Bukhan	10	7	3	52nd, 53rd and 54th
4 Mr. Qaiser P. Multa	10	10	-	-
5 Mr. Amer Maqbool	10	10	-	-

*Mr. Syed Rehmanullah was not re-elected on Board at elections held in October 2011

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

25 CORRESPONDING FIGURES

Corresponding figures have been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. No significant rearrangements or rectifications were made in these financial statements.

26 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The Board of Directors of the Management Company in their meeting held on July 5, 2012 have approved a distribution by way of bonus issue of Rs 1.70 per unit (2011: Rs 3.00 per unit) for the year ended June 30, 2012. The financial statements of the Fund for the year ended June 30, 2012 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ended June 30, 2013.

27 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 4, 2012 by the Board of Directors of the Management Company.

28 GENERAL

28.1 Figures have been rounded off to the nearest thousand Rupees.

For KASB Funds Limited
(Management Company)

Chief Executive

Director