

KASB LIQUID FUND

Annual
Report 2006

Managed by:

 **KASB FUNDS**

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FUND'S INFORMATION

Management Company

KASB Funds Limited

Registered Office:

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

Principal Office :

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

UAN: (92-21) 111 535 535

Fax: (92-21) 263 9188

URL: www.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert Owen

Chairman

Ms. Naz Khan

Director & Chief Executive

Mr. Muneer Kamal

Director

Mr. Farid Arshad Masood

Director

Mr. Sulaiman Ahmed Saeed Al Hoqani

Director

Chief Financial Officer & Company Secretary

Mr. Rizwan Mansoor

Audit Committee

Mr. Muneer Kamal

Chairman

Mr. Robert Owen

Member

Mr. Farid Arshad Masood

Member

Trustee

Central Depository Company of Pakistan Limited

8th Floor, Stock Exchange Building,

Stock Exchange Road, Karachi.

Bankers to the Fund

KASB Bank Limited

Allied Bank Limited

Deutsche Bank

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 Computers (Pvt.) Limited

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

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

Distributors

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

First International Investment Bank Limited

MISSION STATEMENT

*KASB Liquid Fund seeks to
maximise current income,
consistent with low levels of risk and high liquidity.*

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Liquid Fund (KLF, the Fund), is pleased to present the first Annual Report, together with the audited financial statements of the Fund for the period from May 9, 2006 to June 30, 2006.

Financial Highlights

	For the period from May 9, 2006 to June 30, 2006
Net Income (Rupees in Million)	10.895
Net Assets as at June 30, 2006 (Rupees in Million)	730.692
NAV per Unit as at June 30, 2006 (Rupees)	101.51
Annualised yield for the period	10.60%

Economic Environment

On the back of last year's impressive GDP growth, the economy managed to carry the positive momentum by posting a GDP growth of 6.6% for the current fiscal year. Manufacturing sector was the major contributor by recording 9.00% growth followed by Services 8.80% and Agriculture by 2.50%. However as capacity utilisations peaked out across all sectors and demand drivers remained intact, the inflationary pressure was witnessed through out the year. Rising oil prices and growing current account deficit further fuelled the price index which showed only signs of tapering off towards the last quarter of the year under strict monetary tightening by SBP. In its bid to cut down the money supply and restrict inflation, a tight monetary stance was maintained through out the year by the Central Bank. The measures taken by the Central Bank included increasing the discount rate and enhancement of the cash and reserve requirements for banks which resulted in a parallel shift in the yield curve.

Income and Return of the Fund

The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 101.51, thus, giving an annualised yield since inception of 10.60%. The net income before distribution for the period from May 9, 2006 to June 30, 2006 was Rs. 10.895 million. Placements contributed Rs. 2.851 million towards the income, profit on bank deposits was Rs. 2.122 million and income from Continuous Funding System (CFS) was Rs.5.124 million.

Income Distribution

Board of Directors of KASB Funds Limited approved the distribution of Rs.1.40 per unit through bonus out of income of Rs.1.51 per unit earned during the period from May 9, 2006 to June 30, 2006 which translates into a distribution of 99% of realised income to the unit holders of KASB Liquid Fund. As the Fund has distributed more than 90% of the accounting income among the unit holders, its income will not be subject to income tax under Clause 99 of Part I of the Second Schedule of the Income Tax Ordinance, 2001.

Investment Strategy

KLF seeks to maximise current income, consistent with low levels of risk and high liquidity by primarily investing in low duration, liquid investments. The Fund also seeks to maintain an average duration of less than one year on the portfolio giving its investors the advantage of stable returns in times of interest rate volatility and fluctuations.

In light of a relatively flat yield curve, rising interest rates and consolidating stock market, the Fund chose to stay at the shorter end of the yield curve by increasing its exposure towards low duration placements and floating rate TFCs while reducing its exposure towards CFS and Ready Future Arbitrage. As at June 30, 2006, the Fund's investments as a share of total assets were: Bank Balances & Term Deposits 46.02%, Placements and Certificate of Investments 19.01%, CFS 15.26%, TFCs 9.57% and Spread Transactions 6.63% and Others 3.50%.

Going forward, the Fund will increase its investments in short term corporate debts and floating rate instruments while managing the interest rate risk.

Fund Performance

The Fund has earned a return of 10.60% p.a. for the period under review, while maintaining an average duration of the portfolio less than one year, against the average 1 Month KIBOR rate of 9.00% p.a. and average bank deposit rate of 6.20% p.a. for the same period.

Sale and Redemption of Units

KLF was publicly launched on May 9, 2006 with a fund size of Rs. 505 million which increased by 45% in less than 2 months to close at Rs. 730.692 million on June 30, 2006. During the period, units worth Rs. 876.901 million were issued and units with a value of Rs.158.004 million were redeemed. As on June 30, 2006, the total number of outstanding units was 7,197,970 with a value of Rs.730.692 million.

Compliance with the Code of Corporate Governance

The Fund was listed on the Karachi Stock Exchange on May 26, 2006. The Board of Directors state that:

- a. Financial statements, prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- b. Proper books of account of the Fund have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and account estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There is no significant doubt upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data is summarized in Note 26 of the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable in the case of the Fund as such expenses are borne by the Management Company.
- k. The detailed pattern of unit holding, as required by the Code of Corporate Governance is enclosed.

Voluntary Compliance Audit

To provide additional comfort to its unit holders, KASB Funds Limited is one of the few asset management companies in Pakistan which has voluntarily opted for an ongoing compliance audit in relation to computation of net asset value, valuation of investments and issue and redemption of units.

Meetings of the Directors

During the period under review, two meetings of the board of directors of the Company were held. Statement showing attendance of the directors in these meetings is as under:

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

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

S. No.	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Mr. Muneer Kamal	Director	8,000	-
2.	Mr. Farid Arshad Masood	Director	30,000	-
3.	Ms. Naz Khan	Director & Chief Executive	500	-

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2006, banks and financial institutions held 53.37% out of the total units; individuals 17.91% units; insurance companies, modarabas and mutual funds 9.17% units; public limited companies 6.95% units; other corporate sector entities and non-profit organisations 7.18% units and 5.42% units were held by retirement funds. Detailed pattern is also annexed.

Future Outlook

Market Outlook

Interest rates are expected to remain firm, till the inflationary pressure subsides to the target CPI level of 6.50%. With KIBOR rates moving up, the portfolio will benefit from re-pricing of floating rate instruments. In addition, the high ADR of the banking sector should fuel the issuance of short and long term corporate papers, providing the Fund with investment opportunities.

Equity Stake by Merrill Lynch Investment Managers in the Management Company

Merrill Lynch Investment Managers Group Limited, UK (MLIM), one of the leading global asset management companies with total assets under management of US\$589 billion as at June 30, 2006, has acquired an equity stake in the Management Company. This is one of the few equity investments in Pakistan made by a top tier global asset management firm. MLIM's investment will allow the Company to differentiate itself

in the local market and attract domestic and international investment into Pakistan's capital markets. The Company is expected to benefit from MLIM's expertise on product development and fund management as well as risk management, all areas which are ultimately expected to benefit the unit holders.

Auditors

The Audit Committee of the Board of Directors, in its meeting held on September 7, 2006, recommended the re-appointment of M/s KPMG Taseer Hadi & Co. - Chartered Accountants as auditors of KASB Liquid Fund for the financial year ending 2007. The Board has approved the appointment.

Acknowledgement

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

For and on behalf of the Board

September 7, 2006
Karachi

Naz Khan
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS) AS AT JUNE 30, 2006

	Units Held	Units Held (%)
Associated companies		
KASB Bank Limited	2,500,000	34.73
KASB Bank Limited Employees' Provident Fund	70,000	0.97
Directors and Chief Executive		
Chief Executive		
Ms. Naz Khan	500	0.01
Directors		
Mr. Muneer Kamal	8,000	0.11
Mr. Farid Arshad Masood	30,000	0.42
Public Limited Companies	500,000	6.95
Banks and Financial Institutions	2,001,627	27.81
Individuals	1,250,576	17.37
Retirement Funds	320,000	4.45
Other Corporate Sector Entities	497,512	6.91
Non-Profit Organisations	19,755	0.27
TOTAL	<u><u>7,197,970</u></u>	<u><u>100.00</u></u>

REPORT OF THE TRUSTEE KASB LIQUID FUND

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

KASB Liquid Fund, an open-end fund was established under a trust deed executed between KASB Funds Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on February 20, 2006. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on March 17, 2006.

In our opinion, KASB Funds Limited the Asset Management Company of KASB Liquid Fund has in all material respects managed KASB Liquid Fund during the period from May 9, 2006 to June 30, 2006 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

For the purpose of information, the attention of the Unit Holders is drawn towards Term Finance Certificates which have been valued on the basis of brokers' quotations instead of the closing rate quoted on stock exchange in accordance with Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Had these been valued on the basis of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 the net assets would have been lower by Rs. 0.533 million approximately.

September 7, 2006
Karachi

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

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM MAY 9, 2006 TO JUNE 30, 2006

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

1. The Company encourages representation of independent non-executive directors. All the directors except the Chief Executive Officer (CEO) of the Company are non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy has occurred in the Board during the period.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and has also been signed by the Board of Directors and employees of the Company.
6. The Company has developed a mission statement and significant policies for the Fund that has been approved by the Board of Directors of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board. The meeting of the Board are being held 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 meeting. The minutes of the meetings were appropriately recorded and circulated.
9. An orientation course was conducted in a meeting of the Board to apprise the directors of their duties and responsibilities.
10. The roles and responsibilities of the CEO have been approved by the Board of Directors. The Board has approved appointment and terms of employment of CFO and Company Secretary of the Company.
11. The Directors' report for the period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

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

For and on behalf of the Board

September 7, 2006
Karachi

Naz Khan
Chief Executive

REVIEW REPORT TO THE UNIT HOLDERS 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 the Management Company of KASB Liquid Fund to comply with the listing regulation 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 of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

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

September 7, 2006
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the annexed statement of assets and liabilities of the KASB Liquid Fund as at 30 June 2006 and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds together with the notes forming part thereof (here-in-after referred to as the "financial statements"), for the period from 9 May 2006 to 30 June 2006 and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Management Company (KASB Funds Limited) to establish and maintain a system of internal control and prepare and present the above said statements in conformity with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An Audit also includes assessing the accounting policies and significant estimates made by the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Management Company in respect of the KASB Liquid Fund as required by the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;
- b) in our opinion, the statement of assets and liabilities, the income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds have been drawn up in conformity with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and are in agreement with the books of accounts and are further in accordance with the accounting policies consistently applied and
- c) in our opinion and to the best of our information and according to the explanations given to us, the statement of assets and liabilities, income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds, together with the notes forming part thereof, conform with the approved accounting standards as applicable in Pakistan and give the information required by the Trust Deed and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, in the manner so required and respectively give a true and fair view of the state of the Fund's affairs as at 30 June 2006 and of the transactions of the Fund for the period from 9 May 2006 to 30 June 2006.

September 7, 2006
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2006

	Note	2006 (Rupees in '000)
Assets		
Bank balances	5	363,134
Placements	6	100,000
Certificate of investment	7	50,000
Receivable against sale of investments		18,462
Receivable against Continuous Funding System	8	120,394
Investments	9	127,868
Income receivable	10	4,577
Deposits and other receivables	11	1,703
Preliminary expenses and floatation costs	12	2,922
Total assets		789,060
Liabilities		
Payable against purchase of investments		51,971
Payable on redemption of units		749
Payable to KASB Funds Limited - Management Company	13	5,064
Payable to Central Depository Company of Pakistan Limited - Trustee	14	174
Accrued expenses and other liabilities	15	410
Total liabilities		58,368
Commitments	17	
Net assets		<u><u>730,692</u></u>
Unit holders' funds (as per statement attached)		<u><u>730,692</u></u>
		(Number of units)
Number of units in issue		<u><u>7,197,970</u></u>
		(Rupees)
Net asset value per unit		<u><u>101.51</u></u>

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

INCOME STATEMENT FOR THE PERIOD FROM MAY 9, 2006 TO JUNE 30, 2006

	Note	From May 9, 2006 to June 30, 2006 (Rupees in '000)
Income		
Income from Term Finance Certificates		794
Income from Continuous Funding System		5,124
Income from Term Deposit Receipts		1,820
Income from Placements		2,851
Income from Certificate of Investment		699
Profit on bank deposits		2,122
Capital loss on sale of investments		(916)
Realised gain on forward contracts		1,156
Unrealised appreciation on revaluation of investments	9.5	139
Unrealised appreciation on revaluation of forward contracts		603
Total income		14,392
Expenses		
Remuneration of KASB Funds Limited - Management Company	13.1	1,465
Remuneration of Central Depository Company of Pakistan Limited - Trustee	14.1	225
Annual fee - Securities and Exchange Commission of Pakistan	16	113
Brokerage		436
Settlement charges and bank charges		80
Fees and subscription		36
Auditors' remuneration	18	155
Amortisation of preliminary expenses and floatation costs	12	87
Total expenses		2,597
		11,795
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(900)
Net income for the period		10,895

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

DISTRIBUTION STATEMENT FOR THE PERIOD FROM MAY 9, 2006 TO JUNE 30, 2006

	From May 9, 2006 to June 30, 2006 (Rupees in '000)
Net income for the period available for distribution	10,895
Undistributed income carried forward	<u>10,895</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE PERIOD FROM MAY 9, 2006 TO JUNE 30, 2006

	From May 9, 2006 to June 30, 2006 (Rupees in '000)
Issue of 8,758,948 units	876,901
Redemption of 1,560,978 units	(158,004)
	<hr/> 718,897
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed, amount representing accrued income and realised capital gains - transferred to the Income Statement	900
Net income for the period available for distribution	10,895
Net assets as at June 30	<hr/> <hr/> 730,692

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

CASH FLOW STATEMENT FOR THE PERIOD FROM MAY 9, 2006 TO JUNE 30, 2006

	From May 9, 2006 to June 30, 2006 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	10,895
Adjustments for:	
Profit on bank deposits	(2,122)
Unrealised appreciation in fair value of investments	(139)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	900
Amortisation of preliminary expenses and floatation costs	87
Profit before working capital changes	9,621
(Increase) / decrease in assets	
Preliminary expenses and floatation costs	(3,009)
Receivable against sale of investments	(18,462)
Receivable against Continuous Funding System	(120,394)
Investments	(127,729)
Placements	(100,000)
Certificate of Investment	(50,000)
Profit receivable	(4,577)
Deposits and other receivables	(1,703)
	(425,874)
Increase / (decrease) in liabilities	
Payable against purchase of investments	51,971
Payable on redemption of units	749
Payable to KASB Funds Limited - Management Company	5,064
Payable to Central Depository Company of Pakistan Limited - Trustee	174
Accrued expenses and other liabilities	410
	58,368
Cash generated from operations	(357,885)
Profit on bank deposits received	2,122
Net cash outflow from operating activities	(355,763)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net receipts from sale and redemption of units	718,897
Net increase in cash and cash equivalents during the period	363,134
Opening cash and cash equivalents	-
Cash and cash equivalents as at June 30	363,134

The annexed notes 1 to 27 form an integral part of these financial statements.

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

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM MAY 9, 2006 TO JUNE 30, 2006

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Liquid Fund ("KLF", the "Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on February 20, 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on March 17, 2006 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as Non-Banking Finance Company under the NBFC Rules by SECP. The registered office of the Management Company is situated in Karachi, Pakistan.

KLF is an open-ended mutual fund and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holders.

KLF seeks to maximise current income, consistent with low levels of risk and high liquidity by primarily investing in low duration, liquid investments including money market and other debt instruments as well as fixed income transactions in the capital market.

2. STATEMENT OF COMPLIANCE

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

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

The financial impact, if any, of new accounting standards and IFRIC interpretations, on the Fund's financial statements are discussed below:

IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). Management considers that this amendment is not relevant to the Fund, as all employees are on the payroll of the management company.

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). This amendment is not relevant to the Fund's operations, as the Fund does not have any intragroup transactions that would qualify as a hedged item in the financial statements.

IAS 39 (Amendment), The Fair Value Option (effective 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Fund believes that this amendment should not have a significant impact on the classification of financial instruments, as the Fund should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (IFRS 4 not yet adopted by local

regulatory authorities). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts. Management considers that this amendment is not relevant to the Fund.

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 July 2006). These amendments are not relevant to the Fund's operations.

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (adoption status is not yet confirmed by local regulatory authorities). IFRS 7 introduces new disclosures to improve information about financial instruments. It requires the disclosure for qualitative and quantitative information about exposures to risks arising from financial instrument, including specified minimum disclosures about credit risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. This IFRIC is not relevant to the Fund's operations.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Fund's operations.

IFRIC 6, Liabilities arising from Participating in a Specific market - Waste Electrical and Electronic Equipment (effective for financial periods beginning 1 December 2005). IFRIC 6 is not relevant to the Fund's operations.

IFRIC 7, Applying the Restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies (1 March 2006) IFRIC 7 is not relevant to the Fund's operations.

IFRIC 8, Scope of IFRS 2 share-based payment (1 May 2006) Management considers that IFRIC 8 will have no effect to the Fund.

IFRIC 9, Reassessment of Embedded Derivatives (1 June 2006) Management considers that IFRIC 9 will have no effect to the Fund.

3. BASIS OF PREPARATION

- 3.1** These financial statements are presented in rupees and rounded to the nearest thousand rupees. These have been prepared under the historical cost convention, except that certain investments have been included at fair value.
- 3.2** 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 estimate 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 basis of making the judgements about 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. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods.

Judgement made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Investments

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

The Fund classifies its investments in the following categories:

Financial asset at fair value through profit or loss

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

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

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

Held to maturity

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

Available for sale

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

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

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

Basis of valuation of Term Finance Certificates

The Fund values its investment in listed Term Finance Certificates (TFCs) using the average of the mid-rates obtained from reputable brokerage houses, while Rule 2(xxxiv)(i) of NBFC Rules require securities which are quoted on the stock exchange should be valued at its last sale price on such exchange on the date on which it is valued. However, the management is of the view that quotations received from brokers are a more appropriate representation of the fair value of this investment. Had

the TFCs been valued at last sale price quoted on stock exchange, the carrying value of the investments would have been lower by Rs. 0.533 million. Further, the Net Asset Value (NAV) of the Fund during the period would have been different and consequently the number of units issued / redeemed during the period as well as the element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was not practical to do so.

4.2 Derivatives

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

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

4.3 Securities under repurchase / resale agreements

Securities purchased under an agreement to resell (reverse repo) are included as receivable at the fair value of the consideration given. Securities sold, subject to a repurchase agreement (repo) are retained in the Statement of Assets and Liabilities as investments and the counterparty liability is included as payable. All these transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income/ (expense) in the Income Statement and is recognised over the term of the transactions at effective profit rates.

4.4 Issue and redemption of units

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

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

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

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

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

4.6 Net asset value - per unit

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

4.7 Taxation

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

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

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

4.8 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised capital gain / (losses) arising on the valuation of investment classified as financial assets at fair value through profit or loss are included in the Income Statement in the year in which they arise as described in note 4.1 to these financial statements.
- Income on reverse repurchase transactions, continuous funding system transactions and bank deposits is recognised on a time proportionate basis.
- Income on debt securities is recognised on time proportion basis using effective interest rate method.
- Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the Income Statement as discussed in note 4.2 to these financial statements.
- Dividend income is recognised when the right to receive the dividend is established.

4.9 Expenses

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

4.10 Impairment

The carrying amount of the Fund's assets 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 exceed its recoverable amount. Impairment losses are recognised in the income statement.

4.11 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required

to settle the obligation and a reliable estimate of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

4.12 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the launching of the Fund. These costs are being amortised over a period of five years commencing from May 9, 2006 as per the Trust Deed of the Fund.

4.13 Financial instruments

All the financial assets and liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. At the time of initial recognition all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Any gain or loss on derecognition of financial assets and financial liabilities is taken to income directly.

4.14 Offsetting of financial instruments

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

4.15 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and term deposits.

4.16 Other assets

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

	2006 (Rupees in '000)
5. BANK BALANCES	
In current accounts	10
In deposit accounts	113,124
In term deposit accounts	250,000
	<u>363,134</u>
6. PLACEMENTS	

These represent placements with various Non-Banking Finance Companies with maturity ranging between 5 to 15 days. The profit rates range between 10.85% to 11.00% per annum.

7. CERTIFICATE OF INVESTMENT

The above Certificate of Investment is issued by a Non-Banking Finance Company having a maturity of 48 days and profit @ 10.85% per annum.

8. RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM

The rates of return on these transactions range between 12.5% to 18% per annum, with a maximum maturity of 30 days. Fair value of the collaterals accepted against the above receivable balance as at June 30, 2006 amounted to Rs.114.823 million.

9. INVESTMENTS

Investment in marketable securities

2006
(Rupees in '000)

Term Finance Certificates - at fair value through profit or loss	9.1	75,533
Ordinary shares of listed companies - held for trading	9.3	52,335
		127,868

9.1 Term Finance Certificates

Name of the investee company	----- Number of certificates -----					Market value as at June 30, 2006	% of Net Assets
	As at May 9, 2006	Purchases during the period	Sales during the period	Redemptions during the period	As at June 30, 2006		
						(Rupees in '000)	
Pakistan Mobile Communications Limited	-	15,000	-	-	15,000	75,533	10.34
	-	15,000	-	-	15,000	75,533	

9.2 The Term Finance Certificates carry mark-up equal to 6 months KIBOR plus 285 basis points payable semi-annually in arrears. The first such payment will fall due six months from the closing date of public subscription. The principal is repayable in six equal semi annual instalments after the expiry of the grace period of 48 months.

9.3 Ordinary shares of listed companies (of Rs. 10/- each)

Name of the investee company	----- Number of certificates -----					Market value as at June 30, 2006	% of Net Assets
	As at May 9, 2006	Purchases during the period	Bonus	Sales during the period	As at June 30, 2006		
						(Rupees in '000)	
Commercial Banks							
Faysal Bank Limited	-	113,500	-	-	113,500	6,980	0.96
National Bank of Pakistan	-	200,000	-	-	200,000	43,100	5.90
Union Bank Limited	-	218,500	-	218,500	-	-	-
Cement							
Pioneer Cement	-	36,500	-	-	36,500	1,666	0.23
Maple Leaf Cement Factory Limited	-	20,000	-	-	20,000	512	0.07
Oil & Gas Marketing Companies							
Sui Southern Gas Company Limited	-	27,000	-	27,000	-	-	-
Power Generation & Distribution							
Karachi Electric Supply Corporation Limited	-	32,500	-	22,500	10,000	77	0.01
	-	648,000	-	268,000	380,000	52,335	

9.4 These securities were purchased in the ready " T+3 " market and sold in the future market.

9.5 Net unrealised appreciation in fair value of investments

2006
(Rupees in '000)

Fair value of investments	127,868
Less: Cost of investments	(127,729)
	<u>139</u>

10. INCOME RECEIVABLE

Income accrued on Term Deposit Receipts	1,379
Income accrued on Placements	898
Income accrued on Certificate of Investments	699
Income accrued on Continuous Funding System	807
Income accrued on Term Finance Certificates	794
	<u>4,577</u>

11. DEPOSITS AND OTHER RECEIVABLES

Deposit with National Clearing Company of Pakistan Limited	1,000
Deposit with Central Depository Company of Pakistan Limited	100
Unrealised gain on forward contracts	603
	<u>1,703</u>

12. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	3,009
Less: Amortisation during the period	(87)
Balance as at June 30	<u>2,922</u>

Preliminary expenses and floatation costs represent expenditure incurred for the launching of the Fund and are being amortised over a period of five years commencing from May 9, 2006 as per the Trust Deed of the Fund.

13. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY

Management fee	13.1	890
Other payable		4,174
		<u>5,064</u>

13.1 Under the provisions of NBFC Rules, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.3 percent per annum of the average annual net assets of the Fund for the current period.

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

Trustee fee	14.1	137
CDS charges		37
		<u>174</u>

14.1 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 average annual net assets of the Fund.

15. ACCRUED EXPENSES AND OTHER LIABILITIES.

2006
(Rupees in '000)

Auditors' remuneration	18	155
Brokerage		133
Fee payable to Securities & Exchange Commission of Pakistan	16	113
Others		9
		410
		410

16. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

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

17. COMMITMENTS

Continuous Funding System (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30	21,550
	21,550

18. AUDITORS' REMUNERATION

Audit fee	50
Other certifications and services	105
	155
	155

19. EARNINGS PER UNIT

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

20. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons include KASB Funds Limited, being the management company of the Fund, KASB Bank Limited and KASB Securities Limited being the parent company and associated company of the management company respectively and directors and key management personnel of the management company.

Transactions and balances with connected persons can be summarised as follows:

		2006 (Rupees in '000)
KASB Funds Limited		
<u>Transactions</u>		
Remuneration	13.1	1,465
<u>Balances</u>		
Payable to the Management Company	13	5,064
KASB Securities Limited		
<u>Transactions</u>		
Brokerage - net	20.1	37
Purchase of TFC-Pakistan Mobile Communications Limited	20.2	50,000
Investment in the Fund (150,000 units)		15,000
Redemption from the Fund (150,000 units)		15,000
<u>Balances</u>		
Receivable against sale of investments		18,462
Receivable against Continuous Funding System	20.3	86,601
Brokerage payable		90
KASB Bank Limited		
<u>Transactions</u>		
Bank charges		1
Term Deposit Receipts	20.4	100,000
Income accrued on Term Deposit Receipts	20.4	723
Profit on bank deposits	20.5	2,122
Investment in the Fund (2,570,000 units)		257,000
<u>Balances</u>		
Bank	20.5	113,104
Term Deposit Receipts	20.4	100,000
Income receivable on Term Deposit Receipts		723
Units held (2,570,000 units)		324,480
Directors and officers		
<u>Transactions</u>		
Investment in the Fund (42,640 units)		4,265
Redemption from the Fund (3,000 units)		304
<u>Balances</u>		
Units held (39,640 units)		4,020

20.1 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.

20.2 During the current period, the Fund purchased Term Finance Certificate of Pakistan Mobile Communications Limited of Rs. 75 million for which Investment Banking Group of KASB Securities Limited was joint advisor and arranger.

20.3 The rates of return on these transactions with related parties range between 12.86% to 15.14% per annum, with a maximum maturity of 30 days. Fair value of the collaterals accepted against the above receivable balance as at June 30, 2006 amounted to Rs. 83.085 million.

20.4 This represents Rs. 100 million deposited with a related party with a maturity of 7 days and carrying profit @ 11% per annum.

20.5 This represents amount deposited with a related party on which profit is earned @ 9.5% per annum.

21. MARKET / PROFIT RATE RISK

21.1 The Fund's exposure to mark-up / profit rate risk based on contractual repricing and maturity dates, whichever is earlier at June 30, 2006, is as follows:

	Effective rate of mark-up/ return (%)	----- Exposed to market / profit rate risk -----			Not exposed to market/ profit rate risk	Total
		Upto three months	More than three months and upto one year	More than one year		
On-balance sheet financial instruments -----(Rupees in '000)-----						
Financial Assets						
Bank balances	9.5 - 11.5	363,124	-	-	10	363,134
Placements	10.50-11	100,000	-	-	-	100,000
Certificate of investment	10.85	50,000	-	-	-	50,000
Receivable against sale of investments		-	-	-	18,462	18,462
Receivable against Continuous Funding System	12.5-18	120,394	-	-	-	120,394
Investments	12.7	533	30	74,970	52,335	127,868
Income receivable		-	-	-	4,577	4,577
Deposits and other receivables		-	-	-	1,703	1,703
		634,051	30	74,970	77,087	786,138
Financial Liabilities						
Payable against purchase of investments		-	-	-	51,971	51,971
Payable on redemption of units		-	-	-	749	749
Payable to KASB Funds Limited		-	-	-	5,064	5,064
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	174	174
Accrued expenses and other liabilities		-	-	-	410	410
		-	-	-	58,368	58,368
On-balance sheet gap		634,051	30	74,970	18,719	727,770

22. RISK MANAGEMENT

The Fund will invest in low duration, liquid investments including money market and other debt instruments as well as fixed income transactions in the capital market. The Fund aims to keep an overall duration of one year or less for the investment portfolio. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

22.1 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. There is a possibility of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the clearing system etc.

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 SECP.

22.2 Credit risk

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

Credit risk management

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

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Financial assets subject to credit risk amount to Rs.786 million. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk. Moreover, the Fund limits its exposure to any group through its investment policy.

22.3 Liquidity risk

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

22.4 Market / profit rate risk

Market / profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund manages its investment portfolio in order to reduce the risk of loss in market value of investments as a result of changes in market interest rates by keeping a low overall duration of the portfolio and by purchasing floating rate instruments which are repriced periodically, in case of long term investments. In case the management expects economic uncertainty the portfolio will be restructured so as to comprise of short-term debt securities, money market instruments, short maturity placements, reverse repurchase transactions and continuous funding system.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

24. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Investments stated at fair value

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

Other assets

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

25. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management company have approved bonus of Rs. 1.40 per unit for the period ended June 30, 2006, amounting to Rs. 10.077 million in total in their meeting held on July 6, 2006. These financial statements do not reflect this proposed issue.

26. PERFORMANCE TABLE

	2006 *
Total net assets as at June 30 (Rs. '000)	730,692
Net assets value per unit as at June 30 (Rs.)	101.51

	Offer	Redemption	Redemption with contingent back end load
Highest price per unit (Rs.)	101.51	101.51	101.00
Lowest price per unit (Rs.)	100.00	100.00	99.50

*The Fund started its operations from May 9, 2006.

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 7, 2006 by the Board of Directors of the Management Company.

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

Chief Executive

Director

