



# **KASB** LIQUID FUND

## ANNUAL REPORT

June 30 2009

(Audited)

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) 263 9188  
URL: www.kasb.com

**Board of Directors of KASB Funds Limited**  
Mr. Robert John Richard Owen – *Chairman*  
Ms. Naz Khan – *Director & Chief Executive*  
Mr. Farid Arshad Masood – *Director*  
Mr. Syed Muhammad Rehmanullah – *Director*  
Mr. Amir Zahoor Khan – *Director*

**Chief Financial Officer**  
Mr. Muhammad Imran Khalil

**Company Secretary**  
Mr. Irfan Saleem Awan

**Audit Committee**  
Mr. Farid Arshad Masood – *Chairman*  
Mr. Robert John Richard Owen – *Member*  
Mr. Syed Muhammad Rehmanullah – *Member*

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

**Bankers to the Fund**  
KASB 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 Shahrah-e-Faisal Karachi-75350

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

**Management Company Rating**  
Rated AM3+ by JCR-VIS (May 2009)

## **Mission Statement**

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



## Report Of The Directors Of The Management Company For KASB Liquid Fund

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Liquid Fund (KLF, the Fund), is pleased to present the fourth Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2009.

### Financial Highlights

	FY 2009	FY 2008	Increase/ (Decrease)
Net Income (Rs. in Million)	168.62	896.48	(81.19%)
Net Assets as at June 30 (Rs. in Million)	3,145.10	8,828.32	(64.37%)
NAV per Unit as on June 30 (Rs.) ***	99.3500**	103.2878*	(3.81%)
Annualised yield	1.75%	10.34%	(83.08%)

\* Ex-NAV after interim distribution of Rs. 7.25 per unit.

\*\* Ex-NAV after interim distribution of Rs. 3 per unit.

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

### Economic Environment

Pakistan's economy faced a tough time during the fiscal year 2009 as internal economic challenges coupled with impact of global recession hit the country. Internal issues ranged from sizeable current account and fiscal deficits due to high international oil prices, three decade high inflation and a sharp depreciation in the exchange rate. As a result, the government opted for a stabilization approach to the economy and left GDP growth much below the list of economic priorities.

After entering into the IMF program and with help from Friends of Pakistan, country's macroeconomic situation has started improving. However, inflation, power crisis and the expenditures on the war on terror remain as challenges for the government.

### Capital Market

Capital markets (both equity and income) bore the brunt in FY09 due to economic challenges facing the country as well as a liquidity crisis in the market. There were a number of reasons for the lack luster performance of the capital markets including weak economic performance, liquidity shortfall in the system, uncertainty on the political front and a deteriorating security situation in the country.

On the money market front, M2 growth remained near 7% during the year, comparatively lower than last year (close to 14%) due to SBP's tight monetary stance. The market remained under pressure throughout the year due to liquidity crunch especially during 2QFY09. The liquidity shortfall led to a substantial decrease in the prices of corporate bonds and led to credit deterioration especially in the Non Banking Finance Companies (NBFC).

### Investment Strategy

The primary objective of the Fund is to maximise current income, consistent with low levels of risk and high liquidity. The Fund invests in low duration, liquid investments including money market and other debt instruments as well as fixed income transactions in the capital market. Under the rising interest rate scenario, the fund remained primarily focused on short term placement avenues and floating rate good quality corporate debt. On average the total exposure in money market placements remained around 26.5% whereas TFCs constituted close to 61.5% of the total fund investments. The fund is achieving its objective of generating regular income by investing in fixed income instruments within the guidelines provided under NBFC rules.

During the year, the category of the Fund has been changed from "money market" to "income" in compliance with circular 7 of 2009 dated March 6, 2009 issued by the Securities and Exchange Commission of Pakistan.

### Fund Performance

The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 99.3500 (Ex-NAV after interim distribution of Rs. 3 per unit), thus, giving an annualised yield of 1.75% for the year. Fund return has been lower than last year due to a decline in TFC prices in FY09. The net income before distribution for the year ended June 30, 2009 was Rs. 168.62 million. Term Finance Certificates and Sukuk Certificates contributed Rs. 383.01 million, Placements with banks and financial institutions contributed Rs. 313.96 million towards the income, profit on bank deposits was Rs. 38.27 million, income from Continuous Funding System (CFS) was Rs. 4.67 million and income from Commercial Papers was Rs. 3.70 million.

As Mutual Funds Association of Pakistan (MUFAP) is in discussion with the SECP with respect to the mechanism of determination of rating of Funds, the Management Company has withheld the rating of the Fund.

Due to the extraordinary circumstances in the financial markets and with a view to protect the interest of unit holders, Management Company announced temporary suspension of redemption of units of the Fund with effect from November 7, 2008 and removed suspension on February 28, 2009. Apart from this, no suspension of redemption was made by the Fund during the year.

### Income Distribution

The Board of Directors of KASB Funds Limited approved the final distribution for the financial year ended June 30, 2009 of Rs. 1.25 per unit. This distribution is in addition to the interim dividend of Rs. 3 per unit distributed in the month of October 2008. Therefore the total distribution for the financial year ended June 30, 2009 totals to Rs. 4.25 per unit, which is equivalent to 4.25% of the par value of Rs. 100.

As the Fund has distributed more than 90% of the accounting income among the unit holders, its income will not be subject to income tax under clause 99 of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001.

### Sale and redemption of units

The fund size of KLF was Rs. 8,828.32 million on June 30, 2008 which decreased by 64.37% by the end of the financial year to close at Rs. 3,145.10 million on June 30, 2009. During the year, units worth Rs. 5,571.21 million were issued and units with a value of Rs. 11,296.86 million were redeemed. As on June 30, 2009, the total number of outstanding units was 31,656,766 with a value of Rs. 3,145.10 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

## Report OfThe Directors OfThe Management Company For KASB Liquid Fund

- results of its operations, cash flows and movement in unit holder's fund.
- b. Proper books of accounts of the Fund have been maintained.
  - c. Appropriate accounting policies have been consistently applied in preparation of financial statements of the Fund and accounting estimates are based on reasonable and prudent judgements.
  - d. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations 2007), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2007, 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 2007, 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 from July 1, 2008 to June 30, 2009 is disclosed in note 24 of the financial statements. 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.	Ms. Naz Khan	Director & Chief Executive	29,525	65,548
2.	Mr. Farid Arshad Masood	Director	3,680	21,768
3.	Mr. Muhammad Imran Khalil	Chief Financial Officer	1,456	5,333

### Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2009, banks and financial institutions held 89.15% out of the total units; individuals held 4.89% units; retirement funds held 3.08% units; and 2.87% units were held by insurance companies, public limited companies and other corporate sector entities. Detailed pattern is also annexed.

### Future Outlook

The combination of global macro challenges and political uncertainty on the domestic front has put the economy through challenging times. Trade and fiscal deficits may leave the government with little fiscal room and will force the government to raise external and domestic debt. Therefore, despite declining inflation, interest rates may not fall as fast. The State Bank's decision to introduce an interest rate corridor in its monetary policy statement in August 2009 should lead to greater stability in market rates which would help all market stakeholders.

In terms of risks, in addition to political risk, we highlight crude oil prices where another super spike could leave Pakistan vulnerable under the pressures of trade account and force dependence on external flows to support the balance of payment as well as the currency as Pakistan's exports are likely to remain weak in FY10 as well.

### 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 Liquid Fund for the financial year ending June 30, 2010. 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

## Details Of Pattern Of Holding (Units) As At June 30, 2009

	Units held	Units held (%)
<b>Associated companies</b>		
KASB Bank Limited	3,361,101	10.62
KASB Funds Limited	874,563*	2.76
New Horizon Exploration & Production Ltd.	94	0.01
<b>Directors and Chief Executive</b>		
Chief Executive		
Ms. Naz Khan	45,474	0.14
Director		
Mr. Fareed Arshad Masood	813	0.01
<b>Spouse and Minor Children of Directors &amp; CEO</b>		
Mr. Zaheer Ahmed Khan	2,782	0.01
Ms. Nabigha Nasser Masood	18,304	0.06
<b>Executives</b>		
	2,342	0.01
<b>Banks and Financial Institutions</b>		
	23,984,752	75.77
<b>Individuals</b>		
	1,478,137	4.66
<b>Retirement Funds</b>		
	973,514	3.08
<b>Insurance Companies</b>		
	59,864	0.18
<b>Other Corporate Sector Entities</b>		
	855,026	2.69
	<b>31,656,766</b>	<b>100.00</b>

\* 452,000 units were pledged with KASB Bank Limited by KASB Funds Limited as at June 30, 2009



## Performance Table

	2009	2008	2007
Total net asset value as at June 30 (Rs. '000)	<b>3,145,099</b>	8,828,324	6,481,037
Net asset value per unit as at June 30 (Rs.)	<b>99.3500</b>	103.2878	111.0764
Selling price for units as at June 30 (Rs.)	<b>99.3500</b>	103.2878	111.0764
Repurchase price for units as at June 30 (Rs.)	<b>99.3500</b>	103.2878	111.0764
Repurchase price with contingent back-end load for units as at June 30 (Rs.)	<b>98.8532</b>	102.7714	110.5246
Final dividend distribution per unit (Rs.)	<b>1.25</b>	2.75	10.72
Date of final distribution	<b>July 4, 2009</b>	July 2, 2008	July 6, 2007
Interim dividend distribution per unit (Rs.)	<b>3</b>	7.25	-
Date of Interim distribution	<b>October 22, 2008</b>	April 2, 2008	-
Highest selling price per unit (Rs.)	<b>104.1503</b>	107.8151	111.0764
Highest repurchase price per unit (Rs.)	<b>104.1503</b>	107.8151	111.0764
Highest repurchase price with contingent back-end load per unit (Rs.)	<b>103.6295</b>	107.2809	110.5246
Lowest selling price per unit (Rs.)	<b>88.3684</b>	100.3735	100.1382
Lowest repurchase price per unit (Rs.)	<b>88.3684</b>	100.3735	100.1382
Lowest repurchase Price with contingent back-end load per unit (Rs.)	<b>87.9266</b>	99.8682	99.6393
Annualised return	<b>1.75%</b>	10.34%	10.96%
Weighted average portfolio duration	<b>83 days</b>	85 days	81 days

Return since inception is 7.75%.

Launch date of the Fund is May 9, 2006.

### Disclaimer

The 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

### Investment Objective

The primary objective of the Fund is to maximise current income, consistent with low levels of risk and high liquidity. The Fund will primarily invest in low duration, liquid investments including money market and other debt instruments as well as fixed income transactions in the capital market.

### Inception Date

May 9, 2006

### Type & Category of Fund

Open-end Income

### Fund Size

PKR 3,145 million

### Current NAV

PKR 99.3500 (30-06-09)

### Fund Rating

N/A

### Load Structure

Front-end	Nil
Back-end	Nil
Back-end (contingent)	0.50% (if redeemed within 15 days)

### Performance Return (p.a. basis)

	KLF return	Benchmark return*
Since Inception	7.75%	10.92%
1 year	1.75%	13.35%
Last 6 month	20.14%	12.97%
Last 3 month	10.31%	13.09%
For the month	3.31%	13.35%

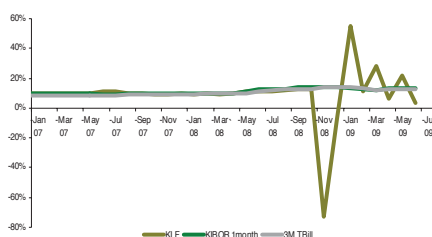
\* For comparison purposes only

### Indicators (since Inception)

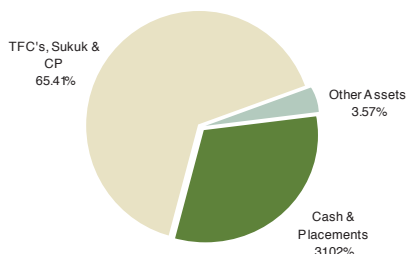
Sharpe Ratio	N/M**
Standard Deviation	0.289%

\*\* N/M = Not Meaningfull as it is below zero

### RETURN COMPARISON



### ASSET ALLOCATION AS AT JUNE 30, 2009



### Accomplishment Of Objective

The fund is achieving its objective of generating regular income by investing in low duration fixed income instruments within the guidelines provided under NBFC rules.

### Strategies And Policies Employed During The Period

Under the rising interest rate scenario, the fund remained primarily focused on short term placement avenues and floating rate good quality corporate debt. On average total exposure in money market placements remained around 26.5% whereas TFCs constituted close to 61.5% of the total fund investments.

### Review Of The Markets Invested In

Pakistan's economy is facing a tough time as the economic cycle completes. Issues on hand include sizeable current account and fiscal deficits, falling import cover and three decade high inflation. For the time being, growth is not on the target list due to the above mentioned crises. However, country's macroeconomic situation has started depicting improvement but still a few challenges remain including inflation, power crisis and the war on terror.

On the money market front, M2 growth remained 9.6% during the year, comparatively lower than last year (close to 15%) due to SBP's tight monetary stance. The market remained under pressure throughout the year due to severe liquidity crunch especially during 2QFY09. SBP increased discount rate by 300 bps to 15% during 1HFY09 in accordance with its tight monetary stance to curb inflation. The central bank, however, decreased the discount rate by 100 bps to 14%, on 20th April 2009, on the back of declining inflation rate. During the year, Pakistan had to join IMF relief package to manage severe balance of payment crisis, which stabilized the currency and halted depletion of foreign exchange reserves. In terms of specific events impacting the asset management industry, SECP decision to mark down all TFC prices in the range of 10%-30% in Nov 2008 affected all income funds returns. This was done in a bid to improve market liquidity and secondary market trading of TFCs. However, a sudden change in prices dearly affected the fund returns and put extreme pressure on the fund liquidity in terms of investors panicking and filing in redemptions.

### Fund Performance

KLF return has outperformed its benchmark during CY09 where KLF provided return of 20.14% on annualized basis, against benchmark return of 12.97%. Since inception the fund provided annualized return of 7.75% and 1.75% during FY09.

The AUM of the fund were PKR 8,828 million (NAV per unit: Rs 103.29) on June 30, 2008 and at the end of the period the AUM of the fund stood at PKR 3,145 million (NAV per unit: Rs 99.35).

### Significant Changes In Asset Allocation During The Period

As compared to the last year the fund's overall exposure towards TFCs / Sukuk investments increased to 65.41% on average. Cash and placements comprised around 31.02% of the portfolio.

### Distribution

The fund distributed Rs 3.0 per unit as interim distribution during FY09 and Rs 1.25 per unit as final distribution during FY09.

	22 Oct. 2008	4 July 2009
NAV	PKR 104.15	PKR 99.35
Distribution	PKR 3.00	PKR 1.25
Ex-NAV	PKR 101.15	PKR 98.10

### Unit Splits

There were no unit splits during the period.

### Significant Changes In The State Of Affairs

During the period under review there were occasions during the second quarter of FY09 when severe liquidity crunch was witnessed in the money market. As a result, few leasing and investment banks were not able to return the Fund's deposits on time. However there was no default on payment of mark up. Similarly, SECP decision of marking down TFC prices in a bid to improve trading volumes and liquidity saw debt instruments valuation and pricing at deep discounts from their fair values. This resulted in an unnecessary fall in NAV of funds holding sukus and TFCs.

### Circumstances Materially Affecting The Interests Of Unitholders

Changes in market rates of TFCs/ Sukus and other debt instruments based on a new pricing mechanism by SECP, severely affected the fund returns as overnight fall in excess of 10% was witnessed in the NAV.

### Breakdown of unit holdings by size

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

### Soft Commission

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

## Trustee Report To The Unit Holders Of KASB Liquid Fund

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

KASB Liquid Fund (the Fund), an open-end scheme was established under a trust deed dated February 20, 2006, executed between KASB Funds Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee.

In our opinion, the management company has in all material respects managed the Fund during the year ended June 30, 2009 in accordance with the provisions of the following:

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

During the first half of the year, the Fund entered into certain repo transactions which were not in compliance with the NBFC Regulations 2008. These transactions were subsequently disallowed by the Securities and Exchange Commission of Pakistan upon intimation by the Trustee. Consequently these transactions were reversed however there is no loss to the Fund or any of its unit holders as a result of these transactions.

Kamran Qazi  
Chief Financial Officer & Company Secretary  
Central Depository Company of Pakistan Limited

Karachi, October 5, 2009

## Statement Of Compliance With The Code Of Corporate Governance For The Year Ended June 30, 2009

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 35 of the List ing Regulations of the Karachi Stock Exchange (Guarantee) Limited ("KSE" or "the Stock Exchange"). The purpose of the Code is to establish a frame work 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 Com pany of KASB Liquid Fund ("the Fund"). The Fund being an open-end scheme doesn't have its own Board of Directors ("the Board"). The Man agement Com pany, which manages the affairs of the Fund, has applied the principles contained in the Code to the Fund, whose Units are listed on the Stock Exchange, in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors and none of the directors represent minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. On July 04, 2008, Mr. Muneer Kamal resigned from the Board of the Management Company. An appointment was within 30 days to fill this casual vacancy however the appointee withdrew his consent prior to seeking required approval for his appointment from the Securities and Exchange Commission of Pakistan ("the Commission") by the Management Company. Hence, Mr. Amir Zahoor Khan was appointed, within 30 days of withdrawal of consent by the appointee, to fill this casual vacancy subject to the approval of his appointment by the Commission. On October 25, 2008 the election of directors of the Management Company was held upon completion of the three years' term of the previous Board and the appointment of Mr. Amir Zahoor Khan, along with other directors, was approved by the Commission on his election as director. No casual vacancy has arisen on the Board since the election of directors.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Management Company.
6. The Board has developed a vision/mission statement and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman of the Board. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
10. During the year, there was no change of Chief Financial Officer, Company Secretary and the Internal Auditors.
11. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit-holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for compliance.
17. The Management Company has outsourced the internal audit function to a firm of Chartered Accountants which is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors of the Fund or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions have been placed before the Audit Committee and approved by the Board with necessary justification for non arm's length transactions (if any) and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
21. We confirm that all other material principles contained in the Code have been complied with

For and on behalf of the Board

Naz Khan  
Chief Executive Officer

25 August 2009  
Karachi

## Review Report To The Unit Holders Of KASB Liquid Fund “The Fund” On Statement Of Compliance With The Best Practices Of Code Of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KASB Funds Limited, “the Management Company” of the Fund to comply with the Listing Regulation no 35 (previously Regulation no 37) of the Karachi Stock Exchange, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of The Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the 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 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 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) of Listing Regulation.35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 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 transaction 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 undertaken 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 Management Company’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2009.

25 August 2009  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

## Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **KASB Liquid Fund ("the Fund")**, which comprise the statement of assets and liabilities as at 30 June 2009, and the income statement, cash flow statement, distribution statement and statement of movement in unit holders' funds for the year then ended, 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 2009 and of its financial performance, cash flows and transactions for the year then ended 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 and Notified Entities Regulations, 2007 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

25 August 2009  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Moneeza Usman Butt

## Statement of Assets and Liabilities

### As at June 30, 2009

	Note	2009	2008
(Rupees in '000)			
<b>Assets</b>			
Bank balances	4	818,684	3,305,884
Placements	5	111,788	100,000
Certificates of investment	6	45,000	775,000
Receivable against continuous funding system		-	311,893
Income receivable	7	120,885	216,809
Investments	8	2,057,078	4,142,803
Deposits, prepayments and other receivables	9	3,799	5,565
Preliminary expenses and floatation costs	10	1,115	1,717
<b>Total assets</b>		<b>3,158,349</b>	8,859,671
<b>Liabilities</b>			
Payable against purchase of investments		-	2,967
Payable on redemption of units		76	7,482
Payable to KASB Funds Limited - Management Company	11	4,065	9,558
Payable to Central Depository Company of Pakistan Limited - Trustee	12	353	883
Payable to The Securities and Exchange Commission of Pakistan	13	4,513	8,823
Accrued expenses and other liabilities	14	4,243	1,634
<b>Total liabilities</b>		<b>13,250</b>	31,347
<b>Net assets</b>		<b>3,145,099</b>	8,828,324
<b>Unit holders' funds (as per statement attached)</b>		<b>3,145,099</b>	8,828,324
<b>(Number of units)</b>			
<b>Number of units in issue</b>		<b>31,656,766</b>	85,473,099
<b>(Rupees)</b>			
<b>Net asset value per unit</b>		<b>99.3500</b>	103.2878
<b>Commitments</b>	15		

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Income Statement

### For the year ended June 30, 2009

	Note	2009	2008
(Rupees in '000)			
<b>Income</b>			
Income from term finance certificates and sukuk certificates		406,546	239,182
Dividend and other income		105	-
Income from continuous funding system		4,669	65,683
Income from term deposit receipts		151,937	273,050
Income from placements		107,382	138,432
Income from certificates of investment		54,645	83,624
Income from commercial papers		3,701	20,221
Profit on bank deposits		38,267	157,705
Capital (loss) / gain on sale of investments		(214,635)	7,545
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' - advance against Pre - IPO	8.4.2	(75,000)	14,017
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	8.4.2	(37,476)	8,242
<b>Total income</b>		<b>440,141</b>	<b>1,007,701</b>
<b>Expenses</b>			
Remuneration of KASB Funds Limited - Management Company	11.1	72,744	114,703
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	6,084	9,823
Annual fee - The Securities and Exchange Commission of Pakistan	13.1	4,513	8,823
Transaction costs on securities		1,499	6,032
Settlement and bank charges		291	1,848
Legal and professional charges		536	108
Fees and subscription		1,050	320
Auditors' remuneration	16	902	741
Amortisation of preliminary expenses and floatation costs		602	603
Printing and other expenses		190	221
Borrowing expenses		18,644	-
Provision against debt securities	17	56,583	-
Provision for doubtful income receivable		23,532	-
<b>Total expenses</b>		<b>187,170</b>	<b>143,222</b>
		<b>252,971</b>	<b>864,479</b>
Net realised element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(84,349)	32,001
<b>Net income for the year</b>		<b>168,622</b>	<b>896,480</b>
<b>Earnings per unit</b>			
	18		

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director



## Distribution Statement For the year ended June 30, 2009

	<i>Note</i>	<b>2009</b>	2008
		<b>(Rupees in '000)</b>	
Undistributed income brought forward	19	<b>262,039</b>	635,088
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed		<b>12,640</b>	3,723
Net income for the year		<b>168,622</b>	896,480
Final distribution @ Rs. 2.75 per unit (June 30, 2007: Rs. 10.72 per unit) for the year ended June 30, 2008 declared on July 02, 2008		<b>(235,051)</b>	(625,486)
Interim distribution @ Rs. 7.25 per unit for the year ended June 30, 2008 declared on April 01, 2008		-	(647,766)
Interim distribution @ Rs. 3 per unit for the year ended June 30, 2009 declared on October 22, 2008		<b>(166,832)</b>	-
		<b>(220,621)</b>	(373,049)
Undistributed income carried forward		<b>41,418</b>	262,039

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Statement of Movement in Unit Holders' Funds For the year ended June 30, 2009

	Note	2009 (Rupees in '000)	2008
Net assets at beginning of the year		<b>8,828,324</b>	6,481,037
Issue of 54,902,595 units (2008: 316,606,236 units)		<b>5,571,209</b>	32,779,251
Issue of 2,703,166 bonus units (2008: 11,011,238 units)		<b>272,310</b>	1,106,092
Redemption of 111,422,094 units (2008: 300,491,957 units)		<b>(11,296,861)</b>	(31,137,067)
		<b>(5,453,342)</b>	2,748,276
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed:			
- amount representing accrued loss / (income) and realised capital losses / (gains) - transferred to the Income Statement		<b>84,349</b>	(32,001)
- amount representing unrealised capital gains - transferred directly to Distribution Statement		<b>(12,640)</b>	(3,723)
		<b>71,709</b>	(35,724)
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' at the end of the year	8.7	<b>(118,578)</b>	18,976
Provision against debt securities		<b>56,583</b>	-
Unrealised appreciation in fair value of investments classified as 'available for sale' at the beginning of the year		<b>(18,976)</b>	(11,192)
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' during the year	8.7	<b>(80,971)</b>	7,784
Distributions during the year:			
- Issue of bonus units		<b>(272,310)</b>	(1,106,092)
- Dividend		<b>(129,573)</b>	(167,160)
		<b>(401,883)</b>	(1,273,252)
Net income (excluding net unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss' and capital loss / (gain)		<b>420,733</b>	866,676
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'		<b>(37,476)</b>	22,259
Capital (loss) / gain on sale of investments		<b>(214,635)</b>	7,545
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealised capital gains		<b>12,640</b>	3,723
		<b>181,262</b>	900,203
Net assets at end of the year		<b>3,145,099</b>	8,828,324
		<b>(Rupees)</b>	
<b>Net asset value per unit as at the beginning of the year</b>		<b>103.2878</b>	111.0764
<b>Net asset value per unit as at the end of the year</b>		<b>99.3500</b>	103.2878

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Cash Flow Statement

### For the year ended June 30,2009

	2009	2008
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	168,622	896,480
<b>Adjustments</b>		
Unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss' - advance against Pre - IPO	75,000	(14,017)
Unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss'	37,476	(8,242)
Net realised element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	84,349	(32,001)
Provision against debt securities	56,583	-
Provision for doubtful income receivable	23,532	-
Amortisation of preliminary expenses and floatation costs	602	603
	<b>446,164</b>	<b>842,823</b>
<b>Decrease / (increase) in assets</b>		
Term deposit receipts with original maturity of more than 3 months	1,667,000	(1,800,000)
Placements	(11,788)	300,000
Certificates of investment	730,000	(400,000)
Receivable against continuous funding system	311,893	(216,236)
Income receivable	72,392	(140,751)
Investments	1,835,695	(3,195,648)
Deposits, prepayments and other receivables	1,766	(3,809)
	<b>4,606,958</b>	<b>(5,456,444)</b>
<b>(Decrease) / increase in liabilities</b>		
Payable against purchase of investments	(2,967)	2,913
Payable to KASB Funds Limited - Management Company	(5,493)	4,065
Payable to Central Depository Company of Pakistan Limited - Trustee	(530)	348
Payable to The Securities and Exchange Commission of Pakistan	(4,310)	6,773
Accrued expenses and other liabilities	2,609	(520)
	<b>(10,691)</b>	<b>13,579</b>
<b>Net cash generated from / (used in) operating activities</b>	<b>5,042,431</b>	<b>(4,600,042)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(129,573)	(167,160)
Net (payments) / receipts from redemption and sale of units	(5,733,058)	1,648,331
<b>Net cash (used in) / generated from financing activities</b>	<b>(5,862,631)</b>	<b>1,481,171</b>
Net decrease in cash and cash equivalents during the year	(820,200)	(3,118,871)
Cash and cash equivalents at beginning of the year	1,505,884	4,624,755
Cash and cash equivalents at end of the year	<b>685,684</b>	<b>1,505,884</b>
<b>Cash and cash equivalents at end of the year comprise of :</b>		
Bank balances	818,684	3,305,884
Term deposit receipts with original maturity of more than 3 months	(133,000)	(1,800,000)
Cash and cash equivalents at end of the year	<b>685,684</b>	<b>1,505,884</b>

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Notes to the Financial Statements For the year ended June 30, 2009

### 1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Liquid Fund ("the Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 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 issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Trade Centre, I. I. Chundrigar Road, Karachi, Pakistan. JCRVIS has assigned management quality rating of AM3+ to the Management Company.

As Mutual Funds Association of Pakistan (MUFAP) is in discussion with the SECP with respect to the mechanism of determination of rating of Funds, the Management Company has withheld the rating of the Fund.

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

The Fund 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.

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

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with 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, 2007 (the NBFC Regulations 2007), 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 2007, 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 2007, the NBFC Regulations 2008 and the said directives shall prevail.

#### 2.2 Initial application of a standard or an interpretation

During the year, amendments to International Accounting Standards (IAS) 39- Financial Instruments: Recognition and

Measurement and IFRS 7-Financial Instruments: Disclosures- regarding reclassification of financial assets became effective from July 01, 2008. Further IAS 29 -Financial Reporting in Hyperinflationary Economies, International Financial Reporting Standard (IFRS) 7- Financial Instruments: Disclosures, IFRIC 13-Customer Loyalty Programme and IFRIC 14 -The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction became effective during the year. The application of these standards and interpretations did not have any material effect on the Fund's financial statements except for certain increased disclosures.

#### 2.3 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, 2009 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:

*Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after January 01, 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.*

*Revised IAS 23-Borrowing costs (effective from January 01, 2009). Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.*

*IAS 32 (amendment)-Financial instruments: Presentation and consequential amendment to IAS 1-Presentation of Financial Statements (effective for annual periods beginning on or after January 01, 2009). IAS 32 amended classification of Puttable Financial Instruments.*

*Amendment to IAS 39- Financial Instruments: Recognition and Measurement -Eligible Hedged Items (effective for annual periods beginning on or after July 01, 2009). Amendment clarifies the application of existing principles that determines whether specific risk or portion of cash flows are eligible for designation in hedging relationship.*

*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.*

*IFRS 2 (amendment)-Share-based payments (effective for annual periods beginning on or after January 01, 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.*

*IFRS 3 (amendment)-Business Combinations and consequential amendments to IAS 27-Consolidated and separate financial statements, IAS 28-Investment in associates and IAS 31-Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 01, 2009).*

*IFRS 4 -Insurance Contracts (effective for annual periods beginning on or after January 01, 2009). The IFRS makes limited improvements to accounting for insurance contracts and contain disclosures requirements.*

## Notes to the Financial Statements For the year ended June 30, 2009

*Amendment to IFRS 7- Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after January 01, 2009). The amendment contain additional disclosures for fair value measurement of financial instruments.*

*IFRS 8- Operating Segments (effective for annual periods beginning on or after January 01, 2009) The standard introduced 'management approach' to segment reporting.*

*Amendment to IFRIC 9 -Reassessment of Embedded Derivatives and consequential amendment to IAS 39 -Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after June 30, 2009. Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.*

*IFRIC 15- Agreement for the Construction of Real Estate (effective for annual period beginning on or after October 01, 2009). The interpretation clarifies the recognition of revenue by real estate developers.*

*IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 01, 2008). The interpretation contains clarification on investment hedging of foreign operations.*

*IFRIC 17- Distribution of Non-cash Assets to the Owner and related amendments to IFRS 5- Non-current Assets Held for Sale and Discontinued Operations and IAS 10- Events after the Balance Sheet Date (effective for annual periods beginning on or after July 01, 2009). The interpretation contain recognition and measurement requirements regarding non-cash assets distributions by the entity to the owner.*

*IFRIC 18- Transfer of Assets from Customers (effective for annual periods beginning on or after July 01, 2009). The interpretation contain guidance from the perspective of the recipient regarding recognition and measurement principles on transferred assets by customer to the entity.*

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

### 2.4 Basis of measurement

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

### 2.5 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.

### 2.6 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 judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

#### *Investments stated at fair value*

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

#### *Other assets*

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

Financial instruments 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.

## Notes to the Financial Statements For the year ended June 30, 2009

### 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 at fair value through profit or loss or available for sale. This includes receivable against continuous funding system (CFS) and other receivables and are carried at amortised cost using effective yield method, less impairment losses, if any.

### d) *Financial liabilities*

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

#### **Recognition**

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

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

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

#### **Measurement**

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

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

#### **Fair value measurement principles**

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

#### **Basis of valuation of Term Finance Certificates and Sukuk Certificates**

The SECP vide its circular no. 1/2009 dated January 06, 2009 has

changed the methodology for valuation of debt securities.

Under the said directive, investment in term finance certificates / sukuk certificates are valued on the basis of traded, thinly traded and non traded securities. The circular also specifies a criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities. Accordingly, investment in term finance certificates / sukuk certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular. Prior to the issuance of the said directive investment in term finance certificates / sukuk certificates were valued as follows:

- (i) With effect from November 06, 2008 to January 09, 2009, at the lower of discounted redeemable face value of term finance certificates and sukuk certificates determined in accordance with the SECP circular no. 26/2008 dated November 05, 2008 and the rates notified by the MUFAP.
- (ii) Prior to November 05, 2008, at the rates notified by MUFAP in accordance with the requirements of Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulation, 2007.

Had all the term finance certificates / sukuk certificates been valued on the basis of rates notified by MUFAP, the net assets value of the Fund calculated during the period would have been different and consequently the number of units issued / redeemed during the period as well as 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 impracticable to do so.

#### **Basis of valuation of Commercial Papers**

Commercial papers (with residual maturity of upto six months) are valued at their amortized cost in accordance with requirements of Circular 1 of 2009 with effect from January 06, 2009. Commercial papers (with residual maturity of over six months) are valued on the basis of yield matrix calculated and announced by MUFAP. The Fund does not have any investment in commercial papers with residual maturities exceeding six months. Prior to the issuance of the said directive investment in commercial papers were valued at their amortized cost.

#### **Securities under repurchase/ resale agreements**

Transactions of purchase under resale (reverse-repo) of marketable and government securities, including the securities purchased under continuous funding system, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-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 / against continuous funding system. The difference between purchase and resale price is treated as income from reverse repurchase transactions / continuous funding system (CFS) and accrued over the life of the agreement.

## Notes to the Financial Statements For the year ended June 30, 2009

All reverse repo / CFS 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.

If in subsequent period the amount of impairment loss decreases, the reduction in impairment loss on financial assets, other than the securities classified as 'available for sale', is recognised in the income statement. For equity instruments classified as 'available for sale', any reversal in impairment loss is recognised in unit holder's fund. For debt instruments classified as 'available for sale', any reversal in impairment loss is recognised in income statement where the increase in fair value of debt instrument can be objectively related to an event occurring after the impairment loss was recognised in income statement.

### **Derecognition**

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

A financial liability is 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' fund**

Unit holders' fund representing the units issued by the Fund, is carried at the net assets value 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 day. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

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

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption. The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in 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.

### **3.5 Preliminary expenses and floatation costs**

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

### **3.6 Provisions**

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

### **3.7 Net asset value per unit**

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

### **3.8 Taxation**

#### *Current*

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

#### *Deferred*

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilized tax losses to the extent that 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 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.

## Notes to the Financial Statements For the year ended June 30, 2009

### 3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on debt securities, placements, reverse repurchase transactions, continuous funding system transactions and bank deposits is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Dividend income is recognised when the right to receive the dividend is established.

### 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 and current accounts maintained with banks and short term deposits in banks with original maturities of three months or less. 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 investment and other purposes.

### 3.12 Other assets

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

### 3.13 Dividend distributions and appropriations

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

## 4. BANK BALANCES

		2009 (Rupees in '000)	2008
In current accounts		9	10
In deposit accounts	4.1	58,675	855,874
Term deposit receipts	4.2	760,000	2,450,000
		818,684	3,305,884

**4.1** These deposit accounts carry mark-up at the rate of 5% to 12.5% per annum (2008: 8.5% to 12.5% per annum).

**4.2** These term deposit receipts carry profit ranging from 12.75% to 13.75% (2008: 10.55% to 19%) per annum with maturity ranging from 21 to 247 days (2008: 7 to 157 days).

## 5. PLACEMENTS - Unsecured

This includes placements with various financial institutions and carry mark-up ranging between 15% to 22% (2008: 17%) per annum and maturity ranging from 6 to 7 days (2008: 10 days).

## 6. CERTIFICATES OF INVESTMENT - Unsecured

This represent certificates of investment issued by a financial institution and carries markup at the rate of 16% (2008: 11.31% to 16.4%) per annum with maturity of 18 days (2008: 42 to 231 days).

## 7. INCOME RECEIVABLE

	2009 (Rupees in '000)	2008
Income accrued on bank deposits	1,394	18,798
Income accrued on term deposit receipts	42,922	80,262
Income accrued on placements	49	47
Income accrued on certificates of investment	256	10,902
Income accrued on continuous funding system	-	1,657
Income accrued on term finance certificates and sukuk certificates	120,533	105,143
Less: Provision for doubtful income receivable	7.1 (44,269)	
	120,885	216,809

**7.1** This consists of provision against doubtful income receivable against the exposures as detailed in notes 8.3.1, 8.5.6, 8.5.10, 8.5.12 and 8.5.13.

## 8. INVESTMENTS

### At fair value through profit or loss

Designated on initial recognition			
- Fixed income and other debt securities	8.2	684,928	684,307
- Advance against Pre Initial Public Offer investments	8.3	275,000	1,044,017
Held for trading			
- Quoted equity securities	8.4	-	8,204
- Derivatives		-	58
		959,928	1,736,586
<b>Available for sale</b>			
- Fixed income and other debt securities	8.5	1,097,150	2,331,372
- Commercial papers - unsecured		-	74,845
		2,057,078	4,142,803

**8.1** The cost of the above investments as at June 30, 2009 amounted to Rs. 2,288.132 million (2008: Rs. 4,101.568 million).



## Notes to the Financial Statements For the year ended June 30,2009

### 8.2 Fixed income and other debt securities - designated as 'at fair value through profit or loss' on initial recognition

Name of the Investee Company	Profit / markup rate %	As at July 01, 2008	Purchases during the year	Sales during the year	As at June 30, 2009	Market Value as at June 30, 2009	Market value as a percentage of total investments
		----- (Number of Certificates) -----				(Rupees in '000)	

#### Term Finance Certificates-Listed

Pace Pakistan Limited	8.2.1	15.78	30,000	-	-	30,000	124,450	6.05
Trust Investment Bank Limited	8.2.2	17.53	10,000	-	-	10,000	47,716	2.32
WorldCall Telecom Limited	8.2.3	15.01	46,000	27,000	51,000	22,000	104,677	5.09
Pakistan Mobile Communications Limited -IV	8.2.4	14.49	120,000	-	35,000	85,000	408,085	19.84
Pakistan Mobile Communications Limited- I	-	-	15,000	-	15,000	-	-	-
Jahangir Siddiqui & Company Limited	-	-	5,000	-	5,000	-	-	-
Allied Bank Limited	-	-	5,000	-	5,000	-	-	-
Engro Chemicals Pakistan Limited - III	-	-	10,000	10,000	20,000	-	-	-
United Bank Limited - IV	-	-	30,000	-	30,000	-	-	-
Pak-Arab Fertilizers Limited	-	-	30,000	-	30,000	-	-	-
NIB Bank Limited	-	-	10,000	-	10,000	-	-	-
Escorts Investment Bank Limited	-	-	-	8,000	8,000	-	-	-
							<b>684,928</b>	

**8.2.1** These term finance certificates are secured and will mature on February 15, 2013. They carry mark-up equal to 6 month KIBOR plus 150 basis points per annum. The principal repayment along with interest is paid on semi annual basis.

**8.2.2** There term finance certificates are unsecured. They carry mark-up equal to 6 month KIBOR plus 190 basis point per annum with no floor or cap. The interest thereon is paid on semi annual basis.

**8.2.3** These term finance certificates are secured. They carry mark-up equal to 6 month KIBOR plus 160 basis point per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.

**8.2.4** These term finance certificates are unsecured. They carry mark-up equal to 6 month KIBOR plus 165 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.

### 8.3 Advance against Pre Initial Public Offer investments - designated as 'at fair value through profit or loss' on initial recognition

Name of the Investee Company	Profit / markup rate %	As at July 01, 2008	Purchases during the year	Sales during the year	As at June 30, 2009	Market/Carrying Value as at June 30, 2009	Market / Carrying value as a percentage of total investments	
		----- (Number of Certificates) -----				(Rupees in '000)		
Dewan Cement Limited	8.3.1	16.12	30,000	-	-	30,000	75,000	3.65
Allied Bank Limited - I	8.3.2	16.46	-	10,000	-	10,000	100,000	4.86
Allied Bank Limited - II	8.3.3	16.16	-	10,000	-	10,000	100,000	4.86
							<b>275,000</b>	

## Notes to the Financial Statements For the year ended June 30, 2009

**8.3.1** This represents investment in advance against term finance certificates of Dewan Cement Limited (DCL). The respective investment in DCL is collateralised against first pari passu charge over plant and machinery and land and buildings, as mentioned in the constitutive documents of the instrument. As per agreement, public offering was expected to be completed within 270 days from the signing of the agreement failing which the Company was required to refund the amount of Rs. 150 million along with interest accrued thereon.

The Fund has made full provision against markup receivable till December 31, 2008 amounting to Rs. 20.333 million and suspended further accruals of markup on the investment amounting to Rs. 11.991 million till June 30, 2009. The investment has been marked down in accordance with the provisioning policy of the Fund approved by the Board of Directors of the management company. Consequently, the investment is valued at 50% to its face value. The mark down amounting to Rs. 75 million has been recognized in income statement as

### 8.4 Quoted equity securities - 'at fair value through profit or loss'

#### SHARES OF LISTED COMPANIES - Fully paid up ordinary shares of Rs. 10/- each unless otherwise stated

Name of the Investee Company	As at July 01, 2008	Additions during the year	Sales during the year	As at June 30, 2009	Market Value as at June 30, 2009	Market value as a percentage of total investments
	-----Number of Shares -----			(Rupees in '000)		
<b>Chemical</b>						
Clariant Pakistan Limited	-	43,400	43,400	-	-	-
ICI Pakistan Limited	-	6,000	6,000	-	-	-
Colgate-Palmolive (Pakistan) Limited	-	4,500	4,500	-	-	-
Descon Oxychem Limited	-	770,185	770,185	-	-	-
Sitara Chemical Industries Limited	-	22,500	22,500	-	-	-
Sitara Peroxide Limited	-	65,000	65,000	-	-	-
Engro Polymer & Chemicals Limited	-	273,378	273,378	-	-	-
<b>Commercial Banks</b>						
Habib Bank Limited	-	5,110	5,110	-	-	-
MCB Bank Limited	-	7,200	7,200	-	-	-
National Bank of Pakistan	-	37,884	37,884	-	-	-
Sonari Bank Limited	-	50,120	50,120	-	-	-
<b>Engineering</b>						
Huffaz Seamless Pipe Industries Limited	-	177,395	177,395	-	-	-
International Industries Limited	-	25,000	25,000	-	-	-
<b>Fertilizers</b>						
Fauji Fertilizer Bin Qasim Limited	-	22,712	22,712	-	-	-
Fauji Fertilizer Company Limited	-	3,715	3,715	-	-	-
Dawood Hercules Chemicals Limited	-	5,442	5,442	-	-	-
<b>Food &amp; Personal Care Products</b>						
Unilever Pakistan Limited (Rs. 50 each)	-	440	440	-	-	-
Murree Brewery Company Limited	-	25,506	25,506	-	-	-
Nestle Pakistan Limited	-	700	700	-	-	-
Gillette Pakistan Limited	-	3,200	3,200	-	-	-
<b>Jute</b>						
Thal Limited	-	20,200	20,200	-	-	-
<b>Miscellaneous</b>						
Ecopack Limited	-	938,838	938,838	-	-	-
Tri-Pack Films Limited	-	36,500	36,500	-	-	-
<b>Oil &amp; Gas Exploration Companies</b>						
Pakistan Oilfields Limited	-	29,300	29,300	-	-	-
Oil & Gas Development Company Limited	-	13,707	13,707	-	-	-
Pakistan Petroleum Limited	-	16,805	16,805	-	-	-
<b>Oil &amp; Gas Marketing Company</b>						
Pakistan State Oil Company Limited	-	3,000	3,000	-	-	-
Shell Pakistan Limited	-	15,423	15,423	-	-	-

unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' advance against Pre-IPO. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

**8.3.2** These term finance certificates are secured, and will mature on February 15, 2013. They carry mark-up equal to 6 month KIBOR plus 150 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.

**8.3.3** These term finance certificates are secured, and will mature on February 28, 2013. They carry mark-up equal to 6 month KIBOR plus 150 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.

## Notes to the Financial Statements For the year ended June 30,2009

### SHARES OF LISTED COMPANIES - Fully paid up ordinary shares of Rs. 10/- each unless otherwise stated

Name of the Investee Company	As at July 01, 2008	Purchases during the year	Sales during the year	As at June 30, 2009	Market Value as at June 30, 2009	Market value as a percentage of total investments
	-----Number of Shares-----				(Rupees in '000)	
<b>Paper and Board</b>						
Packages Limited	-	21,106	21,106	-	-	-
<b>Power Generation And Distribution</b>						
Kot Addu Power Company Limited	-	2,000	2,000	-	-	-
<b>Technology &amp; Communication</b>						
Eye Television Network Limited	-	150,000	150,000	-	-	-
Netsol Technologies Limited	-	22,038	22,038	-	-	-
<b>Textile Composite</b>						
Nishat Mills Limited	-	28,249	28,249	-	-	-
<b>Tobacco</b>						
Pakistan Tobacco Company Limited	-	15,000	15,000	-	-	-
<b>Cement</b>						
Lucky Cement Limited	54,000	-	54,000	-	-	-
<b>Investment Banks/ Cos./ Securities</b>						
Jahangir Siddiqui & Company Limited	5,500	-	5,500	-	-	-

8.4.1 The above represents shares received under settlement of a lending arrangement with a financial institution. As per the direction of SECP, the Fund has regularised the said investments within stipulated period.

#### 8.4.2 Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'

	2009 (Rupees in '000)	2008 (Rupees in '000)
Fair value of investments	959,928	1,736,586
Less: Cost of investments	(1,072,404)	(1,714,327)
	(112,476)	22,259
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' at the beginning of the year	(22,259)	(6,027)
Unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss' - advance against Pre-IPO	75,000	(14,017)
Realised on disposal during the year	22,259	6,027
	75,000	(14,017)
	(37,476)	8,242

#### 8.5 Fixed income and other debt securities- available for sale

Name of the Investee Company	Profit/ Markup Rate %	As at July 01, 2008	Purchases during the year	Sales during the year	As at June 30, 2009	Market / Carrying Value as at June 30, 2009	Market / Carrying value as a percentage of total investments
		-----Number of Certificates-----				(Rupees in '000)	
<b>Listed investments</b>							
Azgard Nine Limited - II	-	9,000	-	9,000	-	-	-
Orix Leasing Pakistan Limited - III	-	10,000	-	10,000	-	-	-
Allied Bank Limited	-	13,000	-	13,000	-	-	-
Askari Bank Limited	-	4,252	-	4,252	-	-	-
Bank Alfalah Limited - III	-	15,000	-	15,000	-	-	-
<b>Unlisted investments</b>							
<b>Term Finance Certificates</b>							
Orix Leasing Pakistan Limited	8.5.1	16.94	10,000	-	10,000	48,940	2.38
Engro Chemicals Pakistan Limited	8.5.2	14.17	62,000	2,500	64,140	1,584	0.08
Gharibwal Cement Limited	8.5.3	16.46	8,000	-	8,000	35,562	1.73
Azgard Nine Limited - IV	8.5.4	15.99	50,000	2,201	7,801	218,761	10.63
KASB Securities Limited	8.5.5	14.62	10,000	2,232	2,232	43,715	2.13
New Allied Electronics Industries (Private) Limited	8.5.6	16.00	13,000	-	13,000	903	0.04
Pak American Fertilizers Limited	8.5.7	17.32	40,000	-	10,000	130,283	6.33
Optimus Limited	8.5.8	15.62	-	10,000	-	47,755	2.32
Jahangir Siddiqui & Company Limited - V	-	-	10,000	5,000	15,000	-	-
Pakistan Mobile Communications Limited - III	-	-	20,000	38,426	58,426	-	-
Avari Hotels Limited	8.5.9	13.69	19,760	-	19,760	92,012	4.47
						619,515	

## Notes to the Financial Statements For the year ended June 30, 2009

Name of the Investee Company	Profit/ Markup Rate %	As at July 01, 2008	Purchases during the year	Sales during the year	As at June 30, 2009	Market Value as at June 30, 2009	Market value as a percentage of total investments	
								-----Number of Certificates -----
<b>Sukuk Certificates</b>								
New Allied Electronics Industries (Private) Limited - I	8.5.10	12.86	32,000	-	-	32,000	5,000	0.24
Maple Leaf Cement Factory Limited - II	8.5.11	15.44	43,000	11,000	6,400	47,600	214,224	10.41
New Allied Electronics Industries (Private) Limited - II	8.5.12	15.9	15,000	-	6,400	8,600	21,500	1.05
Kohat Cement Company Limited	8.5.13	14.78	20,000	-	12,350	7,650	27,712	1.35
Al-Zamin Leasing Modaraba	8.5.14	15.25	14,000	-	-	14,000	66,346	3.23
Security Leasing Corporation Limited	8.5.15	15.76	10,000	10,000	19,500	500	1,697	0.08
Pak Elektron Limited - I	8.5.16	14.52	-	13,401	9,401	4,000	18,213	0.89
Pak Elektron Limited - II	8.5.17	13.77	-	14,000	-	14,000	64,694	3.14
Eden Housing Limited	8.5.18	15.25	-	5,185	-	5,185	25,124	1.22
Eden Builders Limited	8.5.19	15.94	-	1,720	-	1,720	8,613	0.42
Karachi Shipyard & Engineering Works Limited - II	8.5.20	15.17	-	62,076	57,076	5,000	24,512	1.19
Sitara Chemical Industries Limited	-	-	20,000	5,200	25,200	-	-	-
Pak American Fertilizers Limited	-	-	30,000	-	30,000	-	-	-
House Building Finance Company	-	-	15,000	-	15,000	-	-	-
Karachi Shipyard & Engineering Works Limited	-	-	-	8,000	8,000	-	-	-
						477,635		
<b>Total unlisted Term Finance and Sukuk Certificates</b>						<b>1,097,150</b>		

- 8.5.1** These privately placed term finance certificates will mature on January 15, 2013. They carry mark-up equal to 6 month KIBOR plus 325 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.
- 8.5.2** These privately placed term finance certificates are secured and mature on March 18, 2018. They carry mark-up equal to 6 month KIBOR with no floor or cap. The principal repayment along with interest is paid on semi annual basis.
- 8.5.3** These privately placed term finance certificates will mature on November 17, 2012. They carry mark-up equal to 6 month KIBOR plus 300 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.
- 8.5.4** These privately placed term finance certificates are subordinated, and will mature on December 04, 2014. They carry mark-up equal to 6 month KIBOR plus 225 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.
- 8.5.5** These privately placed term finance certificates will mature on June 27, 2011. They carry mark-up equal to 6 month KIBOR plus 190 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.
- 8.5.6** This represents privately placed term finance certificates of New Allied Electronics Industries (Private) Limited (NAEIL). The respective investment in NAEIL is collateralised against mortgage over property consisting of plot number F-14, Block 5, KDA Scheme, Clifton, Karachi and charge over stocks and receivables of the company by way of hypothecation, Letter of Guarantee by the sponsoring directors of the Company and a standby letter of credit as mentioned in the constitutive documents of the instrument.

On November 15, 2008, owing to the financial difficulties, no

payment was made against the markup and principal due amounting to Rs. 2.407 million and Rs. 5.416 million respectively. The Fund has made full provision against markup receivable till December 31, 2008 amounting to Rs. 1.461 million and suspended further accruals of markup on the investment amounting to Rs. 4.141 million till June 30, 2009. On January 24, 2009, upon the enforcement of standby letter of credit by the Trustee of the Issue, a partial payment of Rs. 2.167 million has been received on pro-rata basis against the outstanding markup. Further on June 15, 2009, the trustee of the Fund alongwith other PPTFC holders has issued 'No Objection Certificate' to Trustee of the issue in terms of extraordinary resolution passed on June 8, 2009 authorizing the release of charge of property under mortgage for sale and has received its prorata shares of Rs. 28.889 million towards adjustment of the principal. The investment has been classified as non-performing debt securities by MUFAP and credit rating of investment has been down graded in view of default. The investment has been marked down in light of Circular 1 of 2009 issued by SECP specifying provision criteria for non performing debt securities and provision policy approved by Board of Directors of Management Company. This mark-down has been recognized in the Income Statement as 'provision against debt securities'. Management is continuously monitoring exposure to this investment and is making necessary efforts for the recovery of the amount.

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

- 8.5.7** These privately placed term finance certificates are secured and will mature on November 29, 2014. They carry mark-up equal to 6 month KIBOR plus 175 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi-annual basis.

## Notes to the Financial Statements For the year ended June 30, 2009

**8.5.8** These privately placed term finance certificates will mature on October 10, 2012. They carry mark-up equal to 6 month KIBOR plus 210 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.

**8.5.9** These privately placed term finance certificates, will mature on November 01, 2014. They carry mark-up equal to 6 month KIBOR plus 325 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi - annual basis.

**8.5.10** This represents sukuk certificates of New Allied Electronics Industries (Private) Limited (NAEIL). The investment is collateralised against first exclusive charge by way of equitable mortgage on land, plant, equipment, machinery and other fixed assets of the company with a margin of 33.33% as mentioned in the constitutive documents of the instrument.

On October 25, 2008, owing to the financial difficulties, NAEIL paid full markup amounting to Rs. 0.423 million, however, no payment was made against the principal due amounting to Rs. 0.625 million. NAEIL again defaulted on January 25, 2009 and April 25, 2009 on repayment of principal and mark-up in aggregate amounting to Rs. 1.25 million and Rs. 0.771 million respectively. The Fund has made full provision against markup receivable amounting to Rs. 0.295 million till December 31, 2008 and suspended further accruals of markup on the investment amounting to Rs. 0.713 million till June 30, 2009. MUFAP has classified such exposure as non-performing and its credit rating has been down graded in view of its continuous defaults. The investment has been marked down in light of Circular 1 of 2009 issued by SECP specifying provision criteria for non-performing debt securities and provision policy approved by Board of Directors of Management Company. Consequently, the investment is valued at 50% of its face value. The mark down has been recognized in income statement as 'provision against debt securities'. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

**8.5.11** This Sukuk Issue has a tenor of Six (6) Years with Two (2) years grace period and carries profit equal to 6 months KIBOR plus 170 basis points per annum. Rentals will be payable semi-annually in arrears calculated on a 365 day year basis on the outstanding Musharaka Investment of the Investors. The first such rental payment will fall due Six (6) months from the Date of First Contribution and subsequently every Six (6) months thereafter.

**8.5.12** This represents sukuk certificates of NAEIL. The respective investment in NAEIL is collateralised against first pari passu charge over all present and future fixed assets (excluding land and building) and current assets of the company, irrevocable guarantee of A+ rated financial institution for each upcoming installment of sukuk and personal guarantees of the sponsoring directors, as mentioned in the constitutive documents of the instrument.

On December 3, 2008, owing to the financial difficulties, no payment was made by the borrower against markup amounting to Rs. 3.247 million. The Fund has made full provision against markup receivable amounting to Rs. 1.443 million till

December 31, 2008 and suspended further accruals of markup on the investment amounting to Rs. 3.713 million till June 30, 2009. On February 11, 2009 and March 20, 2009 the Fund received a partial payment amounting to Rs. 1.567 million and Rs. 0.841 million respectively against the outstanding mark-up. The investment has been classified as non-performing debt securities by MUFAP and credit rating of investment has been down graded in view of default. The investment has been marked down in light of Circular 1 of 2009 issued by SECP specifying provision criteria for non-performing debt securities and provision policy approved by Board of Directors of Management Company. Management is continuously monitoring exposure to this investment and is making necessary efforts for the recovery of the amount.

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

**8.5.13** These are privately placed sukuk certificates with Kohat Cement Company Limited (KCCL) having original maturity on December 20, 2012. However on May 11, 2009, KCCL in consultation with sukuk certificate holders worked out successful restructuring plan and has extended the maturity to June 20, 2013. These certificates carry markup equal to the 6 months KIBOR plus 180 basis points per annum receivable semi annually in arrears with no floor or cap till December 20, 2009 and there after carry mark-up at 3 months KIBOR plus 180 basis points per annum receivable quarterly in arrears with no floor or cap. On June 20, 2009, owing to financial difficulties, KCCL made partial payment and defaulted on the remaining markup. In view of the default, the management has suspended further markup on such investment amounting to Rs. 0.164 million. Subsequent to year end, the outstanding markup has been paid in full to the Fund by KCCL and hence the Fund has resumed accrual of markup on the same.

**8.5.14** These privately placed sukuk certificates will mature on May 12, 2012. They carry mark-up equal to 6 month KIBOR plus 190 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi-annual basis.

**8.5.15** These privately placed sukuk certificates are secured, and will mature on June 01, 2012. They carry mark-up equal to 6 month KIBOR plus 200 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi-annual basis.

**8.5.16** The privately placed issue of sukuk certificates – diminishing musharakah based has a tenor of Five (5) Years inclusive of 18 months Grace Period, carrying profit equal to 3 months KIBOR plus 175 basis points per annum with floor of 10% and cap of 25%, payable quarterly in arrears to be purchased in fourteen (14) consecutive quarterly units, the first such unit falling due not later than the end of twenty one (21) months from the issue date.

**8.5.17** These privately placed sukuk certificates are unsecured and will mature on April 01, 2015. They carry mark-up equal to 3 month KIBOR plus 325 basis points per annum receivable quarterly in arrears with no floor or cap.

**8.5.18** These privately placed sukuk certificates will mature on March 31, 2013. They carry mark-up equal to 6 month KIBOR plus 250 basis points per annum with no floor or cap. The principal repayment along with interest is paid on semi annual basis.

## Notes to the Financial Statements For the year ended June 30, 2009

**8.5.19** These privately placed sukuk certificates are unsecured and will mature on December 08, 2013. They carrying profit equal to 3 months KIBOR plus 230 basis points per annum payable semi-annually in arrears.

**8.5.20** These privately placed Sukuks are secured, and will mature on February 04, 2016. They carry mark-up equal to 6 month KIBOR plus 40 basis points per annum receivable semi annually in arrears with no floor or cap.

### 8.6 Commercial Papers - Unsecured

Name of the Investee Company	As at July 01, 2008	Purchases during the year	Matured during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Carrying value as a percentage of total investments
	----- Number of Commercial Papers -----				(Rupees in '000)	
Pak American Fertilizers Limited	50	-	50	-	-	-
Pakistan Elektron Limited	25	-	25	-	-	-
Pakistan Elektron Limited	-	50	50	-	-	-
					-	

### 8.7 Unrealised appreciation in fair value of investments classified as 'available for sale'

	2009 (Rupees in '000)	2008
Fair value of investments	1,097,150	2,406,217
Less: Cost of investments	(1,215,728)	(2,387,241)
	(118,578)	18,976
Unrealised appreciation in fair value of investments classified as 'available for sale' at the beginning of the period	(18,976)	(11,192)
Provision against debt securities	56,583	-
	37,607	(11,192)
	(80,971)	7,784

### 9. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposit with National Clearing Company of Pakistan Limited	3,500	3,500
Deposit with Central Depository Company of Pakistan Limited	100	100
Prepaid expenses	32	1,331
Receivable from KASB Stock Market Fund	-	355
Receivable from KASB Balanced Fund	-	279
Others	167	-
	3,799	5,565

### 10. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	1,717	2,320
Less: Amortisation during the year	(602)	(603)
Balance as at June 30	1,115	1,717

### 11. PAYABLE TO KASB FUNDS LIMITED-MANAGEMENT COMPANY

Management fee payable	11.1	4,064	9,558
Sales load payable		1	-
		4,065	9,558

**11.1** Under the provisions of the NBFC 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. During the year, remuneration of management company is charged at the rate of 1.3 percent per annum of the average annual net assets of the Fund for the period from July 01, 2008 to September 19, 2008 and at the rate of 1.5 percent per annum of the average annual net assets of the Fund for the period from September 20, 2008 and onwards.

### 12. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

	2009 (Rupees in '000)	2008	
Trustee fee payable	12.1	353	816
CDS charges payable		-	67
		353	883

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

### 13. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

**13.1** As per schedule II of the NBFC Regulations 2008, income funds are 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. Uptil November 20, 2008 annual fee is accrued at the rate of one tenth of one percent under the provisions of NBFC Regulations 2007.

### 14. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	703	395
Legal and professional charges payable	62	140
Brokerage payable	31	504
Payable to KASB Stock Market Fund	68	-
Payable to KASB Islamic Income Fund	2,595	-
Others	784	595
	4,243	1,634

## Notes to the Financial Statements For the year ended June 30, 2009

### 15. COMMITMENTS

	2009	2008
	(Rupees in '000)	
Continuous Funding System transactions (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	-	82,102

Purchase of listed Term Finance Certificates	-	50,000
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Purchase of Sukuk Certificates	-	80,000
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### 16. AUDITORS' REMUNERATION

Audit fee	225	150
Other certifications and services	592	505
Out of pocket expenses	85	86
	<u>902</u>	<u>741</u>

### 17. PROVISION AGAINST DEBT SECURITIES

New Allied Electronics Industries (Private) Limited - Privately Placed Term Finance Certificates	8.5.6	30,083	-
New Allied Electronics Industries (Private) Limited - Sukuk I	8.5.10	5,000	-
New Allied Electronics Industries (Private) Limited - Sukuk II	8.5.12	21,500	-
		<u>56,583</u>	<u>-</u>

### 18. 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.

### 19. UNDISTRIBUTED INCOME / (LOSS) BROUGHT FORWARD / CARRIED FORWARD

As per Schedule V to the NBFC Regulations 2008, undistributed

#### 20.1 Transactions

##### KASB Funds Limited

Remuneration expense	
Investment in the Fund: Nil units (2008: 928,976 units)	
Bonus units issued: 64,585 units (2008: 107,101 units)	
Redemption from the Fund: 402,838 units (2008: 145,930 units)	

##### KASB Funds Limited Employees' Provident Fund

Investment in the Fund: Nil units (2008: 3,766 units)	
Bonus units issued: 376 units (2008: 658 units)	
Redemption from the Fund: 6,873 units (2008: Nil units)	

##### KASB Stock Market Fund

Sale of Sukuk Certificates: 11,600 units (2008: Nil units)	
Purchase of Sukuk Certificates: 5,200 units (2008: Nil units)	

##### KASB Balanced Fund

Repurchase Transaction	
Expense accrued on Repurchase Transaction	
Sale of Sukuk Certificates: 25,500 units (2008: Nil units)	
Purchase of Sukuk Certificates: 10,000 units (2008: Nil units)	

income / (loss) brought forward / carried forward needs to be bifurcated in to realised and unrealised gains. However, it has not been bifurcated as it is impracticable to do so.

### 20. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons / related parties include KASB Funds Limited (the Management Company), KASB Bank Limited (the Holding Company of the Management Company), KASB Securities Limited, KASB Modaraba, and New Horizon Exploration and Production Limited (associated companies of the Management Company), other Fund managed by the management company including KASB Balanced Fund, KASB Islamic Income Fund and KASB Stock Market Fund, Central Depository Company of Pakistan Limited (trustee of the Fund) and directors and key management personnel of the Management Company.

The State Bank of Pakistan vide its order dated January 01, 2009 sanctioned the scheme of amalgamation of KASB Capital Limited (previously the holding company of KASB Funds Limited), and Network Leasing Corporation Limited with and into KASB Bank Limited effect from the close of business on December 31, 2008. The same was approved by the SECP vide its letter dated January 23, 2009. Therefore, consequent to this amalgamation, KASB Bank Limited (being the successor in interest of KASB Capital Limited) has become the holding company of KASB Funds Limited.

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.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations 2008, NBFC Regulations 2007 and the Trust Deed respectively.

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

	2009	2008
	(Rupees in '000)	
	<u>72,744</u>	114,703
	<u>-</u>	96,631
	<u>6,513</u>	10,764
	<u>40,263</u>	15,000
	<u>-</u>	400
	<u>38</u>	66
	<u>669</u>	-
	<u>60,068</u>	-
	<u>24,238</u>	-
	<u>48,000</u>	-
	<u>2,035</u>	-
	<u>132,068</u>	-
	<u>51,826</u>	-

## Notes to the Financial Statements For the year ended June 30, 2009

		2009 (Rupees in '000)	2008
<b>KASB Islamic Income Fund</b>		<b>75,548</b>	70,721
Sale of Sukuk Certificates: 14,750 units (2008: 14,000 units)		-	800,000
<b>KASB Capital Limited</b>		-	21,699
Investment in the Fund: Nil units (2008: 7,792,961 units)		<b>2,893</b>	250,000
Bonus units issued: Nil units (2008: 215,761 units)		<b>315</b>	-
Transfer in the Fund: 31,491 units (2008: 2,387,866 units)		-	831,138
Transfer out of the Fund: 31,491 units (2008: Nil units)		-	250,000
Redemption from the Fund: Nil units (2008: 8,021,743 units)		<b>369,043</b>	-
Conversion out of the Fund: Nil units (2008: 2,374,846 units)		<b>301,967</b>	-
Sale of Sukuk Certificates: 71,000 units (2008: Nil units)		<b>210,911</b>	-
Sale of Term Finance Certificates: 59,640 units (2008: Nil units)			
Purchase of Sukuk Certificates: 41,000 units (2008: Nil units)			
<b>KASB Securities Limited</b>			
Brokerage expense	19.3	<b>290</b>	371
Sale of Term Finance Certificates: 25,600 units (2008: Nil units)		<b>129,862</b>	-
Purchase of Term Finance Certificates: 20,000 units (2008: Nil units)		<b>100,300</b>	-
Purchase of 10,000 units of Term Finance Certificates issued by KASB Securities Limited		-	50,000
<b>KASB Securities Limited Employees' Provident Fund</b>			
Bonus units issued: 2,481 units (2008: Nil units)		<b>250</b>	-
Redemption from the Fund: 45,389 units (2008: Nil units)		<b>4,425</b>	-
<b>KASB Bank Limited</b>			
Bank charges		<b>69</b>	65
Term Deposit Receipts		<b>300,000</b>	300,000
Income accrued on term deposit receipts		<b>3,154</b>	1,377
Profit accrued on bank deposits	19.4	<b>32,172</b>	55,236
Repurchase Transaction		<b>50,000</b>	-
Expense accrued on Repurchase Transaction		<b>849</b>	-
Dividend Paid		<b>645</b>	-
Investment in the Fund: 2,518,295 units (2008: Nil units)		<b>250,000</b>	-
Bonus units issued: Nil units (2008: 270,773 units)		-	27,175
Transfer in the Fund: 730,672 units (2008: 2,805,735 units)		<b>67,566</b>	288,317
Transfer out of the Fund: Nil units (2008: 5,193,600 units)		-	538,261
Redemption from the Fund: Nil units (2008: 305,735 units)		-	32,185
Sale of Term Finance Certificates: 66,926 units (2008: Nil units)		<b>299,996</b>	-
Purchase of Term Finance Certificates: 47,926 units (2008: Nil units)		<b>222,120</b>	-
<b>KASB Bank Limited Employees' Provident Fund</b>			
Bonus units issued: 4,870 units (2008: 13,245 units)		<b>491</b>	1,330
Redemption from the Fund: 89,094 units (2008: Nil units)		<b>8,466</b>	-
<b>New Horizon Exploration and Production Limited.</b>			
Investment in the Fund: Nil units (2008: 2,162,413 units)		-	220,000
Bonus units issued: 5 units (2008: Nil units)		<b>1</b>	-
Redemption from the Fund: Nil units (2008: 2,162,324 units)		-	221,158
<b>KASB Modaraba</b>			
Sale of Sukuk Certificates: 6,401 units (2008: Nil units)		<b>33,040</b>	-
Sale of Term Finance Certificates: 4,433 units (2008: Nil units)		<b>23,388</b>	-
Purchase of Sukuk Certificates: 2,401 units (2008: Nil units)		<b>12,269</b>	-
Purchase of Term Finance Certificates: 4,433 units (2008: Nil units)		<b>23,529</b>	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>			
Remuneration	13.1	<b>6,084</b>	9,823
CDS charges		<b>109</b>	1,170
Investment in the Fund: 916,663 units (2008: 1,195,847 units)		<b>94,425</b>	125,000
Bonus units issued : 24,405 units (2008: 64,280 units)		<b>2,454</b>	6,460
Redemption from the Fund: 1,833,325 units (2008: Nil units)		<b>189,464</b>	-



## Notes to the Financial Statements For the year ended June 30,2009

	2009	2008
	(Rupees in '000)	
<b>Directors and officers of the Management Company</b>		
Investment in the Fund: 297,790 units (2008: 199,840 units)	<b>30,544</b>	20,721
Redemption from the Fund: 312,639 units (2008: 155,084 units)	<b>32,128</b>	16,003
Conversion in the Fund: 39,332 units (2008: 54,573 units)	<b>4,011</b>	5,696
Conversion out of the Fund: 89,487 units (2008: 92,290 units)	<b>9,062</b>	9,536
Transfer in the Fund: 5,118 units (2008: 2,147 units)	<b>523</b>	221
Transfer out of the Fund: 108,391 units (2008: 2,147 units)	<b>9,731</b>	221
Bonus units issued: 13,459 units (2008: 30,269 units)	<b>1,358</b>	3,041
<b>20.2 Balances</b>		
<b>KASB Funds Limited</b>		
Payable to the Management Company	<b>4,065</b>	9,558
Units held: 422,563 units (2008: 1,212,816 units)	<b>41,982</b>	125,223
<b>KASB Stock Market Fund</b>		
Receivable from KASB Stock Market Fund	-	355
Payable to KASB Stock Market Fund	<b>68</b>	-
<b>KASB Balanced Fund</b>		
Receivable from KASB Balanced Fund	-	279
<b>KASB Islamic Income Fund</b>		
Payable to KASB Islamic Income Fund	<b>2,595</b>	-
<b>KASB Funds Limited Employees' Provident Fund</b>		
Units held: Nil units (2008: 6,497 units)	-	671
<b>KASB Securities Limited</b>		
Brokerage payable	<b>1</b>	13
10,000 units of Term Finance Certificates	<b>43,715</b>	50,770
Income Receivable on term Finance Certificates	<b>80</b>	87
<b>KASB Bank Limited</b>		
Bank balances	<b>57,213</b>	849,833
Profit receivable on bank deposits	<b>1,393</b>	10,168
Term deposit receipts	-	300,000
Income receivable on Term Deposit Receipts	-	1,377
Units held: 3,361,101 units (2008: 112,134 units)	<b>333,925</b>	11,578
<b>KASB Bank Limited Employees' Provident Fund</b>		
Units held: Nil units (2008: 84,224 units)	-	8,696
<b>New Horizon Exploration and Production Ltd.</b>		
Units held: 94 units (2008: 89 units)	<b>10</b>	9
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Payable to the Trustee	<b>353</b>	883
Security deposit	<b>100</b>	100
Units held: Nil units (2008: 892,257 units)	-	92,126
<b>Directors and officers of the Management Company</b>		
Units held: 70,304 (2008: 174,621 units)	<b>6,985</b>	18,030

19.4

**20.3** 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.

**20.4** The rate of return on this deposit 12.5% per annum (2008: 9.5% to 12.5% per annum).

### 21. 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.

## Notes to the Financial Statements For the year ended June 30, 2009

The Fund 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.

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 securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

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

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

### *Currency risk*

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

### *Interest rate risk*

Interest rate risk arises from the possibility that changes in prevailing level of interest rates will affect future cash flows or the fair values of financial instruments. Investments in floating rate debt securities expose the fund to cash flow interest rate risk where as investments in fixed interest rate debt securities expose the Fund to fair value interest rate risk.

The Fund manages fair value risk by investing primarily in floating rate debt securities preferably with no cap and floor to insulate Fund from fair value interest rate risk.

At present the Fund's investments as detailed in note 8.2, 8.3, 8.5 and 8.6 is exposed to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. Investments in commercial papers, certificates of investments, placements, deposits and cash and cash equivalents do not expose the Fund to fair value interest rate risk. All other debt securities have floating interest rates.

### *Sensitivity analysis for variable rate instruments*

In case of 100 basis points increase / decrease in KIBOR on June 30, 2009 with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs 3.857 million (2008: 6.267 million) with consequential effect on net income for the year. This arises substantially from the increase / decrease in interest income and income receivable.

The Fund has direct exposure to interest rate changes on the cash flows of its interest bearing assets. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests. Further, the composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the effect on the Fund's net assets and income statement of future movements in interest rates.

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

## Notes to the Financial Statements For the year ended June 30, 2009

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

	Effective rate of mark-up/return (%)	June 30, 2009			Not exposed to MROR risk	Total
		Exposed to MROR risk				
		Upto three months	More than three months and upto one year	More than one year		
(Rupees in '000)						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	12.5 - 13.75	685,684	133,000	-	-	818,684
Placements	15-22	111,788	-	-	-	111,788
Certificate of Investment	16.00	45,000	-	-	-	45,000
Investments	12.86 - 17.53	1,285,567	771,511	-	-	2,057,078
Income receivable		-	-	-	120,885	120,885
Deposits, prepayments and other receivables		-	-	-	3,767	3,767
		<u>2,128,039</u>	<u>904,511</u>		<u>124,652</u>	<u>3,157,202</u>
<b>Financial liabilities</b>						
Payable on redemption of units		-	-	-	76	76
Payable to KASB Funds Limited - Management Company		-	-	-	4,065	4,065
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	353	353
Accrued expenses and other liabilities		-	-	-	4,243	4,243
		-	-	-	8,737	8,737
<b>On-balance sheet gap 2009</b>		<u><b>2,128,039</b></u>	<u><b>904,511</b></u>	<u><b>-</b></u>	<u><b>115,915</b></u>	<u><b>3,148,465</b></u>

	Effective rate of mark-up/return (%)	June 30, 2008			Not exposed to MROR risk	Total
		Exposed to MROR risk				
		Upto three months	More than three months and upto one year	More than one year		
(Rupees in '000)						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	8.5 - 12.5	2,205,884	1,100,000	-	-	3,305,884
Placements	17	100,000	-	-	-	100,000
Certificates of investment	11.31 - 16.40	575,000	200,000	-	-	775,000
Receivable against continuous funding system	17.51 - 21.02	311,893	-	-	-	311,893
Investments	11.10 - 16.00	2,077,926	2,064,877	-	-	4,142,803
Income receivable		-	-	-	216,809	216,809
Deposits, prepayments and other receivables		-	-	-	4,234	4,234
		<u>5,270,703</u>	<u>3,364,877</u>	<u>-</u>	<u>244,434</u>	<u>8,856,623</u>
<b>Financial liabilities</b>						
Payable against purchase of investments		-	-	-	2,967	2,967
Payable on redemption of units		-	-	-	7,482	7,482
Payable to KASB Funds Limited - Management Company		-	-	-	9,558	9,558
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	883	883
Accrued expenses and other liabilities		-	-	-	1,634	1,634
		-	-	-	22,524	22,524
<b>On-balance sheet gap 2008</b>		<u><b>5,270,703</b></u>	<u><b>3,364,877</b></u>	<u><b>-</b></u>	<u><b>221,910</b></u>	<u><b>8,834,099</b></u>

## Notes to the Financial Statements For the year ended June 30, 2009

### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. Presently, the Fund is not exposed to equity price risk, as the Fund does not hold any equity securities as at June 30, 2009.

### Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfill their obligations. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

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

### Credit risk management

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

Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund only uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery. In securities reverse repurchase transactions the Fund receives securities as collateral. The Fund make placements and purchase certificates of investment from financial institutions having rated by reputable rating agency. The Fund kept surplus liquidity with banks having credit rating ranging from AA+ to BBB+.

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

	2009	2008
	(Rupees in '000)	
Bank balances	818,684	3,305,884
Placements	111,788	100,000
Certificates of investment	45,000	775,000
Receivable against continuous funding system	-	311,893
Income receivable	120,885	216,809
Investments	2,057,078	4,142,803
Deposits and other receivables	3,799	5,565
	<u>3,157,234</u>	<u>8,857,954</u>

None of the above financial assets were considered to be past due or impaired in 2009 and 2008 except for the exposures and the provisions there against as provided in note 8.3.1, 8.5.6, 8.5.10, 8.5.12 and 8.5.13. The management company follows circular 1 of 2009 containing criteria for provisioning of non-performing debt securities issued by SECP for the purpose of making provision against non-performing debt securities. Further management company has devised provisioning policy duly approved by the Board of Directors of the management company to make provision over and above required by the said circular and for those exposures not covered by the said circular.

For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated except stated otherwise.

The analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates, Sukuk Certificates, Certificates of Investments, Commercial Papers and Placements as at June 30:

<b>Debt Securities by rating category</b>	<b>2009(%)</b>	<b>2008(%)</b>
Government Guaranteed	0.82	-
AA+	-	2.39
AA	1.70	13.37
AA-	32.63	23.77
A+	2.79	2.33
A	7.86	8.78
A-	12.53	4.33
BBB-	1.25	0.68
A-1	-	19.64
A-2	26.16	17.94
A-3	3.16	6.77
A1+	-	7.45
Non-rated	7.66	-
Non-performing	3.44	-

## Notes to the Financial Statements For the year ended June 30, 2009

### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by The Securities and Exchange Commission of Pakistan (SECP).

The Fund's policy is to manage this risk by keeping adequate assets as cash and cash equivalents. Further the Fund also invests in assets that are tradeable and can be disposed. The Fund invests primarily in marketable securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement.

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 total assets at the time of borrowing with repayment within 90 days of such borrowings and would be secured by the assets of the Fund. During the year the Fund has borrowed amounting to Rs.18.644 million in order to meet redemption requests. The borrowing option was exercised by the Fund as the Fund could not liquidate its investments owing to absence of liquidity and price discovery in the money market.

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.

Due to the extraordinary circumstances in the financial markets and with a view to protect the interest of unit holders, Management Company announced temporary suspension of redemption of units of the Fund with effect from November 7, 2008 and removed suspension on February 28, 2009. Apart from this, no suspension of redemption was made by the Fund during the year.

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, 2009			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	76	-	-	76
Payable to KASB Funds Limited - Management Company	4,065	-	-	4,065
Payable to Central Depository Company of Pakistan Limited - Trustee	353	-	-	353
Payable to The Securities and Exchange Commission of Pakistan	4,513	-	-	4,513
Accrued expenses and other liabilities	4,243	-	-	4,243
	<b>13,250</b>	<b>-</b>	<b>-</b>	<b>13,250</b>
	June 30, 2008			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	7,482	-	-	7,482
Payable against purchase of investments	2,967	-	-	2,967
Payable to KASB Funds Limited - Management Company	9,558	-	-	9,558
Payable to Central Depository Company of Pakistan Limited - Trustee	883	-	-	883
Payable to The Securities and Exchange Commission of Pakistan	8,823	-	-	8,823
Accrued expenses and other liabilities	1,634	-	-	1,634
	<b>31,347</b>	<b>-</b>	<b>-</b>	<b>31,347</b>

## Notes to the Financial Statements For the year ended June 30, 2009

### Unit Holders' Fund risk management

As a result of the ability to issue and repurchase / redeem units, 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.

The Fund's objective for managing Unit holders' Fund are 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.

### 22. PATTERN OF UNITHOLDING

Category	Number of unit holders		Investment amount		Percentage of total investment	
	2009	2008	2009	2008	2009	2008
			(Rupees in '000)			
Individuals	365	882	149,180	1,833,437	5	21
Associated companies	5	7	380,506	242,822	12	2
Directors	-	3	-	9,548	-	-
Bank / Financial Institution	5	7	2,382,885	2,761,755	76	31
Insurance Companies	1	3	5,947	201,848	-	2
Non Banking Finance Companies	1	7	12	379,067	-	4
Retirement Funds	25	46	99,812	483,110	3	6
Public Limited Companies	-	7	-	1,147,862	-	14
Corporate Sector Entities	17	31	126,757	1,768,875	4	20
	<b>419</b>	<b>993</b>	<b>3,145,099</b>	<b>8,828,324</b>	<b>100</b>	<b>100</b>

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

Broker Name	2009	2008
	(Percentage)	(Percentage)
KASB Securities Limited.	27.64	Arif Habib Limited 25.86
JS Capital Markets Limited	19.60	Alfalah Securities (Private) Limited 18.10
Live Securities (Private) Limited	18.46	Invest Capital & Management 13.65
Adam Securities (Private) Limited	9.24	Live Securities (Private) Limited 9.30
Alfalah Securities (Private) Limited	9.18	Atlas Investment Bank Limited 9.23
Finex Securities Limited	4.22	KASB Securities Limited. 7.79
Atlas Investment Bank Limited	4.09	Invisor Securities (Private) Limited 3.16
Global Securities Pakistan Limited	2.71	Ismail Iqbal Securities (Private) Limited 2.88
First Capital Securities Limited	1.49	AMZ Securities (Private) Limited 2.46
IGI Finex Securities	1.09	Finex Securities Limited 2.27

### 24. 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	8	7	1
Ms. Naz Khan	Chief Executive & Director	8	8	-
Mr. Syed Muhammad Rehmanullah	Director	8	8	-
Mr. Muneer Kamal	Director**	1	-	1
Mr. Muhammad Imran Khalil	Chief Financial Officer	8	8	-
Mr. Irfan Saleem	Company Secretary	8	8	-

\*After being elected as director on October 25, 2008.

\*\* Mr. Muneer Kamal resigned from the Board on July 04, 2008.

## Notes to the Financial Statements For the year ended June 30,2009

### Dates of the meetings of the Board of Directors

Twenty-fourth meeting	July 2, 2008
Twenty-fifth meeting	August 20, 2008
Twenty-sixth meeting	October 22, 2008
Twenty-seventh meeting	December 29, 2008
Twenty-eighth meeting	February 20, 2009 and February 26, 2009
Twenty-ninth meeting	April 27, 2009
Thirtieth meeting	May 27, 2009
Thirty-first meeting	June 8, 2009

### 25. 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.

### 26. DETAILS OF MEMBERS OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	B.A (USA)	16
Muhammad Faisal Potrik	Head of Fund Management	MBA	9
Mir Taimur Ali	Fund Manager	CFA, ACCA	6
Irfan Saleem Awan	Head of Risk Management & Compliance and Company Secretary	ACA	10

#### 26.1 Details of other funds managed by the Fund Manager

KASB Islamic Income Fund under the management of KASB Funds Limited.

### 27. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved the final dividend distribution of Rs.1.25 per unit (2008: Rs. 2.75 per unit) for the year ended June 30, 2009, amounting to Rs. 39.571 million (2008: Rs. 235.051 million) in total in their meeting held on July 4, 2009 (2008: July 2, 2008).

### 28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 25, 2009 by the Board of Directors of the Management Company.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

