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THE INVESTMENT OBJECTIVE OF THE PORTFOLIO IS TO PROVIDE AN EFFICIENT INVESTMENT MEDIUM WHEREBY INVESTORS CAN PARTICIPATE IN A PORTFOLIO THAT WILL SEEK TO GENERATE HIGH LEVEL OF CURRENT INCOME, AS WELL AS THE POTENTIAL FOR CAPITAL GROWTH.

THE STRATEGY WILL INCLUDE TAKING POSITIONS BOTH IN SHORT AND LONG TERM AGENCIES BY TAKING ACTIVE TRADING AS WELL AS PASSIVE HOLD APPROACHES.

KASB INCOME OPPORTUNITY FUND

(formerly KASB Liquid Fund)

ANNUAL REPORT
June 30, 2011

CONTENTS

Fund Information	2
Mission Report	3
Report of the Directors of the Management Company	4
Annual Fund Managers' Report	9
Trustee Report To The Unit Holders	11
Statement of Compliance With The Code Of Corporate Governance	12
Review Report To The Unit Holders of KASB Income Opportunity Fund "The Fund" on Statement of Compliance With Best Practices of Code of Corporate Governance	13
Independent Auditors' Report To The Unit Holders	14
Statement of Assets and Liabilities	15
Income Statement	16
Statement of Comprehensive Income	17
Distribution Statement	18
Statement of Movement in Unit Holders' Fund	19
Cash Flow Statement	20
Notes to the Financial Statements	21

FUND INFORMATION

Management Company
KASB Funds Limited
Registered Office:

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

Principal Office

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

UAN: (92-21) 111 535 535

Fax: (92-21) 3263 9188

URL: www.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman

Mr. Amer Maqbool - Chief Executive

Mr. Qaiser P. Mufti

Mr. Syed Muhammad Rehmanullah

Mr. Muzaffar Ali Shah Bukhari

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Mansoor Ali

Audit Committee

Mr. Robert John Richard Owen

Mr. Syed Muhammad Rehmanullah

Mr. Qaiser P. Mufti

Trustee

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

Fund Rating

BBB (f) By PACRA
(March 2011)

Bankers to the Fund

KASB Bank Limited

Auditors

A.F. Ferguson & Co. - Chartered

Accountants, State Life Building I-C Off:

I.I. Chundrigar Road, P.O. Box 4716,

Karachi 74000, Pakistan.

Legal Advisor

Bawaney & Partners

Room No. 404, 4th Floor, Beaumont Plaza,

6-cl-10, Beaumont Road, Civil Lines,

Karachi-75530

Registrar

KASB Funds Limited

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

Distributors

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Standard Chartered Bank (Pakistan) Limited

Management Company Rating

Rated AM3 by JCR-VIS

(May 2011)

MISSION STATEMENT

The Funds aims to provide an efficient investment medium whereby investors can participate in portfolio that will seek to generate high level of current income, as well as the potential for capital growth.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Income Opportunity Fund (formerly KASB Liquid Fund) (KIOF, the Fund), is pleased to present the sixth Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2011.

Financial Highlights

	FY 2011	FY 2010	Increase / (Decrease) (%)
Net Income (Rs. in Million)	(244.94)	(202.82)	(20.77)
Net Assets as at June 30 (Rs. in Million)	363.88	959.40	(62.07)
NAV per Unit as on June 30 (Rs.)	52.9665	85.5835	(38.11)
Annualised yield (%)	(38.10)	(13.86)	(174.89)

* Par value of each unit is Rs. 100.

Economic Environment

Due to the floods impact during early months of the fiscal year 2011 coupled with persistent structural problems, the fiscal year 2011 ended with the GDP growth of just ~2.4% against initial target of 4.5%. The economy remained under continuous pressure in the form of power crisis, persistent inflation, lower tax to GDP ratio, circular debt and unmanageable fiscal deficit. The macroeconomic picture depicted improvements on some fronts such as significant decline in current account deficit which declined by 114% YoY and currently stands at USD 542mn surplus at the end of June 2011. The main reasons behind this improvement are (1) the strong export earnings (rise in international cotton prices) which increased by ~29% and (2) ~26% growth of workers' remittances during FY11.

Although lower than expected but still higher, the headline inflation remained a hindrance in the economy's growth. The average inflation for full year stands at 13.92% against 11.7% last year. Going forward, the inflation is expected to ease off in the second quarter of FY12 mainly due to higher base effect. The ease in inflation may convince the central bank to ease off the policy rate but government growing demand of borrowing to finance its fiscal deficit will remain a key hurdle.

Furthermore, the FY12 budget proposal was announced during the month with higher revenue target and cuts in subsidies. Although, the targets set in the budget proposal are quite ambitious in terms of economy growth, revenue generation, containment in fiscal deficit etc, but these are essential measures at this point in time and meeting these targets will ease off the pressure from the economy. Also, the satisfactory expenditure containment and revenue collection measures would help in resuming the SBA program of IMF.

The State Bank has kept the policy rate intact after the last increase in November 2010. Recently the macro-economic indicators have depicted some improvements especially on the external front. Moreover, the inflation is also expected to ease off during 2QFY12 and therefore, the central bank may opt to reduce the discount rate in the next monetary policy statement.

Capital Market

The money market remained quite volatile especially the prices of corporate debts due to lack of liquidity and risk aversion. The lending to NBFIs sector remained restricted even at higher rates and investors rather preferred to buy government papers at very attractive yields.

Investment Strategy

The primary objective of the Fund is to provide an efficient investment medium whereby investors can participate in a portfolio that will seek to generate high level of current income, as well as the potential for capital growth. The Fund invests in fixed income transactions in the capital market. Overall asset allocation of the fund stood at 80.45% and 19.55% for TFCs/Sukuks and Cash/Placements respectively as at June 30, 2011.

Fund Performance

The Net Asset Value per unit of the Fund at the close of the year stood at Rs. 52.9665, thus, giving an annualised yield of -38.1% for the year. The net loss for the year ended June 30, 2011 was Rs. 244.94 million. Fund's returns remained in negative zone due to the re-valuation impacts in TFCs / Sukuks, credit related issues and market pricing mechanism. The Fund recorded a return of -38.1% for the one year period while the benchmark return was 13.0%. Short term returns can be affected by price volatility, however, in the longer term the returns look reasonable as most of the troubled debt instruments are expected to restructure in the near future.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

Income Distribution

As the Fund has incurred net loss for the year, therefore, no dividend was declared by the Board of Directors of KASB Funds Limited for the financial year ended June 30, 2011.

Sale and redemption of units

The fund size of KLF was Rs. 959.40 million on June 30, 2010 which decreased by 62.07% by the end of the financial year to close at Rs. 363.88 million on June 30, 2011. During the year, units worth Rs. 1.144 million were issued and units with a value of Rs. 341.948 million were redeemed. As on June 30, 2011, the total number of outstanding units was 6,869,939 with a value of Rs. 363.88 million.

Code of Corporate Governance

The Board of Directors states that:

- a) The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' 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 judgments.
- 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, 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 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k) The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2011 is disclosed in note 24 of the financial statements.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2011

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

S. No	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Mr. Muzaffar Ali Shah Bukhari	Director	Nil	10,000*

*Relates to the close member of the family of director.

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2011, banks and financial institutions held 50.49% out of the total units; associated companies held 48.92%, individuals held 0.42% units and other corporate sector entities held 0.17%. Detailed pattern is also annexed.

Future Outlook

The government has announced tax collection target of Rs 1,952 bln and the targeted fiscal deficit is 4.0% of GDP. In this regard, the government has taken initiatives to increase its tax collection but still appears to be a long way to reach there. Going forward, the foreign inflows will remain a key element for the economy's growth which will impact domestic liquidity, exchange rate stability and stable BoP (Balance of Payment) position.

One of the major hurdles in the economy's growth is the inflation which remained 13.94% during FY11. The inflation is expected to remain higher 1QFY12 due to Ramadan effect but going forward, it is expected to ease off during 2QFY12 and onward due to higher base effect. On the other hand the govt borrowing from SBP also remained at September 2010 level which is a very good sign. Therefore, there lies a strong probability that the central bank may be convinced to reduce the policy rate going forward which will help in the economy's growth.

Auditors

The Audit Committee of the Board of Directors recommended the appointment of M/s KPMG Taseer Hadi & Co. - Chartered Accountants in place of M/s A.F. Ferguson & Co. - Chartered Accountants as auditors of KASB Income Opportunity Fund for the financial year ending June 30, 2012. 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

September 15, 2011
Karachi

Amer Maq
Chief Executive

DETAILS OF PATTERN OF HOLDING(UNITS)

As at June 30, 2011

	Units held	
	Numbers	Percentage
Associated Companies		
KASB Bank Limited	3,361,101	48.92
Banks and Financial Institutions	3,468,894	50.49
Individuals	29,128	0.42
Other Corporate Sector Entities	10,816	0.17
	6,869,939	100.00

PERFORMANCE TABLE

	2011	2010	2009
Total net asset value as at June 30 (Rs. '000)	363,876	959,401	3,145,099
Net asset value per unit as at June 30 (Rs.)	52.9665	85.5835	99.3500
Selling price for units as at June 30 (Rs.)	52.9665	85.5835	99.3500
Repurchase price for units as at June 30 (Rs.)	52.9665	85.5835	99.3500
Repurchase price with contingent back-end load for units as at June 30 (Rs.)	52.7017	85.1556	98.8532
Final dividend distribution per unit (Rs.)	-	-	1.25
Date of final distribution	-	-	July 4, 2009
Interim dividend distribution per unit (Rs.)	-	-	3.00
Date of Interim distribution	-	-	October 22, 2008
Highest selling price per unit (Rs.)	87.0286	100.3559	104.1503
Highest repurchase price per unit (Rs.)	87.0286	100.3559	104.1503
Highest repurchase price with contingent back-end load per unit (Rs.)	86.5935	99.8541	103.6295
Lowest selling price per unit (Rs.)	52.9665	85.4358	88.3684
Lowest repurchase price per unit (Rs.)	52.9665	85.4358	88.3684
Lowest repurchase price with contingent back-end load per unit (Rs.)	52.7017	85.0086	87.9266
Annualized return (%)	-38.10	-13.86	1.75
Weighted average portfolio duration	43 days	97 days	83 days

Return since inception is -6.17%

Launch date of the Fund is May 9, 2006

Disclaimer:

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

ANNUAL FUND MANAGERS' REPORT

1. **Type & Category of Fund**
Open-end Aggressive Fixed Income
2. **Inception Date**
May 09, 2006
3. **Investment objective**
The primary objective of the Fund is to provide an efficient investment medium whereby investors can participate in a portfolio that will seek to generate high level of current income as well as the potential for capital growth.
4. **Accomplishment of objective**
The fund is achieving its objective of generating regular income by investing in fixed income instruments within the guidelines provided under NBFC rules.
5. **Benchmark**
6 Month KIBOR (Karachi Interbank Offer Rate)
6. **Performance Return**

	KIOF Return	Benchmark Return
Since inception	-6.17%	11.73%
1 Year	-38.11%	12.99%
Last 6 months	-60.5%	13.72%
Last 3 months	-78.0%	13.73%
For the month	-58.4%	13.78%
7. **Strategies and policies employed during the period**
Inline with our strategy the exposure in TFCs/Sukuks was reduced significantly 20% to 79% during the period under review. The prices of majority of the TFCs declined heavily due to the absence of enough buyers in the market, thus, affecting the Fund's NAV. The fund remained focused in offloading TFCs and to restructure non-performing corporate debt. As a result most of instruments held in the fund with credit concerns have been restructured during the year.
8. **Weighted Asset Allocation**

Asset Allocation	June 30, 2011	June 30, 2010
TFCs & Sukuks	79.2%	92.02%
Cash & Placements	9.9%	7.98%
Other Assets	10.9%	0%
9. **Significant changes in asset allocation during the period**
As compared to the last year the fund's overall exposure towards TFCs / Sukuk investments decreased to 79.2% on average. Cash and placements comprised around 10% of the portfolio. This was due to redemption from the fund rather than any new TFC/Sukuk investments.
10. **Fund Performance**
Returns on the fund remained negative during the year due to credit concerns and valuation impact on TFCs/Sukuks. The Fund recorded a return of -38.1% for the one year period and -6.17% since inception while the benchmark returns were 12.99% and 11.73% respectively. Although no new investment was made in corporate debt but the proportion of TFCs in the fund's allocation increased significantly due to decrease in AUMs of the fund. The short term returns of the fund can be affected by price volatility, however, in the longer term the returns look to benefit from performance of a few troubled debt instruments which have been restructured.

The AUM of the fund were PKR 959 million (NAV per unit: Rs 85.5835) on June 30, 2010 and at the end of the year the AUM of the fund stood at PKR 364 million (NAV per unit: Rs 52.9665).

ANNUAL FUND MANAGERS' REPORT

For the year ended June 30, 2011

11. **Review of the market(s) invested in during the period**
Due to the floods impact during early months of the fiscal year 2011 coupled with persistent structural problems, the fiscal year 2011 ended with the GDP growth of just ~2.4% against initial target of 4.5%. The economy remained under continuous pressure in the form of power crisis, persistent inflation, lower tax to GDP ratio, circular debt and unmanageable fiscal deficit. The macroeconomic picture depicted improvements on some fronts such as significant decline in current account deficit which declined by 114% YoY and currently stands at USD 542mn surplus at the end of June 2011. The main reasons behind this improvement are (1) the strong export earnings (rise in international cotton prices) which increased by ~29% and (2) ~26% growth of workers' remittances during FY11.

Although lower than expected but still higher, the headline inflation remained a hindrance in the economy's growth. The average inflation for full year stands at 13.92% against 11.7% last year. Going forward, the inflation is expected to ease off in the second quarter of FY12 mainly due to higher base effect. The ease in inflation may convince the central bank to ease off the policy rate but govt. growing demand of borrowing to finance its fiscal deficit will remain a key hurdle.

Furthermore, the FY12 budget proposal was announced during the month with higher revenue target and cuts in subsidies. Although, the targets set in the budget proposal are quite ambitious in terms of economy growth, revenue generation, containment in fiscal deficit etc, but these are essential measures at this point in time and meeting these targets will ease off the pressure from the economy. Also, the satisfactory expenditure containment and revenue collection measures would help in resuming the SBA program of IMF.

The State Bank has kept the policy rate intact after the last increase in November 2010. Recently the macro-economic indicators have depicted some improvements especially on the external front. Moreover, the inflation is also expected to ease off during 2QFY12 and therefore, the central bank may opt to reduce the discount rate in the next monetary policy statement.
12. **Fund performance by market(s) and by instruments**
For details, please refer to the full yearly accounts.
13. **Distribution**
The fund did not distribute any dividend during FY11.
14. **Significant changes in the state of affairs**
The risk aversion by majority of the investors and attractive high yield govt. papers refrained the investors from taking exposure in corporate debts. The government has been relying heavily on the banking sector to finance its fiscal deficit by providing higher returns on the govt. papers, resulting in the non-availability of credit to private sector. Therefore, high leveraged companies such as cement companies which rely heavily on borrowing were unable to par their principal and markup commitments, putting pressure on the fund's return. Also, the leasing and investment banks were not able to pay off the fund's lending on time. There were few other companies that delayed payments on their principal and markup commitments. This resulted in fall in NAV of funds holding sukus and TFCs.
15. **Breakdown of unit holdings by size**
Breakdown of unit holdings by size is same as in the director's report.
16. **Unit Splits**
There were no unit splits during the period.
17. **Circumstances materially affecting the interests of the unit holders**
Changes in market rates of TFCs/ Sukus and other debt instruments based on the new pricing mechanism severely affected fund returns. In addition, mark to market impacts of secondary market trades also affected fund performance.
18. **Soft Commission**
The management company received soft commission from the brokers in the form of research reports which were sent in both soft and hard copies.

TRUSTEE REPORT TO THE UNIT HOLDERS OF KASB INCOME OPPORTUNITY 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

The KASB Income Opportunity Fund (the Fund), an open-end fund 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, 2011 in accordance with the provisions of the following:

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

We would like to draw unit holders attention towards the directives of the Securities and Exchange Commission of Pakistan issued vide Circulars # 1 of 2009 and 3 of 2010, which require that the debt securities shall only be reclassified as performing on receipt of all arrears i.e. principal as well as interest for the next two installments. The sukuk certificates of Maple Leaf Cement Factory Limited (MLCFL) were classified as performing in September 2010 respectively based on the restructured plan approved in March 2010.

The Management Company while complying the same has reclassified these sukuk certificates as performing, however, has not accrued the mark - up till October 12, 2010. Thereafter the Management Company started accruing the mark up completely from October 13, 2010. The Management Company has informed us that the same has been done on prudence basis, considering the underlying risk of realisability of the deferred mark-up which will be received in future periods. Moreover, it would be pertinent to note that subsequent to the year end MLCFL has shown their inability to fulfill obligation with respect to coupon payment of mentioned sukuk certificates.

Muhammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited
Karachi, October 28, 2011

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2011

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 35 of the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited ("KSE" or "the Stock Exchange"). The purpose of the Code is to establish a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

KASB Funds Limited ("the Company" or "the Management Company"), which is an unlisted public limited company, is the Management Company of KASB Income Opportunity Fund (formerly KASB Liquid Fund) ("the Fund"). The Fund being an open-end scheme does not have its own Board of Directors. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary of the Management Company and other necessary personnel to manage its affairs. The Management Company has applied the principles contained in the Code 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.
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 NBFIL or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. On January 17, 2011, Mr. Masood Karim Sheikh resigned from the Board of the Management Company. Mr. Qaisar P. Mufti was appointed in his place to duly fill the vacancy.
5. The Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the directors and distributed to employees of the 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, when present and the Board met ten times during the year. 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. All the members of the Board are well aware of operations of the fund and the Management Company, therefore no orientation courses were arranged during the year ended June 30, 2011.
10. During the year, there was a change of the Company Secretary and the Internal Auditors; however, there was no change of Chief Financial Officer.
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 note 20 to the financial statements "Transactions with Connected Persons".
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.
17. Mr. Adnan Akhtar Mannan, appointed as the Internal Auditor of the Management Company in place of Ms. Saman Hasan Qadri on August 27, 2010, resigned on May 31, 2011. The Management Company is in the process of appointment of the Internal Auditor to be involved in the Internal Audit function on a full time basis.
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 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.
20. 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.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

September 15, 2011
Karachi

Amer Maqsood
Chief Executive

REVIEW REPORT TO THE UNIT HOLDERS ON THE 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 KASB Income Opportunity Fund (Formerly KASB Liquid Fund) to comply with the Listing Regulations of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the 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 the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-Regulation (xiii a) of the Listing Regulation No. 35 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length prices recording proper justification for using such alternate pricing mechanism. All such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the 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 prices or not.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2011.

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Rashid A. Jafer
Dated: September 15, 2011
Karachi

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of KASB Income Opportunity Fund (Formerly KASB Liquid Fund), which comprise the statement of assets and liabilities as at June 30, 2011, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2011, 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 all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The financial statements of KASB income Opportunity Fund (Formerly KASB Liquid Fund) for the year ended June 30, 2010 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated August 27, 2010.

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Rashid A. Jafer
Dated: September 15, 2011
Karachi

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2011

	Note	June 30, 2011	June 30, 2010
----- (Rupees in '000) -----			
ASSETS			
Bank balances	4	28,228	5,646
Investments	5	292,727	885,815
Letters of Placement	6	-	60,550
Certificates of Investment	7	8,299	10,374
Income receivable	8	39,771	25,560
Advances, deposits, prepayments and other receivables	9	413	3,975
Preliminary expenses and floatation costs	10	-	513
Total assets		369,438	992,433
LIABILITIES			
Payable to KASB Funds Limited - Management Company	11	43	1,532
Payable to Central Depository Company of Pakistan Limited - Trustee	12	55	170
Payable to Securities and Exchange Commission of Pakistan	13	536	1,243
Borrowing against redemption of units		-	25,000
Accrued expenses and other liabilities	14	4,928	5,087
Total liabilities		5,562	33,032
Net assets		363,876	959,401
Unit Holders' Fund (as per statement attached)		363,876	959,401
CONTINGENCIES AND COMMITMENTS			
	15	(Number of units)	
Number of units in Issue		6,869,939	11,210,112
		(Rupees)	
Net asset value per unit	3.11	52.9665	85.5835

The annexed notes 1 to 29 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, 2011

	Note	2011	2010
		----- (Rupees in '000) -----	
INCOME			
Income from term finance and sukuk certificates		84,928	196,702
Income from term deposit receipts		-	17,089
Income from government securities		191	-
Income from placements		1,610	15,824
Income from certificates of investment		-	2,838
Profit on bank deposits		2,933	6,942
Capital loss on sale of investments		(55,848)	(79,930)
Unrealised appreciation / (diminution) in value of investments at fair value through profit or loss - net		36,178	(2,009)
		69,992	157,456
EXPENSES			
Remuneration of Management Company		14,283	25,069
Remuneration of Trustee		1,340	2,657
Annual fee - Securities and Exchange Commission of Pakistan		536	1,243
Transaction costs on securities		261	290
Settlement and bank charges		235	46
Legal and professional charges		577	1,158
Fees and subscription		240	475
Auditors' remuneration	16	457	525
Amortisation of preliminary expenses and floatation costs		513	602
Printing and other expenses		144	191
Financial Charges		679	1,596
Provision against income from certificate of investments		639	-
Provision against non-performing letter of placement		48,050	43,450
Provision against non-performing certificates of investment		2,075	-
Provision against non-performing investments		229,774	255,353
Provision for doubtful income receivable		10,598	26,345
		310,401	359,000
		(240,409)	(201,544)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(4,534)	2,093
Provision for Workers' Welfare Fund	17	-	(3,372)
Net loss for the year before taxation		(244,943)	(202,823)
Taxation	18	-	-
Net loss for the year after taxation		(244,943)	(202,823)
Earnings per unit	3.9		

The annexed notes 1 to 29 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2011

	2011	2010
	----- (Rupees in '000) -----	
Net loss for the year	(244,943)	(202,823)
Other comprehensive income / (loss)		
Unrealised diminution on re-measurement of Investments classified as 'available for sale' - net	(209,141)	(103,083)
Provision against non-performing 'available for sale' investments	194,829	157,037
Other comprehensive (loss) / income for the year	(14,312)	53,954
Total comprehensive loss for the year	<u>(259,255)</u>	<u>(148,869)</u>

The annexed notes 1 to 29 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, 2011

	2011	2010
	----- (Rupees in '000) -----	
Accumulated (loss) / undistributed income brought forward	(153,568)	41,418
Net element of income and capital gains included in the prices of units issued less those in units redeemed - amount representing loss that forms part of the unit holders' fund	35,178	47,408
Net loss for the year	(244,943)	(202,823)
Final distribution @ Rs. Nil per unit (June 30, 2010: Rs. 1.25 per unit)	-	(39,571)
	(209,765)	(194,986)
Accumulated loss carried forward	(363,333)	(153,568)

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive

For KASB Funds Limited
(Management Company)

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended June 30, 2011

	2011	2010
	----- (Rupees in '000) -----	
Net assets at beginning of the year	959,401	3,145,099
Issue of 13,689 units (2010: 2,498,233 units)	1,144	245,069
Issue of Nil bonus units (2010: 143,226 units)	-	14,050
Redemption of 4,353,862 units (2010: 23,088,113 units)	(341,948)	(2,254,284)
	(340,804)	(1,995,165)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- amount representing (income) / losses and capital (gains) / losses - transferred to income statement	4,534	(2,093)
- amount representing (income) / losses that form part of the unit holders' fund - transferred to Other Comprehensive Income	(35,178)	(47,408)
	(30,644)	(49,501)
Unrealised diminution in fair value of investments classified as 'available for sale' at beginning of the year	221,661	118,578
Provision against non-performing investments charged during the year - net of reversals	194,829	157,037
Unrealised diminution in fair value of investments classified as 'available for sale' at end of the year	(430,802)	(221,661)
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' during the year	(14,312)	53,954
Distribution during the year:		
- Issue of bonus units	-	(14,050)
- Cash Dividend	-	(25,521)
	-	(39,571)
Other net loss for the year	(225,273)	(120,884)
Capital loss on sale of investments	(55,848)	(79,930)
Unrealised appreciation / (diminution) on re-measurement of investments at fair value through profit or loss - net	36,178	(2,009)
Net Element of Income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing income / (losses) that form part of the unit holders fund	35,178	47,408
	(209,765)	(155,415)
Net assets at end of the year	<u>363,876</u>	<u>959,401</u>

The annexed notes 1 to 29 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, 2011

	2011	2010
	----- (Rupees In '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES	(244,943)	(202,823)
Net loss for the year		
Adjustments for non-cash and other items		
Unrealised diminution / (appreciation) on re-measurement of Investments classified as 'financial assets at fair value through profit or loss' - net	(36,178)	2,009
Provision against non-performing letters of placement	48,050	43,450
Provision against non-performing certificates of investments	2,075	34,626
Provision against non-performing investments	229,774	255,353
Provision for doubtful income receivable	10,598	26,345
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	4,534	(2,093)
Amortisation of preliminary expenses and floatation costs	513	602
	14,423	157,469
Decrease / (Increase) In assets		
Letters of Placement	12,500	7,788
Investments - net	385,180	1,111,867
Income receivable	(24,809)	(75,032)
Advances, deposits, prepayments and other receivables	3,562	(176)
	376,433	1,044,447
Increase / (decrease) In liabilities		
Payable to Management Company	(1,489)	(2,533)
Payable to Trustee	(115)	(183)
Payable to Securities and Exchange Commission of Pakistan	(707)	(3,270)
Borrowing against redemption of units	(25,000)	25,000
Accrued expenses and other liabilities	(159)	844
	(27,470)	19,858
Net cash generated from operating activities	363,386	1,221,774
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend Paid	-	(25,521)
Payable on redemption of units	-	(76)
Net payments from sale and redemption of units	(340,804)	(2,009,215)
Net cash used in financing activities	(340,804)	(2,034,812)
Net increase / (decrease) in cash and cash equivalents during the year	22,582	(813,038)
Cash and cash equivalents at beginning of the year	5,646	818,684
Cash and cash equivalents at end of the year	28,228	5,646

The annexed notes 1 to 29 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, 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

KASB Income Opportunity Fund (formerly 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 Fund has been categorized as "Aggressive Fixed Income Fund".

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 9th floor, Trade Centre, I.I.Chundrigar Road, Karachi.

The Fund is an open ended mutual fund and is listed on the Karachi Stock Exchange (Guarantee) Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund.

JCR-VIS Credit Rating Company Limited has assigned a management quality rating of 'AM3' to the Management Company and Pakistan Credit Rating Agency (PACRA) has assigned a fund stability rating of "BBB(f)" to the Fund.

The Investment objective of the portfolio is to provide an efficient investment medium whereby investors can participate in a portfolio that will seek to generate high level of current income, as well as the potential for capital growth. Title of the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as trustee of the Fund.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

There are certain new standards, amendments and interpretations that became effective during the year and are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not detailed in these financial statements.

2.3 Standards, interpretations and amendments to published approved accounting standards as adopted in Pakistan, that are not yet effective

The following revised standard has been published and is mandatory for accounting periods beginning on or after January 1, 2011:

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011. The Fund is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

There are other amendments to the standards, improvements to International Financial Reporting Standards 2010 and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification, valuation and impairment of investments (notes 3.2 and 5) and recognition of element of income / (loss) in prices of units issued less those in units redeemed (note 3.8).

2.5 Accounting convention

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

2.6 Functional and presentation currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented unless otherwise stated.

3.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities at cost. Cash and cash equivalents comprise of bank balances.

3.2 Financial assets

3.2.1 Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

c) Available-for-sale

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

3.2.2 Regular way contracts

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

3.2.3 Initial recognition and measurement

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

3.2.4 Subsequent measurement

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

a) Basis of valuation of term finance certificates and sukuk bonds / certificates

Investment in term finance certificates and sukuk bonds are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no.1 of 2009 dated January 06, 2009. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

b) Basis of valuation of government securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association.

Gains and losses arising from the difference of between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the Income Statement.

Net gains and losses arising from the difference of value determined in accordance with the above mentioned criteria over the carrying amount in respect of available for sale financial assets are taken to other comprehensive income until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the Income Statement

3.2.5 Impairment

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset 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.

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under Circular No. 1 of 2009 issued by the Securities and Exchange Commission of Pakistan.

The management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with the provisioning policy approved by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

For financial assets classified as 'loans and receivables' a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is determined based on the provisioning criteria specified by SECP.

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and liabilities

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

3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument.

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

3.4 Derivatives

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

3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are amortised over a period of five years starting from the commencement of operations 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 amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.7 Taxation

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.8 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 income per unit and distribution of income already paid out on redemption.

During the year, the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognised in income statement and to the extent that it is represented by unrealised appreciation / (diminution) arising during the year on available for sale securities is included in distribution statement. Previously, the element was recognised based on cumulative values of undistributed income and unrealised gain / loss on available for sale securities present in the net asset value of units.

The revised methodology, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology:

- loss for the year would have been lower by Rs 90,657,512.
- amount taken to distribution statement would have been lower by Rs 28,087,443.

3.9 Earnings per unit

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

3.10 Issue and redemption of units

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

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

3.11 Net asset value per unit

The net asset value (NAV) per unit as disclosed in the statement of assets and liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

3.12 Proposed distributions and transfer between reserves

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

3.13 Revenue recognition

- Profit on investments is recognised on an accrual basis. (In case of financial assets classified as non-performing, income is recognised on receipt basis).
- Profit on bank deposits is recognised on an accrual basis.
- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date on which the transaction takes place.
- Unrealised capital gains / (losses) arising on marking to market of investments classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

	<i>Note</i>	2011	2010
		----- (Rupees in '000) -----	
4 BANK BALANCES			
In current accounts		6	6
In savings accounts	4.1	28,222	5,640
		<u>28,228</u>	<u>5,646</u>

4.1 Profit rates on deposit accounts range between 5% to 12% per annum (June 30, 2010: 5% to 12%).

	<i>Note</i>	2011	2010
		----- (Rupees in '000) -----	
5 INVESTMENTS			
'At fair value through profit or loss'			
Designated on initial recognition			
- Fixed income and other debt securities	5.2	32,925	325,816
'Available for sale'			
- Fixed income and other debt securities	5.3	259,802	559,999
		<u>292,727</u>	<u>885,815</u>

5.1 The cost of the above investments as at June 30, 2011 amounted to Rs. 876.836 million (June 30, 2010: Rs. 1,221.96 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

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

Name of the Investee Company	--- Number of certificates ---				Profit / mark-up rate	Market value as at June 30, 2011	Market Value as Percentage of net assets	Market Value percent-age of total Investments	Outstanding principle value as a percentage of total debt issue
	As at July 1, 2010	Purchases during the year	Sales / redeemed during the year	As at June 30, 2011					
Certificates of Rs 5,000 each unless otherwise stated						Rupees in '000'			
Term Finance Certificates									
Allied Bank Limited	11,000	-	11,000	-	6 months KIBOR+0.85% for the first 5 years & for the remaining 6 months KIBOR+1.35%	-	-	-	-
NIB Bank Limited	2,000	-	2,000	-	6 months KIBOR+1.15%	-	-	-	-
Pace Pakistan Limited	1,000	-	-	1,000	6 months KIBOR+1.50%	3,358	0.92%	1.15%	0.33%
Pakistan Mobile Communications Limited - IV	48,620	-	48,620	-	6 months KIBOR+1.65%	-	-	-	-
Trust Investment Bank Limited - III	10,000	-	-	10,000	6 months KIBOR+1.85%	29,567	8.13%	10.10%	5.21%
United Bank Limited - IV	2,000	-	2,000	-	6 months KIBOR+0.85% for the first 5 years & for the remaining 6 months KIBOR+1.35%	-	-	-	-
Total - June 30, 2011						32,925			
Total - June 30, 2010						325,816			

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

Name of the Investee Company	--- Number of certificates ---				Profit / mark-up rate	Market value as at June 30, 2011	Market value as a percentage of net assets	Market value as a percentage of total Investment	Outstanding principal value as a percentage of total debt issue
	As at July 01, 2010	Purchases during the period	Sales / Redeemed during the period	As at June 30, 2011					
Dewan Cement Limited (5.2.1.1)	30,000	-	-	30,000	6 months KIBOR+2.00%	-	-	-	3.00%

5.2.1.1 The Fund had advanced an amount of Rs 150 million in respect of Pre-IPO placement of Dewan Cement Limited (DCL) under an agreement, which required public offering to be completed within 270 days of the date of agreement (which was January 9, 2008). Dewan Cement Limited (DCL) failed to complete the public offering within the said time period also defaulted in payment of principal and profit for the said period. The Fund has provided for the amount of the investment by 100 percent in accordance with the provisioning policy approved by the Board of Directors of the Management Company and related SECP Circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for 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 mark-up and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

5.2.2 Government Securities

Issue date	Tenor	Face Value				Balance as at June 30, 2011			Market value as a percentage of net assets
		As at July 1, 2010	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2011	Cost	Market value	
(Rupees in '000)									
Market Treasury Bills									
April 8, 2010	6 months	-	15,000	-	15,000	-	-	-	-
January 13, 2011	3 months	-	16,000	-	16,000	-	-	-	-
July 15, 2010	3 months	-	50,000	-	50,000	-	-	-	-
Total - June 30, 2011					81,000				
Total - June 30, 2010									

5.2.3 Unrealised appreciation / (diminution) on re-measurement of investments classified as 'financial assets at fair value through profit or loss' - net

2011 **2010**
---(Rupees in '000)---

Market value of investments

32,925 325,816

Less:

Cost of investments

(186,232) (515,301)
(153,307) (189,485)

Less: Net unrealised diminution in fair value of investments

classified as at fair value through profit or loss at the beginning of the year

189,485 112,476

Provision against non-performing Investments

- 75,000
36,178 (2,009)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

5.3 Fixed Income and other debt securities - designated as 'available for sale' on initial recognition

Name of the Investee Company	--Number of certificates / Bonds --				Profit / mark-up rate	Market value as at June 30, 2011	Market Value as a percentage of net assets	Market Value as a percentage of total investments	Outstanding principal value as a percentage of total debt issue
	As at July 1, 2010	Purchases during the year	Sales / redeemed during the year	As at June 30, 2011					
Rupees in '000'									
Certificates / Bonds of Rs 5,000 each unless otherwise stated									
Term Finance Certificates									
Avari Hotels Limited	19,760	-	-	19,760	6 months KIBOR + 3.5%	81,018	22.27%	27.68%	2.24%
Azgard Nine Limited - IV - note 5.3.1	44,400	-	-	44,400	6 months KIBOR+2.25%	-	-	-	7.10%
Engro Chemicals Pakistan Limited -II	380	-	360	-	6 months KIBOR+1.70% for the first 6 years 6 months KIBOR+1.90% for the Next one years 6 months KIBOR+2.10% for the next years 6 months KIBOR+2.30% for the next years 6 months KIBOR+2.50% for the final years	-	-	-	-
Gharibwal Cement Limited - note 5.3.2	8,000	-	-	8,000	6 months KIBOR+3%	-	-	-	9.74%
New Allied Electronics Industries (Private) Limited - note 5.3.3	13,000	-	-	13,000	3 months KIBOR+3%	-	-	-	3.05%
Optimus Limited	10,000	-	10,000	-	6 months KIBOR+2.10%	-	-	-	-
Al-Zamin Leasing Modaraba - note 5.3.4	14,000	-	-	14,000	6 months KIBOR+1.90%	-	-	-	6.25%
Sub Total - June 30, 2011						81,018			
Sub Total - June 30, 2010						293,511			
Sukuk Bonds - Unlisted									
Eden Builders Limited - note 5.3.5	1,720	5,480	-	7,200	3 months KIBOR+2.30%	24,160	6.64%	8.25%	0.99%
Eden Housing Limited	5,185	-	-	5,185	6 months KIBOR+2.50%	12,493	3.43%	4.27%	2.48%
Karachi Shipyards & Engineering Works Limited - II	200	-	200	-	6 months KIBOR+0.40%	-	-	-	-
Kohat Cement Company Limited - note 5.3.6	7,650	10,350	-	18,000	3 months KIBOR+1.80%	58,076	15.96%	19.84%	3.48%
Maple Leaf Cement Factory Limited - I - note 5.3.7	26,600	-	-	26,600	3 months KIBOR+1.00%	83,298	22.89%	28.48%	1.66%
Maple Leaf Cement Factory Limited - II	998	-	1	997	3 months KIBOR+1.00%	-	-	-	1.66%
New Allied Electronics Industries (Private) Limited - I - note 5.3.8	32,000	-	-	32,000	3 months KIBOR+2.60%	-	-	-	1.33%
New Allied Electronics Industries (Private) Limited - II - note 5.3.9	8,800	-	-	8,800	3 months KIBOR+2.20%	-	-	-	5.62%
Pak Elektron Limited - II	14,000	-	14,000	-	3 months KIBOR+1.0%	-	-	-	0.00%
Security Leasing Corporation Limited	500	-	-	500	6 percent per annum	757	0.21%	0.26%	0.14%
Agritech Limited - Sukuk - note 5.3.10	-	8,470	-	8,470	6 months KIBOR+1.35%	-	-	-	1.50%
Sub Total - June 30, 2011						178,784			
Sub Total - June 30, 2010						266,488			
Total - June 30, 2011						259,802			
Total - June 30, 2010						559,999			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

- 5.3.1 On June 4, 2010, Azgard Nine Limited (ANL) defaulted in payment of the amount of principal and profit amounting to Rs. 22.18 million and Rs. 16.22 million respectively. The Fund recognized full provision against the said investment and suspended the amount of mark-up accrued and no further accrual is being made in respect of mark-up. The amount of investment is fully provided as at June 30, 2011. ANL is in the process of restructuring arrangement with term finance certificate holders. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized mark-up and other charges etc.

- 5.3.2 On July 18, 2009, Gharibwal Cement Limited defaulted on the amount of profit and principal amounting to Rs. 3.67 million and Rs. 0.008 million respectively. However, principal due was subsequently received on August 11, 2009. Last year, the Fund provided for the amount of investment by 100 percent and suspended the mark-up accrued thereon in accordance with the provisioning policy approved by Board of Directors of the Management Company and related SECP Circulars. Moreover, the Fund suspended further accrual of mark-up there against. During the current year an amount of Rs 0.998 million has been received in respect of first repayment after restructuring. The amount of investment is fully provided as at June 30, 2011.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized mark-up and other charges etc.

- 5.3.3 On November 15, 2008, New Allied Electronic Industries (Private) Limited defaulted on the amount of mark-up and principal amounting to Rs. 2.41 million and Rs. 5.42 million respectively. Last year, the Fund provided for the amount of investment by 100 percent and suspended the mark-up accrued thereon in accordance with the provisioning policy approved by Board of Directors of the Management Company and related SECP Circulars. During the current year an amount of Rs 3.215 million has been received in respect of insurance proceeds. The amount of investment is fully provided as at June 30, 2011.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized mark-up and other charges etc.

- 5.3.4 On August 12, 2010, Al-Zamin Leasing Modaraba (AZLM) defaulted on the amount of mark-up and principal amounting to Rs. 0.71 million and Rs. 1.46 million respectively. However, principal and mark-up due on August 12, 2010 and September 12, 2010 were received subsequently on October 11, 2010 and October 28, 2010 respectively. The Fund recognized full provision against the said investment and suspended the amount of mark-up accrued and no further accrual is being made in respect of mark-up. The amount of investment is fully provided as at June 30, 2011.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized mark-up and other charges etc.

- 5.3.5 During the year the Fund acquired 5,480 sukuks of Eden Builders Limited at an aggregate amount of Rs 19.64 million including an accrued mark up of Rs 0.50 million from KASB Islamic Income Opportunity Fund, a related party, based on an internal price determined by the management company and approved by the Trustee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

- 5.3.6 During the year the Fund acquired 10,350 sukuks of Kohat Cement Company Limited at an aggregate amount of Rs 42.18 million including an accrued mark up of Rs 10.53 million from KASB Islamic Income Opportunity Fund, a related party, based on an internal price determined by the management company and approved by the Trustee.
- 5.3.7 During the current year, due to reclassification of sukuks of Maple Leaf Cement Factory Limited from non-performing to performing category by the Mutual Funds Association of Pakistan (MUFAP), the impairment loss amounting to Rs 4.66 million recognised in the prior year in respect of Maple Leaf Cement Factory Limited has been reversed. Mark-up amounting to Rs 15.09 million has been recognised as income during the current period using the effective interest rate method.
- 5.3.8 On October 25, 2008, New Allied Electronics Industries (Private) Limited (NAEIL) paid full mark-up amounting to Rs. 0.42 million. However, no payment was made against the principal due amounting to Rs. 0.63 million. The Fund recognized full provision against the said investment and full provision against mark-up receivable. Moreover, the Fund suspended further accrual of mark-up thereagainst. The amount of investment is fully provided as at June 30, 2011.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized mark-up and other charges etc.

- 5.3.9 On December 3, 2008, New Allied Electronics Industries (Private) Limited (NAEIL) defaulted on the amount of mark-up amounting to Rs. 3.25 million. On February 11, 2009 and March 20, 2009 the Fund received a partial payment amounting to Rs. 1.57 million and Rs. 0.84 million respectively against the outstanding mark-up. The Fund recognized full provision against the said investment and outstanding mark-up receivable accordingly. Moreover, the Fund suspended further accrual of mark-up thereagainst. During the current year an amount of Rs 0.813 million has been received in respect of insurance proceeds. The amount of investment is fully provided as at June 30, 2011.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized mark-up and other charges etc.

- 5.3.10 The Fund acquired 8,470 sukuks of Agritech Limited at an aggregate amount of Rs 26,680,500 from KASB Islamic Income Opportunity Fund, a related party, based on an internal price determined by the management company and approved by the Trustee. Agritech Limited had defaulted in the payment of mark up due on August 06, 2010 and was classified as non-performing at the time of acquisition by the Fund. No installment has been paid by Agritech Limited till June 30, 2011 and the amount of investment has been fully provided by the Fund in accordance with SECP circular 1 of 2009 dated January 06, 2009 and provisioning policy as approved by the Board of Directors of the Management Company. The amount of provision in excess of the minimum provision as required under circular 1 of 2009 amounted to Rs 14,674,275.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognized mark-up and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	Note	2011	2010
		----- (Rupees in '000) -----	
5.4 Unrealised appreciation / (diminution) in value of Investments classified as available-for-sale - net			
Market value of investments	5.3	259,802	559,999
Less:			
Cost of investments		690,604	781,660
		(430,802)	(221,661)
Less: Net unrealised diminution in fair value of investments classified as available-for-sale at the beginning of the year		221,661	118,578
Provision against non-performing Investments		194,829	157,037
		416,490	275,615
		<u>(14,312)</u>	<u>53,954</u>
5.5 Impairment against debt securities classified as 'available-for-sale'			
Opening balance		236,936	56,583
Add: charge for the year		241,215	180,353
Less: reversal for the year		(11,441)	-
		229,774	180,353
Closing balance		<u>466,710</u>	<u>236,936</u>
5.6 NON-COMPLIANCE WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. KASB Funds Limited (Management Company) classified KASB Income Opportunity Fund (formerly KASB Liquid Fund) as 'Aggressive Fixed Income Scheme' in accordance with the said circular.

In accordance with clause (ii) of the investment criteria laid down for 'Aggressive Fixed Income Scheme', the Fund is required to invest at least 10 percent of its net assets in cash and near cash instruments which include cash in bank accounts (excluding TDRs) and treasury bills not exceeding 90 days maturity. However, the AMC needs to ensure that other assets are sold in due course of time (if possible without impacting investors' interests) or cash is generated through new subscriptions to comply with the minimum cash or near cash requirements and the Trustee of such scheme should not hold redemption(s) if usage of such cash results in the cash balance falling below the minimum requirement. Furthermore, as per Regulation 55(5) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations 2008), exposure of a collective investment scheme to any single entity shall not exceed an amount equal to ten percent of the total net assets of the collection investment scheme. However, as at June 30, 2011, the Fund is non-compliant with the above-mentioned requirements, the details of which are as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held if any	Value of investment after provision	% of Net Assets	% of Gross Assets	Remarks
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-----Rupees in '000'-----

Investments in cash and near cash instruments	Bank balances having maturity not exceeding 90 days	28,228	-	28,228	7.76%	7.64%	Non compliant with clause (ii).
Avari Hotels Limited*	Term Finance Certificate	81,018	-	81,018	22.27%	21.93%	Non compliant with regulation 55(5) of the NBFC Regulations 2008
Maple Leaf Cement Factory Limited - I*	Sukuks	83,298	-	83,298	22.89%	22.55%	
Kohat Cement Company Limited**	Sukuks	58,076	-	58,076	15.96%	15.72%	

*The Fund has obtained relaxation from Securities and Exchange Commission of Pakistan (SECP) in respect of holding these term finance certificates and sukuks upto August 31, 2011.

**The exposure against sukuks of Kohat Cement Factory Limited can be regularised within three months from the date of non compliance. The said period of three months has not expired on June 30, 2011.

6 LETTERS OF PLACEMENT

Note

2011

2010

----- (Rupees in '000) -----

Letters of Placement
Provision against Non Performing Letter of Placement

6.1 & 6.2

91,500

104,000

(91,500)

(43,450)

-

60,550

6.1 These represent placements with financial institutions and carry profit rate ranging from 13.42% to 13.60% (June 30, 2010: 12.51% to 13.42%) per annum

6.2 Due to delays in payments by the respective counter parties, the Fund has recognized full provisions against the respective investments and suspended further accrual of mark-up in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. Management is continuously monitoring the Fund's exposure to these investments and is making necessary efforts for recovery of the amount. The above is without prejudice to the Fund's claim against the above institutions for the entire exposure and unrecognized mark-up and other charges etc.

7 CERTIFICATE OF INVESTMENT

Note

2011

2010

----- (Rupees in '000) -----

Certificate of Investments
Provision against Non Performing Certificate of Investment

7.1 & 7.2

10,374

10,374

(2,075)

-

8,299

10,374

7.1 This represents certificate of investment with a financial institution and carries profit at the rate of 15% per annum (June 30, 2010: 15% per annum).

7.2 Due to continuous delays in payments by the respective counter party, the Fund has recognized adequate provision against the respective investment and suspended further accrual of mark-up in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. Management is continuously monitoring the Fund's exposure to these investments and is making necessary efforts for the recovery of the amount. The above is without prejudice to the Fund's claim against the above institution for the entire exposure and unrecognized mark-up and other charges etc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	2011	2010
	----- (Rupees in '000) -----	
8 INCOME RECEIVABLE		
Income accrued on Bank Deposits	201	80
Income accrued on Certificates of Investments	-	576
Income accrued on Term Finance Certificates and Sukuk Bonds	39,570	24,904
	<u>39,771</u>	<u>25,560</u>
9 ADVANCES, DEPOSITS PREPAYMENTS AND OTHER RECEIVABLES		
	<i>Note</i>	
	2011	2010
	----- (Rupees in '000) -----	
Advance tax	5	1
Security Deposits with:		
- National Clearing Company of Pakistan Limited	125	3,625
- Central Depository Company of Pakistan Limited	100	100
Prepayments:		
Sukuk certification	17	82
Others	166	167
	<u>413</u>	<u>3,975</u>
10 PRELIMINARY EXPENSES AND FLOATATION COSTS		
Opening balance	<i>10.1</i> 513	1,115
Less: amortisation during the year	(513)	(602)
Balance as at 30th June	<u>-</u>	<u>513</u>
10.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from May 09, 2006.		
	<i>Note</i>	
11 PAYABLE TO KASB INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY	2011	2010
	----- (Rupees in '000) -----	
Management fee	<i>11.1</i> 43	1,532
	<u>43</u>	<u>1,532</u>
11.1 Under the provisions of the NBFC Regulations 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 net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of two(2) percent per annum.		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	Note	2011	2010
----- (Rupees in '000) -----			
12 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
Trustee fee	12.1	55	169
CDS charges		-	1
		<u>55</u>	<u>170</u>

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

Based on the Trust Deed, the tariff structure applicable to the Fund is as follows

Tariff applicable from July 1, 2010 to December 31, 2010.

Amount of Funds Under Management (Average NAV)	Tariff per annum
Up to Rs. 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

Tariff applicable from January 1, 2011 to June 30, 2011.

Amount of Funds Under Management (Average NAV)	Tariff per annum
Up to Rs. 1,000 million	Rs 0.6 million or 0.17% p.a. of NAV, whichever is higher
Rs 1,000 million to 5,000 million	Rs 1.7 million plus 0.085% p.a. of NAV exceeding Rs 1,000 million
On an amount exceeding 5,000 million	Rs 5.1 million plus 0.07% p.a. of NAV exceeding Rs 5,000 million

The remuneration is paid to the trustee monthly in arrears.

13 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), an income fund is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	2011	2010
	----- (Rupees in '000) -----	
14 ACCRUED EXPENSES AND OTHER LIABILITIES		
Auditors' remuneration	335	303
Legal and Professional charges payable	270	100
Brokerage Payable	132	29
Payable to KASB Cash Fund	-	44
Withholding tax payable	425	419
Provision for Workers' Welfare Fund	3,372	3,372
Others	394	820
	<u>4,928</u>	<u>5,087</u>

15 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2011 and 2010.

16 AUDITORS' REMUNERATION

	2011	2010
	----- (Rupees in '000) -----	
Annual statutory audit fee	275	398
Other Certifications	34	53
Half yearly audit fees	75	-
Out of pocket expenses	73	74
	<u>457</u>	<u>525</u>

17 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh, challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended 30 June 2010.

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

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs. 3.372 million in these financial statements.

18 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. No tax liability has been recognised during the current year as the Fund has incurred a loss during the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

19 FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2011-----				
	Loans and receivables	Financial assets at fair value through profit or loss	Assets classified as Available for Sale	Total
-----Rupees in '000-----				
Assets				
Bank balances	28,228	-	-	28,228
Investments		32,925	259,802	292,727
Certificates of Investment	8,299	-	-	8,299
Income receivable	39,771	-	-	39,771
Deposits	225	-	-	225
	<u>76,523</u>	<u>32,925</u>	<u>259,802</u>	<u>369,250</u>

-----As at June 30, 2011-----			
	Other financial liabilities	Liabilities at fair value through profit or loss	Total
-----Rupees in '000-----			
Liabilities			
Payable to KASB Investment Management Limited - Management Company	43	-	43
Payable to Central Depository Company of Pakistan Limited - Trustee	55	-	55
Accrued expenses and other liabilities	1,556	-	1,556
	<u>1,654</u>	<u>-</u>	<u>1,654</u>

-----As at June 30, 2010-----				
	Loans and receivables	Financial assets at fair value through profit or loss	Assets classified as available for sale	Total
-----Rupees in '000-----				
Assets				
Bank balances	5,646	-	-	5,646
Investments	-	325,816	559,999	885,815
Letters of Placement	60,550	-	-	60,550
Certificates of Investment	10,374	-	-	10,374
Income receivable	25,560	-	-	25,560
Deposits	3,725	-	-	3,725
	<u>105,855</u>	<u>325,816</u>	<u>559,999</u>	<u>991,670</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	-----As at June 30, 2010-----		
	Other financial liabilities	Liabilities at fair value through profit or loss	Total
	-----Rupees in '000-----		
Liabilities			
Payable to KASB Investment Management Limited - Management Company	1,532	-	1,532
Payable to Central Depository Company of Pakistan Limited - Trustee	170	-	170
Payable on redemption of units	25,000	-	25,000
Accrued expenses and other liabilities	1,715	-	1,715
	<u>28,417</u>	<u>-</u>	<u>28,417</u>

20 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company, KASB Securities Limited, KASB Modaraba, KASB Technology Services Limited, KASB Modaraba Management (Private) Limited, Structured Venture (Private) Limited [indirectly through KASB Securities Limited] being the subsidiary companies of KASB Bank Limited, Shakarganj Food Products Limited, New Horizon Exploration and Production Limited and KASB International Limited being the associated companies of KASB Bank Limited, Central Depository Company of Pakistan Limited (CDC) being the Trustee of the Fund, other Funds managed by the management company (including KASB Stock Market Fund, KASB Asset Allocation Fund [formerly KASB Balanced Fund], KASB Islamic Income Opportunity Fund [formerly KASB Islamic Income Fund], KASB Cash Fund, KASB Capital Protected Gold Fund, Crosby Dragon Fund, Crosby Phoenix Fund and AMZ Plus Income Fund) and directors, key management personnel and officers of the Management Company.

The transactions with connected persons 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 Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

Details of transactions and balances with connected persons are as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

20.1 Transactions during the year	2011	2010
	-----(Rupees in '000)----	
KASB Funds Limited		
Remuneration expense	14,283	25,069
Bonus units issued: Nil units (2010: 5,384 units)	-	528
Redemption of units (2011: Nil; 2010: 856,211)	-	85,028
Conversion out of the Fund: 29,495 units (2010: Nil units)	2,554	-
KASB Islamic Income Opportunity Fund (formerly KASB Islamic Income Fund)		
Purchase of Sukuk Certificates: 24,300 units (2010: Nil units)	88,504	-
KASB Asset Allocation Fund (formerly KASB Balanced Fund)		
Sale of Sukuk Certificates: Nil units (2010: 7,000 units)	-	34,733
KASB Securities Limited		
Brokerage expense	154	48
Sale of Nil units (2010: 10,000 units) of Term Finance Certificates issued by KASB Securities Limited	-	43,704
KASB Bank Limited		
Bank charges	23	21
Profit on bank deposits	2,913	6,453
Borrowing against redemptions of units	-	25,000
Expense accrued on borrowing against redemptions of units	679	1,596
Dividend Paid	-	4,201
New Horizon Exploration and Production Ltd.		
Bonus units issued: Nil units (2010: 1 unit)	-	1
Redemption from the Fund: Nil units (2010: 95 units)	-	8
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	1,340	2,657
CDS charges	6	7
Directors and officers of the Management Company		
Redemption from the Fund: Nil units (2010: 57,154 units)	-	5,633
Conversion in the Fund: Nil units (2010: 8,931 units)	-	891
Conversion out of the Fund: 10,000 units (2010: 27,306 units)	865 *	2,603
Switching in the Fund: Nil units (2010: 70,742 units)	-	6,898
Switching out of the Fund: Nil units (2010: 66,116 units)	-	6,334
Bonus units issued: Nil units (2010: 893 units)	-	88

*Relates to Close member of the family of director, appointed during the year

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

2011 **2010**
----- (Rupees In '000) -----

20.2 Amounts outstanding as at the year end

KASB Funds Limited

Management fee payable	43	1,532
Units held: Nil units (2010: 29,495 units)	-	2,524

KASB Cash Fund

Payable to KASB Cash Fund	-	44
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KASB Securities Limited

Brokerage payable	132	12
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KASB Bank Limited

Bank balances	27,928	5,414
Profit receivable on bank deposits	201	80
Units held: 3,361,101 units (2010: 3,361,101 units)	178,026	287,655
Borrowing against redemption of units	-	25,000

Central Depository Company of Pakistan Limited - Trustee

Payable to the Trustee	55	170
Security deposit	100	100

21 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Designation	Qualification	Experience in years
1	Mr. Shahzad Mubashir	Investment Analyst	MBA 4
2	Mr. Syed Khurram Hussain	Fund Manager	MBA 5
3	Mr. Amer Maqbool	Chief Executive Officer	MBA 15
4	Mr. Jamshed Aziz Khan	Chief Investment Officer	BBA (Hons.) 13

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

22 TOP BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2011
1 JS Global Capital Ltd.	78.48%
2 KASB Securities Limited.	21.52%
	2010
1 JS Global Capital Limited	41%
2 KASB Securities Limited	19%
3 First Capital Securities Corporation Limited	18%
4 Alfalah Securities Pvt LTD	18%
5 Invisor Securities Pvt LTD	4%

23 PATTERN OF UNIT HOLDING

	As at June 30, 2011		
	Number of unit holders	Investment amount (Rupees In '000)	Percentage of investment
Individuals	13	1,543	0.42%
Associated Companies	1	178,026	48.92%
Directors	-	-	-
Bank and DFIs	2	183,735	50.49%
Insurance Companies	-	-	-
NBFC	-	-	-
Retirement Funds	-	-	-
Public Limited Companies	-	-	-
Others	2	572	0.17%
	18	363,876	100%
	As at June 30, 2010		
	Number of unit holders	Investment amount (Rupees In '000)	Percentage of investment
Individuals	179	13,088	1.36%
Associated Companies	3	290,179	30.25%
Directors	-	-	-
Bank and DFIs	3	607,486	63.32%
Insurance Companies	-	-	-
NBFC	1	10	-
Retirement Funds	12	45,126	4.70%
Public Limited Companies	-	-	-
Others	6	3,512	0.37%
	204	959,401	100%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 40th, 41st, 42nd, 43rd, 44th, 45th, 46th, 47th, 48th, 49th Board meetings were held on July 3, 2010, August 27, 2010, October 02, 2010, October 28, 2010, November 26, 2010, January 17, 2011, February 17, 2011, March 31, 2011, April 25, 2011 and June 06, 2011 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings held	Attended	Leave granted	Meetings not attended
Mr. Robert John Richard Owen	10	10	-	-
Mr. Syed Muhammad Rehmanullah	10	10	-	-
Mr. Muzaffar Ali Shah Bukhari	10	10	-	-
Mr. Qaisar P. Mufti*	2	1	-	48th Meeting
Mr. Masood Karim Shaikh*	4	2	-	44th and 45th Meeting
Mr. Amer Maqbool**	1	1	-	-
Ms. Naz Khan**	2	2	-	-
Mr. Muhammad Imran Khalil	10	10	-	-
Mr. Mansoor Ali***	3	3	-	-
Mr. Muhammad Kashif Masood***	2	1	-	43rd Meeting

* Mr. Masood Karim Shaikh was appointed on the Board on August 20, 2010 and resigned from the Board on January 17, 2011 and Mr. Qaisar P. Mufti was appointed Director after SECP granted approval on April 22, 2011.

** Ms. Naz Khan resigned from the Board on August 31, 2010 and Mr. Muhammad Imran Khalil was appointed as Director and Chief Executive after SECP granted approval on September 29, 2010. Subsequently, Mr. Amer Maqbool was appointed as Director and Chief Executive in place of Mr. Muhammad Imran Khalil after SECP granted approval on June 3, 2011.

*** Mr. Muhammad Kashif Masood was appointed as Company Secretary in place of Mr. Muhammad Imran Khalil in the Board meeting held on October 02, 2010. Mr. Muhammad Kashif Masood resigned on December 29, 2010. Thereafter, Mr. Mansoor Ali was appointed as Company Secretary in Board meeting held on February 17, 2011.

25 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, government securities and investments in other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

25.1 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

25.1.1 Currency risk

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

25.1.2 Interest rate risk

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

- Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates (TFCs) and Sukuk Bonds / Certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR, with all other variables held constant, the net assets of the Fund and net loss for the year would have been higher / lower by Rs 1.066 million (2010: Rs. 1.413 million)

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association is expected to change over time. Further, in case of variable rate instruments, the sensitivity analysis has been done from the last repricing date. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

The Fund's MROR Sensitivity related to financial assets and financial liabilities as at June 30, 2011 can be determined from the following:

On-balance sheet financial instruments	As at June 30, 2011					Total
	Effective rate of mark-up / return %	----- Exposed to Yield / Interest risk -----			Not exposed to yield / Interest risk	
		Up to three months	More than three months and up to one year	More than one year		
----- (Rupees in '000) -----						
Financial Assets						
Bank balances	5-12	28,228	-	-	-	28,228
Certificates of Investment	15	-	-	8,299	-	8,299
Investments	6 - 16.94	8,534	15,296	268,897	-	292,727
Income receivable		-	-	-	39,771	39,771
Deposits		-	-	-	225	225
		36,762	15,296	277,196	39,996	369,250
Financial Liabilities						
Payable to KASB Investment Management Limited - Management Company		-	-	-	43	43
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	55	55
Accrued expenses and other liabilities		-	-	-	1,556	1,556
		-	-	-	1,654	1,654
On-balance sheet gap		36,762	165,000	277,196	38,342	367,596

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

On-balance sheet financial instruments	As at June 30, 2010					Total
	----- Exposed to Yield / Interest risk -----				Not exposed to yield / Interest risk	
Effective rate of mark-up / return %	Up to three months	More than three months and up to one year	More than one year			
----- (Rupees in '000) -----						
Financial Assets						
Bank balances	5.00-12.00	5,646	-	-	-	5,646
Certificates of Investment	15	10,374	-	-	-	10,374
Letters of Placement	12.51-13.42	60,550	-	-	-	60,550
Investments	6 - 15.58	275,985	609,830	-	-	885,815
Income receivable		-	-	-	25,560	25,560
Deposits		-	-	-	3,725	3,725
		352,555	609,830	-	29,285	991,670
Financial Liabilities						
Payable to KASB Investment Management Limited - Management Company		-	-	-	1,532	1,532
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	170	170
Payable on redemption of units		25,000	-	-	-	25,000
Accrued expenses and other liabilities		-	-	-	1,715	1,715
		25,000	-	-	3,417	28,417
On-balance sheet gap		327,555	609,830	-	25,868	963,253

25.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2011.

26 Credit risk

26.1 Credit risk management

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, Sukuk Bonds / Certificates loans and receivables and balances with banks. The credit risk on liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the Investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency.

The Fund kept surplus liquidity with banks having credit rating from AAA to BBB+. The rating of the bank is monitored by the fund manager and the Investment Committee.

The analysis below summarises the credit quality of the Fund's investments in term finance and sukuk certificates as at June 30, 2011 and June 30, 2010:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

Term Finance / Sukuk Certificates by rating category

	June 30, 2011 (%)	June 30, 2010 (%)
AA+	-	0.1
AA	-	-
AA-	-	1.19
A+	-	5.61
A	8.03	30.80
A-	26.91	5.95
BBB	9.82	37.05
BBB-	-	4.76
A-1	-	-
A-2	-	-
A-3	-	-
A1+	35.69	-
Below Investment Grade	-	11.50
Non-rated	19.55	3.04

The maximum exposure to credit risk before any credit enhancement as at June 30, 2011 is the carrying amount of the financial assets.

26.2 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.

26.3 Liquidity risk

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

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

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

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any significant redemptions during the year.

26.3.1 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	As at June 30, 2011			
	Total	Up to three months	More than three months and up to one year	More than one year
Liabilities	----- (Rupees in '000) -----			
Payable to KASB Investment Management Limited - Management Company	43	43	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	55	55	-	-
Accrued expenses and other liabilities	1,556	1,556	-	-
	1,654	1,654	-	-

	As at June 30, 2010			
	Total	Up to three months	More than three months and up to one year	More than one year
Liabilities	----- (Rupees in '000) -----			
Payable to AKD Investment Management Limited - Management Company	1,532	1,532	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	170	170	-	-
Payable on redemption of units	25,000	25,000	-	-
Accrued expenses and other liabilities	1,715	1,715	-	-
	28,417	28,417	-	-

26.4 Fair value of financial assets and liabilities

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

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

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

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Investments of the Fund carried at fair value are categorised as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

	As at June 30, 2011			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
ASSETS				
Investment in securities - at fair value through profit or loss	-	32,925	-	32,925
Investment in securities - available for sale	-	-	259,802	259,802

	As at June 30, 2010			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
ASSETS				
Investment in securities - at fair value through profit or loss	-	325,816	-	325,816
Investment in securities - available for sale	-	-	559,999	559,999

27 CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' funds.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong capital base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Fund is required to distribute at least ninety percent of its income from sources other than unrealised capital gains as reduced by such expenses as are chargeable to the Fund.

In accordance with the risk management policies stated in note 25, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments or short-term borrowings where necessary.

28 GENERAL

Figures have been rounded off to the nearest thousand rupees.

Corresponding figures have been rearranged and reclassified wherever necessary, for the purposes of comparison and better presentation. There were no significant reclassifications of corresponding figures in the current year.

The bifurcation of undistributed income / (accumulated loss) into realised and unrealised income / (loss) at the beginning and end of the period as required by the NBFC Regulations has not been disclosed as such bifurcation is not practicable.

29 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 15, 2011 by the Board of Directors of the Management Company.

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

Chief Executive

Director