

KASB CAPITAL PROTECTED —GOLD FUND—

REPORT

for the Year Ended June 30, 2010

Report

Managed by:



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FUND INFORMATION

Management Company

KASB Funds Limited
Registered Office:
9th Floor, Trade Centre, I. I. Chundrigar Road,
Karachi-74200, Pakistan

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

Board of Directors of KASB Funds Limited

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

Chief Financial Officer

Mr. Muhammad Imran Khaali

Company Secretary

Mr. Muhammad Imran Khaali

Audit Committee

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

Trustee

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

Fund Rating

**AA (cpf) by JCR-VIS
(April 2010)**

Bankers to the Fund

Standard Chartered Bank (Pakistan) Limited
Habib Metropolitan Bank Limited

Auditors

KPMG Taseer Hadi & Co. - Chartered
Accountants, First Floor, Shiekh Sultan Trust
Building No. 2, Beaumont Road,
P.O.Box 8517, Karachi

Legal Advisor

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

Registrar

Noble Computer Services (Pvt.) Limited
Mezzanine Floor, House of Habib Building
(Siddiqsons Tower) 3-Jinnah Cooperative Housing Society,
Main Shakra-e-Faisal Karachi-75350

Distributors

KASB Funds Limited
KASB Bank Limited
KASB Securities Limited
Standard Chartered Bank (Pakistan) Limited
BMA Financial Services Limited
Vector Consultants

Management Company Rating

**Rated AM3+ by JCR-VIS
(May 2010)**

MISSION STATEMENT

KASB Capital Protected Gold Fund (KCPGF) is an open-ended fund that aims to protect investors' capital at maturity through the investment structure by placing a significant percentage of the Fund as term deposit (s) with Scheduled Commercial Bank(s) or Development Finance Institutions (DFIs) having a minimum long term rating of 'AA-' assigned by credit rating agency registered with the Commission. Remaining funds are utilized to gain exposure to Gold through the Commodity Exchange listed gold contracts in Pakistan Rupees providing higher return possibilities.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the period from November 2, 2009 to June 30, 2010

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Capital Protected Gold Fund (KCPGF, the Fund), is pleased to present the first Annual Report, together with the audited financial statements of the Fund for the period from November 2, 2009 to June 30, 2010.

Financial Highlights	For the period from November 2, 2009 to June 30, 2010
Net Income (Rs. in Million)	14.06
Net Assets as at June 30 (Rs. in Million)	74.03
NAV per Unit as on June 30 (Rs.)*	103.10
Return yield (%)	3.10

* Par value of each unit is Rs. 100.

Economic Environment

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD16.76bn), robust workers' remittances of over USD 9 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy & water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity. Interest rates in the economy continue to remain firm as the central bank strictly follows tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

Capital & Commodities Market

International Gold prices as on period end (June 30th) were quoted at USD1243 per ounce corresponding to a local price of Rs. 33,985 per 10 grams. Gold prices have risen since the launch of the fund but have been range bound in a USD1060-1250 range in 2010. Most analysts are forecasting a gradual rise in Gold prices over the next two years as Western economies broadly continue to be in recession and developing economies of China and India continue to accumulate Gold. USD weakness, economic uncertainty in the West and the very real prospect of paper currency losing its value has put Gold in the forefront in many long only and hedge fund manager's portfolios.

While the benchmark (80% Term Deposit rates of AA- and above rated scheduled banks + 20% daily average of closing Pakistan Rupee gold prices at the Commodity Exchange) of the fund posted a return of 0.36% since inception, the Fund recorded a return of 0.27%.

Investment Strategy

KCPGF was launched on March 19, 2010 and is an open-end fund that aims to protect investors' capital at maturity through the investment structure by placing a significant percentage of the Fund as term deposit (s) with Scheduled Commercial Bank(s) or Development Finance Institutions (DFIs) having a minimum long term rating of 'AA-', 81% of the fund size has been placed with Habib Metropolitan Bank Limited. Remaining funds are utilized to gain exposure to Gold through the Commodity Exchange listed gold contracts in Pakistan Rupees providing higher return possibilities. Investments in the gold portion have commenced with full force and at period end, almost all allocation available to gold had been utilized.

Fund Performance

For the period ended June 30, 2010, the Fund earned a net income of Rs. 14.06 million and the total net assets of the fund stood at Rs. 474.03 million at the end of the period translating into a NAV per unit of Rs. 103.10 (Par Rs. 100). In just over three months of operation, the fund has managed to give an annualized return of around 12% to investors.

Income Distribution

The Board of Directors of KASB Funds Limited approved a bonus distribution of Rs. 2.90 per unit to the unit holders of KASB Capital Protected Gold Fund. The fund size of KCPGF was Rs. 474.03 million on June 30, 2010. During the period, units worth Rs. 463.34 million were issued and units with a value of Rs. 3.55 million were redeemed. As on June 30, 2010, the total number of outstanding units was 4,597,901 with a value of Rs. 474.03 million.

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, 2010, as reduced by capital gains whether realized or unrealized, therefore, its income will not be subject to income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Sale and redemption of units

The fund size of KCPGF was Rs. 474.03 million on June 30, 2010. During the period, units worth Rs. 463.34 million were issued and units with a value of Rs. 3.55 million were redeemed. As on June 30, 2010, the total number of outstanding units was 4,597,901 with a value of Rs. 474.03 million.

Code of Corporate Governance

The Board of Directors states that:

- The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- Proper books of accounts of the Fund have been maintained.
- Appropriate accounting policies have been adopted for preparation of financial statements of the Fund and accounting estimates are based on reasonable and prudent judgments.
- Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International 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

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the period from November 2, 2009 to June 30, 2010

NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Regulations 2008 and the said directives shall prevail.

- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k) The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2010 is disclosed in note 21 of the financial statements.

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

S. No	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Ms. Naz Khan	Director & Chief Executive	2,000	Nil
2.	Mr. Muhammad Imran Khalil	CFO & Company Secretary	200	Nil

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2010, banks and financial institutions held 15.46% out of the total units; individuals held 58.41% units and Retirement Funds held 26.13% units. Detailed pattern is also annexed.

Future Outlook

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

Internationally, the dollar remains under pressure due to a record US deficit and investors continue to have faith in safe havens and the Euro region grapples with its own debt woes, we expect Gold prices to rise gradually in 2011 and beyond. Domestically, if the exchange rate weakens, rupee gold prices will strengthen. While gold jewellery demand has diminished due to record prices, investment demand has surged many folds and would remain to be the primary driver for gold prices.

Auditors

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadi & Co. – Chartered Accountants as auditors of KASB Capital Protected Gold Fund for the financial year ending June 30, 2011. The Board has approved the appointment.

Acknowledgement

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

For and on behalf of the Board

August 27, 2010
Karachi

Naz Khan
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS)

As at June 30, 2010

	Units held	Units held (%)
Associated companies		
KASB Bank Limited	710,388	15.45
KASB Funds Limited	568	0.01
KASB Bank Limited Employees' Provident Fund	96,852	2.11
Directors & Chief Executive		
<i>Chief Executive</i>		
Ms. Naz Khan	2,000	0.04
<i>Director</i>		
Mr. Fareed Arshad Masood	120	0.01
Executives	1,447	0.03
Individuals	2,681,922	58.33
Retirement Funds	1,104,604	24.02
	4,597,901	100.00

PERFORMANCE TABLE

	2010*
Total net asset value as at June 30 (Rs. '000)	474,027
Net asset value per unit as at June 30 (Rs.)	103.10
Selling price for units as at June 30 (Rs.)	Not Applicable
Repurchase price for units as at June 30 (Rs.)	97.94
Final dividend distribution per unit (Rs.)	2.90
Date of final distribution	July 3, 2010
Highest selling price per unit (Rs.)	103.25
Lowest selling price per unit (Rs.)	100.00
Highest repurchase price per unit (Rs.)	98.19
Lowest repurchase price per unit (Rs.)	95.01

Return since inception is 3.10%
*Launch date of the Fund is March 19, 2010

Disclaimer:

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

ANNUAL FUND MANAGER'S REPORT

Type & Category of Fund

Capital Protected

Inception Date

March 19, 2010

Investment objective

The Fund aims to protect investors' capital at maturity through the investment structure by placing a significant percentage of the Fund as term deposit (s) with Scheduled Commercial Bank(s) or Development Finance Institutions (DFIs) having a minimum long term rating of 'AAJ', assigned by a credit rating agency registered with the Commission. Remaining funds are utilized to gain exposure to Gold through the National Commodity Exchange listed gold contracts providing higher return possibilities.

Accomplishment of objective

The fund is achieving its objective of capital protection by investing in TDRs with a Commercial Bank having AA+ rating, while simultaneously obtaining returns by gaining exposure to bullion through listed contracts.

Benchmark

80% TDR of AA+2d and above rated Scheduled Banks for same maturity as the Capital Protected portion of the fund at inception + 20% daily average of closing Pakistan rupee Gold prices at the Commodity Exchange

	KCPGF Return (%)	Benchmark return (%)
Since inception	3.10	5.02
For June 2010	0.61	1.06

Strategies and policies employed during the period

The fund invested a maximum of 81.9% and a minimum of 80.8% in TDRs. The Fund invested in bullion contracts in line with global outlook on the commodity.

Asset Allocation

	June 30, 2010 (%)
TDR	80.82
Gold	11.27
Cash	4.05
Others/ Payables	3.86

Significant changes in asset allocation during the period

Asset allocation of the Fund changes dynamically as per global gold market outlook. There has been no significant change in the asset allocation of the Fund since inception. (Please insert explanation if required)

Fund Performance

KCPGF has provided a return of 3.10% inception.

The AUM of the fund stood at PKR 474 million (NAV per unit: Rs 103.10 on June 30, 2010).

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

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

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

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

International Gold prices as on period end (June 30th) were quoted at USD1,243 per ounce corresponding to a local prices of Rs. 33,985 per 10 grams. Gold prices have risen since the launch of the fund but have been range bound in a USD100-150 range in 2010. Most analysts are forecasting a gradual rise in Gold prices over the next two years as Western economies broadly continue to be in recession and developing economies of China and India continue to accumulate Gold. USD weakness, economic uncertainty in the West and the very real prospect of paper currency losing its value has put Gold in the forefront in many long only and hedge fund manager's portfolios. Goldman Sachs has recently given a conservative gold price target of USD1300 per ounce for year end 2010. SPDR Trust, the largest Gold ETF has reported holdings of around 1300 tonnes (valued at over USD50bn) indicating demand for physical gold.

Fund performance by market(s) and by instruments

For details, please refer to the full yearly accounts.

Distribution

The fund distributed Rs 2.90 as final dividend for FY10

Date of Distribution	Amount of Distribution (PKR)	NAV (PKR)	Ex-NAV of Fund (PKR)
July 03, 2010	2.90	103.10	100.20

Significant changes in the state of affairs

There have been no significant changes in the state of affairs since the inception of the fund.

Breakdown of unit holdings by size

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

Unit Splits

There were no unit splits during the period.

Circumstances materially affecting the interests of the unit holders

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

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.

Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

The KASB Capital Protected Gold Fund (the Fund), an open-end fund was established under a Trust Deed dated September 01, 2009, executed between KASB Funds Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund for the period from November 02, 2009 to June 30, 2010 in accordance with the provisions of the following:

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

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

Karachi, September 22, 2010

Statement of Compliance with the Code of Corporate Governance

For the period from November 2, 2009 to June 30, 2010

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 35 of the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited ("KSE" or "the Stock Exchange"). The purpose of the Code is to establish a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. KASB Funds Limited ("the Company" or "the Management Company"), which is an Unlisted Public Limited Company, is the Management Company of KASB Capital Protected Gold Fund ("the Fund"). The Fund being an open-end scheme doesn't have its own Board of Directors ("the Board"). The Management Company, which manages the affairs of the Fund, has applied the principals contained in the Code to the Fund, whose Units are listed on the Stock Exchange, in the following manner:

- The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors and none of the directors represent minority shareholders.
- The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including the Management Company.
- All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DTI or an NBTI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- On February 12, 2010, Mr. Amir Zahoor Khan resigned from the Board of the Management Company. Mr. Muzaffar Ali Shah Bukhari was appointed in his place to duly fill the vacancy. Further, on February 19, 2010 Mr. Farid Arshad Masood resigned from the Board of the Management Company and the Board appointed Mr. Masood Karim Sheikh in his place. However, application for appointment of Mr. Masood Karim Sheikh as Director on Board of the Management Company has been filed with the Securities and Exchange Commission of Pakistan and is currently under process.
- The Management Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Management Company.
- The Board has developed a vision/mission statement and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
- The meetings of the Board were presided over by the Chairman of the Board. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
- During the year, there was a change of the Company Secretary and the Internal Auditors; however, there was no change of Chief Financial Officer.
- The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements of the Fund were duly endorsed by 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 that disclosed in the pattern of unit-holding.
- The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
- The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
- The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for compliance.
- The Management Company had outsourced the internal audit function to a firm of Chartered Accountants (Ernst and Young Ford Rhodes Sidat Hyder & Co.) up to March 31, 2010. However, since Ernst and Young Ford Rhodes Sidat Hyder & Co. have been appointed as the Statutory Auditors of the Management Company for the year ending December 31, 2010, the Board Audit Committee has appointed Ms. Saman Hasan Qadri as the Internal Auditor of the Management Company. The said person is conversant with the policies and procedures of the Company and involved in the Internal Audit function on a full time basis.
- The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
- 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 related party transactions have been placed before the Audit Committee and approved by the Board with necessary justification for non arm's length transactions (if any) and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
- We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 27, 2010
Karachi

Naz Khan
Chief Executive

**REVIEW REPORT TO THE UNIT HOLDERS OF KASB CAPITAL PROTECTED GOLD FUND "THE FUND"
ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

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

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

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

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

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **KASB Capital Protected Gold Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2010, and the income statement, cash flow statement, distribution statement, statement of movement in Unit Holders' Fund for the period from 2 November 2009 to 30 June 2010 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2010, and of its financial performance, cash flows and transactions for the period from 2 November 2009 to 30 June 2010 in accordance with approved accounting standards as applicable in Pakistan.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2010

	<i>Note</i>	2010 (Rupees in '000)
ASSETS		
Capital Protection Segment		
Term deposit receipts	4	383,100
Income receivable - term deposit receipts		11,469
		<u>394,569</u>
Investment Segment		
Bank balances	5	72,599
Investments	6	(102)
Income receivable - bank deposits		618
Deposits		9,832
		<u>82,947</u>
Preliminary expenses and floatation costs	7	1,764
Total assets		<u>479,280</u>
LIABILITIES		
Payable to KASB Funds Limited - Management Company	8	2,734
Payable to Central Depository Company of Pakistan Limited - Trustee	9	58
Payable to The Securities and Exchange Commission of Pakistan	10	118
Accrued expenses and other liabilities	11	2,343
Total liabilities		<u>5,253</u>
Net assets		<u>474,027</u>
Unit holders' funds		<u>474,027</u>
		(Number of units)
Number of units in issue		<u>4,597,901</u>
		(Rupees)
Net asset value per unit		<u>103.10</u>
Commitments	15	

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT

For the period from November 2, 2009 to June 30, 2010

	Note	For the period from November 2, 2009 to June 30, 2010 (Rupees in '000)
Income		
Income from term deposit receipts - capital protection segment		11,469
Profit on bank deposits		3,389
Capital gain on sale of investments		4,779
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	6	(102)
Total Income		<u>19,535</u>
Expenses		
Remuneration of KASB Funds Limited - Management Company	8.1	2,298
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	198
Annual fee - The Securities and Exchange Commission of Pakistan	10.1	98
Transaction costs on securities		52
Settlement and bank charges		44
Legal and professional charges		40
Fees and subscription		180
Auditors' remuneration	12	246
Amortization of preliminary expenses and floatation costs		289
Provision for Workers' Welfare Fund	13	281
Provision for Zakat		1,667
Printing and other expenses		82
Total expenses		<u>5,475</u>
		14,060
Net realised element of loss and capital losses included in prices of units issued less those in units redeemed		(1)
Net income for the period		<u>14,059</u>
Earnings per unit	14	

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT

For the period from November 2, 2009 to June 30, 2010

	For the period from November 2, 2009 to June 30, 2010 (Rupees in '000)
Undistributed income brought forward	-
Net income for the period	14,059
Undistributed income carried forward	<u>14,059</u>
Undistributed income carried forward	
- Realised gains	14,161
- Unrealised losses	(102)
	<u>14,059</u>

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

For the period from November 2, 2009 to June 30, 2010

	For the period from November 2, 2009 to June 30, 2010 (Rupees in '000)
Net assets at beginning of the period	-
Issue of 4,632,902 units for the period from November 2, 2009 to June 30, 2010	463,336
Redemption of 35,001 units for the period from November 2, 2009 to June 30, 2010	(3,546)
	459,790
Element of losses and capital losses included in prices of units issued less those in units redeemed:	
- amount representing accrued losses and realised capital losses - transferred to the Income Statement	1
Capital gain on sale of investments - 'at fair value through profit or loss'	4,779
Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	(102)
Other net income for the period	9,382
Transferred to the special reserve account	14,059
	177
Net assets at end of the period	474,027
	(Rupees)
Net asset value per unit as at beginning of the period	100.00
Net asset value per unit as at end of the period	103.10

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

Chief Executive

For KASB Funds Limited
(Management Company)

Director

CASH FLOW STATEMENT

For the period from November 2, 2009 to June 30, 2010

	For the period from November 2, 2009 to June 30, 2010 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the period	14,059
Adjustments for:	
Net realised element of loss and capital losses included in prices of units issued less those in units redeemed	1
Amortization of preliminary expenses and floatation costs	289
	14,349
(Increase) / decrease in assets	
Preliminary expenses and floatation costs	(2,053)
Term deposit receipts with maturity of more than three months	(383,100)
Investments - net	102
Income receivable	(12,087)
Deposits and prepayments	(9,832)
	(406,970)
Increase in liabilities	
Payable to KASB Funds Limited - Management Company	2,734
Payable to Central Depository Company of Pakistan Limited - Trustee	58
Payable to The Securities and Exchange Commission of Pakistan	118
Accrued expenses and other liabilities	2,343
	5,253
Net cash used in operating activities	(387,368)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net receipts from sale and redemption of units	459,967
Net increase in cash and cash equivalents during the period	72,599
Cash and cash equivalents at beginning of the period	-
Cash and cash equivalents at end of the period	72,599

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

Chief Executive

For KASB Funds Limited
(Management Company)

Director

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Capital Protected Gold Fund (the Fund) was established under a Trust Deed executed on September 1, 2009 between KASB Funds Limited as Management Company and Central Depository Company of Pakistan Limited as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on September 17, 2009 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 through a certificate of registration issued by SECP. The registered office of the management company is situated at 9th Floor, Trade Center, I, I. Chundrigar Road, Karachi, Pakistan. JCR-VIS has assigned management quality rating of AM3+ to the Management Company of the Fund.

The Fund is an open end capital protected fund that aims to protect investors' capital at maturity through the investment structure by placing a significant percentage of the Fund in term deposit(s) with Scheduled Commercial Bank(s) or Development Finance Institutions (DFIs) having a minimum long term rating of 'AA-' assigned by credit rating agency registered with the Commission. Remaining funds are utilised to gain exposure to listed gold contracts through the National Commodity Exchange Limited providing higher return possibilities.

The Fund is listed on The Karachi Stock Exchange (Guarantee) Limited.

The duration of the Fund is two years following the last day of initial offering period i.e. March 19, 2010

The Fund consists of two segments, Capital Protected Segment and Investment Segment. The Capital Protected Segment aims at protecting initial investment value of the investors till completion of minimum period, provided investment held by respective unit holders for minimum period as laid down in constitutive documents of the Fund. Capital Protection is provided through the investment structure of the Fund as detailed in the Offering Document(s) to preserve the Initial Investment Value and not through an undertaking by the Management Company or Trustee, who shall not be liable as guarantors or otherwise. The remaining portion of the Fund will be part of Investment Segment and will be invested in Gold contracts or kept in saving accounts with commercial banks.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after July 01, 2010 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

IFRS 2 (amendment) - Share - based payments and withdrawal of IFRIC 8 - Scope of IFRS 2 and IFRIC 11 - Group and Treasury Share Transactions (effective for annual periods beginning on or after January 01, 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities.

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

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

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

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

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

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

2.3 Basis of measurement

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

2.4 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value and derivative financial instruments

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

Other assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these financial statements. During the year, IAS 1 (revised) has become effective. The revised standard introduces the statement of comprehensive income, which may be presented as one statement (i.e. the statement of comprehensive income) or two separate statements (i.e. income statement and statement of comprehensive income). At present, the Fund has no item to be reported in other comprehensive income, hence no such statement is prepared and total comprehensive income equals reported net income for the period.

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments as 'at fair value through profit or loss'

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) Available-for-sale

Available for sale financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available for sale.

d) Financial liabilities

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

Recognition

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

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement.

Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement.

Fair value measurement principles

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. In case of trading in Gold Contracts (physical contracts and/or future contracts) the transactions of any specific working day are recognised immediately after the close of the respective day's trading session of National Commodity Exchange Limited (NCEL).

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

Therefore, the net assets value of the Fund of any specific business day shall represent the impact of all the transactions in Gold Contracts (physical contracts and/or future contracts) entered into, before the close of the immediately preceding session of NCEL.

Securities under repurchase/resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement.

All reverse repo transactions are accounted for on the settlement date.

Impairment

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

The subsequent decrease in impairment loss is recognised in Income Statement.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

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

Offsetting of financial instruments

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

3.2 Unit holders' funds

Unit holders' funds representing the units issued by the Fund, is carried at the net asset value amount representing the investors' right to a residual interest in the Fund assets.

3.3 Issue and redemption of units

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

Units redeemed are recorded at the redemption price, applicable 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, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

An equalization 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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

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

3.5 Provisions

Provisions are recognised when the Fund has a present, legal or constructive obligation as a result of past event, 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.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represents expenditure incurred prior to the commencement of operations of the Fund. These costs are amortised over the life of the Fund commencing from February 16, 2010.

3.7 Net asset value per unit

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

3.8 Taxation

Current

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

Deferred

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

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

3.9 Revenue recognition

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

3.10 Expenses

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

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of deposit accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

3.12 Other assets

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

3.13 Dividend distributions and appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

		2010 (Rupees in '000)
4. TERM DEPOSIT RECEIPTS		
In term deposit receipt	4.1	<u>383,100</u>
4.1	This represents term deposit receipts with a commercial bank and carry mark-up at the rate of 11.75% per annum maturing on March 30, 2012. The said deposit has been placed by the Fund to ensure that these deposits are grown to become at least 100% of the total invested value.	
5. BANK BALANCES		
In deposit accounts	5.1	<u>72,599</u>
5.1	These deposit accounts carry mark-up at the rate of 5% to 10.48% per annum.	
6. INVESTMENTS		
At fair value through profit or loss		
<i>Held for trading</i>		
- Futures Gold Contracts	6.1	<u>(102)</u>
6.1	This represents the net unrealised loss on future Gold Ounce and Gram Contracts with settlement dates of August 27, 2010 and August 18, 2010, respectively.	
7. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs		2,053
Less: Amortization during the period		<u>(289)</u>
Balance as at June 30		<u>1,764</u>
8. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY		
Management fee payable	8.1	681
Other payable		<u>2,053</u>
		<u>2,734</u>
8.1	Under the provisions of Non Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.75 percent per annum of the average annual net assets of the Fund for the current period.	
9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
Trustee fee	9.1	<u>58</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

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

		2010 (Rupees in '000)
10. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	10.1	<u>118</u>
10.1 As per Schedule II of the NBFC Regulations 2008, a capital protected fund is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Scheme.		
11. ACCRUED EXPENSES AND OTHER LIABILITIES		
Auditors' remuneration		195
Credit rating fee payable		100
Others		<u>2,048</u>
		<u>2,343</u>

- | | | |
|-----------------------------------|------|------------|
| 12. AUDITORS' REMUNERATION | | |
| Audit fee | 12.1 | 175 |
| Other certifications and services | | <u>71</u> |
| | | <u>246</u> |

- 12.1 Audit fee includes services for audit of annual financial statements and limited review of condensed interim financial information.

13. **PROVISION FOR WORKERS' WELFARE FUND**
In pursuance of the order passed by the Honorable High Court of Sind against the constitutional petition filed by Mutual Funds Association of Pakistan (MUFAP), the Management Company recorded provision for Workers' Welfare Fund (WWF) for the period ended June 30, 2010 amounting to Rs. 0.281 million in these financial statements. However, subsequent to the period end, Ministry of Labor has issued certain clarifications regarding applicability of WWF on mutual funds and the matter is currently under review and discussion.

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

- | | | |
|-----------------|--|--------------|
| 15. COMMITMENTS | | <u>4,468</u> |
|-----------------|--|--------------|

This represents the gross value of future Gold Ounce and Gram Contracts with settlement date of August 27, 2010 and August 18, 2010, respectively.

16. **TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**
Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company KASB Securities Limited, KASB Modaraba, and New Horizon Exploration and Production Limited being the companies under common management, Central Depository Company of Pakistan Limited being the Trustee, other Funds managed by the management company (including KASB Stock Market Fund, KASB Balanced Fund, KASB Islamic Income Fund, KASB Cash Fund and KASB Liquid Fund) and directors, key management personnel and officers of the Management Company.

The transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations 2008 and the Trust Deed respectively.

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

		For the period from November 2, 2009 to June 30, 2010 (Rupees in '000)
16.1 Transactions		
KASB Funds Limited		
Remuneration		2,298
Sales load		<u>10,648</u>
Transfer in the Fund: 290,907 units for the period from November 2, 2009 to June 30, 2010		<u>29,503</u>
Transfer out the Fund: 290,907 units for the period from November 2, 2009 to June 30, 2010		<u>29,444</u>
KASB Bank Limited		
Investment in the Fund: 1,000,000 units for the period from November 2, 2009 to June 30, 2010		<u>100,000</u>
Transfer out the Fund: 289,612 units for the period from November 2, 2009 to June 30, 2010		<u>29,369</u>
KASB Bank Limited Employees' Provident Fund		
Investment in the Fund: 96,852 units for the period from November 2, 2009 to June 30, 2010		<u>10,000</u>
KASB Securities Limited		
Brokerage Expense	16.3	<u>14</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration		<u>198</u>
Directors and officers of the Management Company		
Investment in the Fund: 7,267 units for the period from November 2, 2009 to June 30, 2010		<u>727</u>
Transfer out the Fund: 300 units for the period from November 2, 2009 to June 30, 2010		<u>31</u>
Redemption from the Fund: 300 units for the period from November 2, 2009 to June 30, 2010		<u>29</u>
16.2 Balances		2010 (Rupees in '000)
KASB Funds Limited		
Payable to Management Company		<u>2,734</u>
Units held: 568 units		<u>59</u>
KASB Bank Limited		
Bank balance	16.4	<u>8</u>
Units held: 710,388 units		<u>73,241</u>
KASB Bank Limited Employees' Provident Fund		
Units held: 96,852 units		<u>9,985</u>
Central Depository Company of Pakistan Limited - Trustee		
Payable to the Trustee		<u>58</u>
Directors and officers of the Management Company		
Units held: 6,667 units		<u>687</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

16.3 The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as ultimate counter-parties are not connected persons.

16.4 The rate of return on this deposit account is 5% per annum.

17. RISK MANAGEMENT

The Board of Directors of management company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by investment committee under policies approved by Board of Directors.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's activities expose it to a variety of financial risks such as:

- Market risk;
- Credit risk; and
- Liquidity risk.

Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of gold due to a change in market sentiments, demand and supply for gold, foreign exchange rate, speculative activities, volume of trading and liquidity in the market.

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

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

Currency risk

Currency risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at June 30, 2010, the Fund has investment in Future Gold Contract denominated in US Dollars that exposes the Fund to foreign currency risk, which may affect the value of the Fund's net assets due to favorable or unfavorable fluctuations in currency rates.

As at June 30, 2010, if the PKR was strengthened / weakened by 10% against the US Dollar with all other variables held constant, the net income for the period would have been higher / lower by Rs. 0.021 million with corresponding effect on net assets.

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and future cash flows.

As at June 30, 2010, the Fund has no investment exposed to interest rate risk. Consequently the Fund's income and operating cash flows are substantially independent of changes in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

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

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	June 30, 2010				Total
		Exposed to MROR Risk			Not exposed to MROR Risk	
		Up to three months	More than three months and up to one year	More than one year		
(Rupees in '000)						
Financial assets						
Bank balances	5 - 10.48	72,599	-	-	-	72,599
Investments		-	-	-	(102)	(102)
Term deposit receipts	11.75	-	-	383,100	-	383,100
Income receivable		-	-	-	12,087	12,087
Deposits		9,832	-	-	-	9,832
		82,431	-	383,100	11,985	477,516
Financial liabilities						
Payable to KASB Funds Limited - Management Company		-	-	-	2,734	2,734
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	58	58
Accrued expenses and other liabilities		-	-	-	2,062	2,062
		-	-	-	4,854	4,854
On-balance sheet gap 2010		82,431	-	383,100	7,131	472,662

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market.

As at June 30, 2010, the exposure of the Fund to other price risk was Rs. 0.102 million. A decrease / increase of 10% in the quoted price of Future Gold Contracts of National Commodity Exchange Limited would have an impact of approximately Rs. 0.01 million on the net income for the period with consequent effect on net assets of the Fund.

The sensitivity analysis is not necessarily an indicative of the effects on net income for the period and net assets of the Fund.

Credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund resulting in financial loss to the Fund. It arises primarily from bank balances, income receivable and deposits.

The Fund's maximum exposure to credit risk (before collateral and other credit enhancements) at June 30, 2010 is represented by carrying amount of term deposit receipts, bank balances and deposits reported in statement of assets and liabilities

Settlement risk

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

Bank balances

The Fund's cash and cash equivalents and term deposit receipts are held with a commercial bank having AA+ credit rating based on ratings assigned by a reputable credit rating agency.

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

Concentration of credit risk

There were no significant concentration of credit risk in the portfolio of investments other than term deposit receipts placed with a commercial bank having credit rating of AA+.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund. Units of the Fund are redeemable on demand at the holders' option.

The Fund's approach to managing liquidity is to have sufficient liquidity to meet its liabilities including estimated redemption of units as and when due without incurring undue losses or risk damages to the Fund's reputation.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

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

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

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

	June 30, 2010			Total
	Up to three months	More than three months and upto one year	More than one year	
	------(Rupees in '000)-----			
Payable to KASB Funds Limited - Management Company	2,734	-	-	2,734
Payable to Central Depository Company of Pakistan Limited - Trustee	58	-	-	58
Accrued expenses and other liabilities	2,062	-	-	2,062
	<u>4,854</u>	<u>-</u>	<u>-</u>	<u>4,854</u>

Unit Holders' Funds risk management

As a result of the ability to issue and repurchase/ redeem units except for core investors, the Unit Holders' Fund can vary depending on the demand for redemptions, and subscription to the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and repurchase / redemption of units, except for Rs.50 million at the time of launching of the Fund.

The Fund's objectives in managing the unit holders' fund are to ensure a stable base to maximise return to all investors, to preserve the initial investment value and also to manage liquidity risk arising from redemptions of units.

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

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

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

Investment in future gold contracts are valued at the rate quoted on immediately preceding session of National Commodity Exchange Limited. Therefore the fair value of investment in future gold contract are included within level 1 of the fair value hierarchy as discussed above.

19. PATTERN OF UNITHOLDING

Category	Number of unit holders	Investment amount	Percentage of total investment
	2010 (Numbers)	2010 (Rupees in '000)	2010 (%)
Individuals	236	276,646	58.36
Associated companies and Directors	5	83,500	17.62
Retirement Funds	21	113,881	24.02
Total	262	474,027	100.00

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

Broker Name	2010 (Percentage)
KASB Securities Limited	57.45
Investcap Investment Bank Limited	23.40
IGI Finex Securities Limited	19.15

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

Name of the Person	Designation	Meetings	
		Total Attended	Leave Granted
Mr. Robert John Richard Owen	Chairman	8	8
Mr. Amir Zahoor Khan	Director*	5	5
Mr. Farid Arshad Masood	Director**	7	6
Ms. Naz Khan	Chief Executive & Director	8	8
Mr. Syed Muhammad Rehmanullah	Director	8	8
Mr. Muhammad Imran Khalil	Chief Financial Officer & Company Secretary	8	8
Mr. Irfan Saleem Awan	Company Secretary***	3	3
Mr. Mirza Mahmood-ul-Hassan	Company Secretary****	4	4

NOTES TO THE FINANCIAL STATEMENTS

For the period from November 2, 2009 to June 30, 2010

*Mr. Amir Zahoor Khan resigned from the Board in the meeting held on February 12, 2010 and Mr. Muzaffar Ali Shah Bukhari was appointed Director after SECP granted approval on March 5, 2010.
 **Mr. Farid Arshad Masood resigned from the Board on February 19, 2010.
 ***Mr. Irfan Saleem Awan resigned on October 1, 2009.
 ****Mr. Mirza Mahmood-ul-Hasan resigned on June 10, 2010 and Mr. Muhammad Imran Khalil was appointed as Company Secretary on June 11, 2010 at his place.

Dates of the meetings of the Board of Directors

Subsequent to the launch of the Fund following meetings were held:

Thirty-sixth meeting	November 20, 2009
Thirty-seventh meeting	February 12, 2010
Thirty-eighth meeting	February 19, 2010
Thirty-ninth meeting	April 22, 2010

22. DETAILS OF MEMBERS OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	B.A (U.S.A)	17
Muhammad Faisal Potrik	Chief Investment Officer	MBA	10
Asim Jang	Ex-MD National Commodity Exchange	MS (Computational Finance)	25
Muhammad Kashif Masood	Representing Risk Management and Compliance	M Sc.(Economics)	03

23. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved bonus of Rs. 2.90 per unit for the period ended June 30, 2010 amounting to Rs.13.334 million in total in their meeting held on July 3, 2010.

24. DATE OF AUTHORISATION FOR ISSUE

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

25. GENERAL

The accounting period of the Fund started on November 2, 2009, therefore, there are no comparative figures to report in respect of income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' funds, cash flow statement and notes to the financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director