



KASB ISLAMIC
INCOME FUND

ANNUAL REPORT
JUNE 30, 2008



MANAGED BY

 **KASB FUNDS**

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Fund Information

Management Company

KASB Funds Limited

Registered Office:

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

Principal Office:

11th Floor, Trade Centre, I. I. Chundrigar Road,
Karachi-74200, Pakistan
UAN: (92-21) 111 535 535
Fax: (92-21) 263 9188
URL: www.kasb.com

Board of Directors of KASB Funds Limited

Mr. Robert Owen – *Chairman*
Ms. Naz Khan – *Director & Chief Executive*
Mr. Farid Arshad Masood – *Director*
Mr. Syed Muhammad Rehmanullah – *Director*

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Irfan Saleem Awan

Audit Committee

Mr. Farid Arshad Masood – *Chairman*
Mr. Robert Owen – *Member*
Mr. Syed Muhammad Rehmanullah – *Member*

Shariah Advisor

Mufti Bilal Ahmed Qazi

Trustee

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

Bankers to the Fund

AlBaraka Islamic Bank
Dawood Islamic Bank Limited
Meezan Bank Limited

Auditors

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

Legal Advisor

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

Registrar

Noble Computer Services (Pvt.) Limited
2nd Floor, Sohni Centre, BS 5 & 6, Main Karimabad,
Block-4, Federal B. Area, Karachi-75950, Pakistan

Distributors

KASB Funds Limited
KASB Bank Limited
KASB Securities Limited
IGI Investment Bank Limited

Management Company Rating -

Rated AM2– by JCR-VIS
Rated AM3 + by PACRA

Mission Statement

The Fund aims to provide its investors with Halal and regular income, by investing in Shariah-compliant income products.

Report Of The Directors Of The Management Company For KASB Islamic Income Fund

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Islamic Income Fund (KIIF, the Fund), is pleased to present the first Annual Report, together with the audited financial statements of the Fund for the period from May 02, 2008 to June 30, 2008.

Financial Highlights

	From May 02, 2008 to June 30, 2008
Net Income (Rs. in Million)	3.766
Net Assets as at June 30 (Rs. in Million)	670.700
NAV per Unit as on June 30 (Rs.) *	100.76
Annualised yield	12.06%

* Par value of each unit is Rs. 100.

Economic Environment

A global economic slowdown led by a spike in food and oil prices as well as the US sub-prime issue affected most economies including Pakistan's. The rising commodity prices posed a challenging economic environment for FY08, resulting in double digit inflation, the widening of the current and fiscal deficits, depletion of FX reserves and depreciation of the currency. The Central Bank moved aggressively by hiking interest rates twice during the year taking the discount rate up from 10% to 12% and squeezing liquidity from the system through increase in reserve requirements. At the same time, the Ministry of Finance reduced its growth outlook for FY09 to 5.5% after achieving a growth rate of 5.8% for FY08.

Investment Strategy

The primary objective of the Fund is to provide investors with Halal and regular income by investing in Shariah compliant income products. The fund recently came into existence and started building its asset base gradually. During this period, the fund actively acquired floating rate quality sukuk issues and made short to medium term placements with Islamic banks and financial institutions. The fund placements remained primarily on the shorter end of the yield curve to take benefit of the rising returns on Islamic assets. For the short period ended June 30, 2008, the fund earned a return of 12.06% on annualised basis.

Fund Performance

For the short period ended June 30, 2008, the fund earned a return of 12.06% on annualised basis and the Net Asset Value per unit of the Fund at the close of the period stood at Rs. 100.76. The net income before distribution for the period from May 02, 2008 to June 30, 2008 was Rs. 3.766 million. Placements with banks contributed Rs. 0.691 million, profit on bank deposits was Rs. 3.653 million and Sukuk certificates contributed Rs. 0.546 million towards the income.

Income Distribution

The Board of Directors of KASB Funds Limited approved the distribution of Rs. 0.55 per unit to the unit holders of the Fund for the period ended June 30, 2008 which translates into a distribution of 98% of realised income to the unit holders of KASB Islamic Income Fund.

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

Sale and redemption of units

KIIF was publicly launched on June 07, 2008 with a fund size of Rs. 493.555 million which increased by 35.89% to close at Rs. 670.7 million on June 30, 2008. During the year, units worth Rs. 736.35 million were issued and units with a value of Rs. 70.75 million were redeemed. As on June 30, 2008, the total number of outstanding units was 6,656,534 with a value of Rs. 670.7 million.

Code of Corporate Governance

The Board of Directors states that:

- The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holders' fund.
- Proper books of accounts of the Fund have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable prudent judgments.
- Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007, requirements of the Funds' Constitutive Documents and the directives issued by the Securities and Exchange Commission of Pakistan have been followed in the preparation of the Financial Statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no significant doubt upon the Fund's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- Key financial data is enclosed.
- 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.
- The detailed pattern of the unit holding, as required by the code of corporate governance is enclosed.

Meetings of the Directors

No meetings of the Board of Directors of KASB Funds Limited were held during the period from May 2, 2008 to June 30, 2008.

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

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2008, banks and financial institutions held 75.87% out of the total units; individuals 17.39% units; public limited companies and other corporate sector entities held 6.74% units.

Future Outlook

The combination of global macro challenges and political uncertainty on the domestic front has put the economy through

Report Of The Directors Of The Management Company For KASB Islamic Income Fund

challenging times. Inflationary pressures are expected to persist through most of the year as oil subsidies will be revoked. The large trade and fiscal deficits leave the government with little fiscal space and will force the government to raise external and domestic debt. Therefore, interest rates are expected to remain firm, which will favourably impact the returns on your Fund. At the same time, the economic consolidation and tighter credit conditions will require more prudent credit risk management and investment in quality instruments.

Auditors

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadi & Co. – Chartered Accountants as auditors of KASB Islamic Income Fund for the financial year ending June 30, 2009. The Board has approved the appointment.

Acknowledgement

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

For and on behalf of the Board

August 20, 2008
Karachi

Naz Khan
Chief Executive

Details Of Pattern Of Holding (Units) As At June 30, 2008

	Units Held	Units Held (%)
Associated companies		
KASB Bank Limited	1,999,600	30.04
Public Limited Companies	198,728	2.99
Banks and Financial Institutions	3,050,377	45.82
Individuals	1,157,829	17.39
Other Corporate Sector Entities	250,000	3.76
TOTAL	<u>6,656,534</u>	<u>100.00</u>

Performance Table

	2008
Total net asset value as at June 30 (Rs. '000)	670,700
Net asset value per unit as at June 30 (Rs.)	100.76
Selling price for units as at June 30 (Rs.)	101.78
Repurchase price for units as at June 30 (Rs.)	100.76
Highest selling price per unit (Rs.)	101.78
Lowest selling price per unit (Rs.)	100.00
Highest repurchase price per unit (Rs.)	100.76
Lowest repurchase price per unit (Rs.)	100.00
Distribution per unit (Rs.)	0.55
Date of distribution	July 02, 2008
Weighted average portfolio duration	41 days

Annualised return since inception is 12.06%.

Launch date of the Fund is June 7, 2008

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

Accomplishment Of Objective

The Scheme is a purely Shariah based Unit Trust which shall make Investment only in designated authorised Shariah compliant Investments and shall thus offer Shariah Compliant returns to the investors in the Units of the Scheme. Hence, no investment of the Trust Property or any portion thereof shall be made in any Investment, which in the opinion of the Shariah Advisor, is opposed to Shariah. The fund has so far successfully achieved its stated objective.

Strategies And Policies Employed During The Period

The fund has recently come into existence and has started building its asset base gradually. The fund is actively looking to acquire floating rate quality sukuk issues along with making short to medium term placements with Islamic banks and financial institutions. Investments in ready-future spread is also part of KIIF strategy but the fund will aim to keep it under 10%.

Review Of The Markets Invested In

Interest rates in the Income market continued their steady rise throughout the year as the central bank implemented a tight monetary policy in line with rising inflation numbers through the year. Pakistan's economy is facing tough times with rising twin deficits, falling import cover and three decade high inflation due largely to rising international energy and commodity prices. During the year, M2 growth managed to close below the 14% target, however, govt. borrowings of about Rs650bn were substantially above target and resulted in mere money printing, which also contributed to inflationary pressures in the economy. While all time high oil and food prices continued to inflict pain; lack of external inflows added to pressures on the country's foreign exchange reserves and the currency. However, thanks to the buoyant services sector, real GDP growth managed to close at a decent 5.8%. We believe rates would continue to remain on the higher side during the ongoing fiscal year and offer attractive investment opportunities to investors.

On the Islamic debt side, rates remained comparatively depressed as compared to the conventional market. Rates offered by Islamic banks and financial institutions also lagged 250 -350 bps from conventional banks. It

was heartening to see development of the Sukuk market where quite a few corporates' chose to raise financing through the Islamic mode. This will help add more depth to the Islamic asset class.

Fund Performance

KIIF experienced an outstanding start and outperformed its competitors and benchmark by quite a distance. Since inception (and for the month) the funds return stood at 12.06% on an annualized basis. The Fund was launched with an AUM of PKR 100 million and at the end of the period the AUM of the fund stood at PKR 671 million.

Significant Changes In Asset Allocation During The Period

As the Fund was launched in June, there were no changes in the allocation.

Distribution

Total dividend distribution for the period from May 7, 2008 to June 30, 2008 was PKR 0.55 per unit. The effect on NAV was as follows;

	30 June 2008
NAV	PKR 100.76
Distribution	PKR 0.55
Ex-NAV	PKR 100.21

Unit Splits

There were no unit splits during the period.

Significant Changes In The State Of Affairs

There were no significant changes in the state of affairs during the period under review.

Circumstances Materially Affecting The Interests Of Unitholders

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

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.

Investment Objective

The primary objective of the Fund is to provide investors with Halal and regular income by investing in Shariah compliant income products.

Inception Date

June 7, 2008

Type & Category of Fund

Open-ended Islamic Income

Fund Size

PKR 671 million

Current NAV

PKR 100.76 (30-06-08)

Load Structure

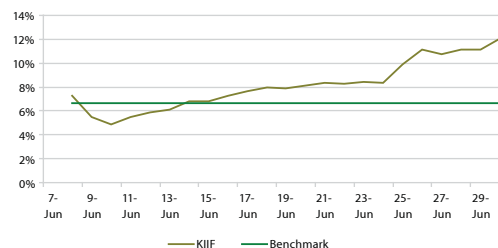
Front-end 1.0%
Back-end Nil

Performance Return (p.a. basis)

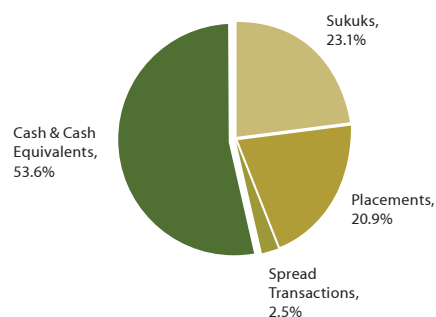
	KIIF	Avg. 3 mth rates of 3 Islamic Banks*
Since inception	12.06%	6.68%
For the month	12.06%	6.68%
Last 15 Days	14.82%	6.68%

* For comparison purposes only

KIIF vs Avg. 3 mth rates of 3 Islamic Banks



Asset Allocation as at June 30, 2008



Trustee Report To The Unit Holders

Report of the Trustee pursuant to Regulation 58(f) and Clause 9 of Schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007

KASB Islamic Income Fund (Fund), an open-end scheme was established under a trust deed dated February 29, 2008 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 period from May 02, 2008 to June 30, 2008 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, 2007 and the constitutive documents of the Fund.

Muhammad Hanif
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi, September 17, 2008

Report of the Shariah Advisor – KASB Islamic Income Fund

Karachi
August 22, 2008

Alhamdulillah, the period from 02 May, 2008 to 30 June, 2008 were the first two months of operation of KASB Islamic Income Fund. This report is issued in accordance with clause 7.1 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shari'ah Compliance of the Fund's activities.

In the capacity of Shari'ah Advisor, we have prescribed a criteria and procedure to be followed in ensuring Shari'ah Compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure Shari'ah compliance with the Shari'ah guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries from the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

- i. We have reviewed and approved the modes of investments of KASB Islamic Income Fund in light of Shari'ah guidelines.
- ii. All the provisions of the scheme and investments made on account of KASB Islamic Income Fund by KASB Funds Limited are Shari'ah Compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all operations of KASB Islamic Income Fund for the period ended June 30, 2008 have been in compliance with the Shari'ah principles.

May Allah bless us with best *Tawfeeq* to accomplish His cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Bilal Ahmed Qazi
Shari'ah Advisor

For and on behalf of Meezan Bank Limited
Shari'ah Technical Services and Support Provider

Shariah Compliance Auditors' Report To The Unit Holders

We have audited **KASB Islamic Income Fund's** (the fund) compliance with the Shariah guidelines as prescribed by the Shariah Advisory Board in accordance with clause 7.1 of the Trust Deed dated 29 February 2008 of the fund for the period from 02 May 2008 to 30 June 2008.

It is the responsibility of the Fund's Management Company (KASB Funds Limited) to appoint Shariah Adviser and establish and maintain a system of internal control, to ensure compliance with the Shariah guidelines. Our responsibility is to express an opinion on compliance with the Shariah guidelines based on our audit.

We conducted our audit in accordance with International Standards on Auditing applicable to compliance auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether **KASB Islamic Income Fund** has complied with the guidelines issued by the Shariah Adviser. An audit includes examining on test basis, evidence supporting amounts and disclosures in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Fund was, in all material respects, in compliance with the Shariah guidelines issued by the Shariah Advisory Board, in accordance with clause 7.1 of the Trust Deed dated 29 February 2008 for the period from 02 May 2008 to 30 June 2008.

20 August 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Statement Of Compliance With The Code Of Corporate Governance

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 37 of 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"), which is an Unlisted Public Limited Company, is the Management Company of KASB Islamic Income Fund ("the Fund"). The Fund is a unit trust scheme whose units are listed on the Stock Exchange. As the Fund does not have its own Board of Directors, the Board of Directors ("the Board") of the Management Company manages the affairs of the Fund.

The Management Company has applied the principles contained in the Code to the Fund, whose units are listed on the Stock Exchange, in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors and none of the Directors represent minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. There was no casual vacancy during the period.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the Directors and employees of the Management Company.
6. The Board has developed a vision/mission statement and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board are presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board meets at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, are circulated at least seven days before the meetings. The minutes of the meetings are appropriately recorded and circulated.
9. An orientation course was conducted in a meeting of the Board held on September 07, 2007, to apprise them of their duties and responsibilities.
10. The Board has approved the appointment of the CFO, Company Secretary and the Internal Auditors including their remuneration and terms and conditions of appointment.
11. The Directors' report for this period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit-holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meeting of the Audit Committee was held prior to the approval of the final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formed and advised to the Committee for compliance.
17. The Management Company has outsourced the internal audit function to a firm of Chartered Accountants which is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors of the Fund or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 20, 2008
Karachi

Naz Khan
Chief Executive

Review Report To The Unit Holders On Statement Of Compliance With The Best Practices Of Code Of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of KASB Funds Limited ("the Management Company") of **KASB Islamic Income Fund** ("the Fund") to comply with the listing regulation of the Karachi Stock Exchange (Guarantee) Limited, where the Fund is listed.

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period from 02 May 2008 to 30 June 2008.

20 August 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Independent Auditors' Report To The Unit Holders

We have audited the accompanying financial statements of **KASB Islamic Income Fund ("the Fund")**, which comprise the statement of assets and liabilities as at 30 June 2008, and the income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from 02 May 2008 to 30 June 2008, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2008 and of its financial performance, cash flows and transactions for the period from 02 May 2008 to 30 June 2008 in accordance with approved accounting standards as applicable in Pakistan.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2007.

20 August 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Statement Of Assets And Liabilities As at June 30, 2008

	<i>Note</i>	2008 (Rupees in '000)
Assets		
Bank balances	4	492,326
Investments	5	173,055
Income receivable	6	6,499
Deposits	7	100
Preliminary expenses and floatation costs	8	987
Total assets		672,967
Liabilities		
Payable on redemption of units		58
Payable to KASB Funds Limited - Management Company	9	1,712
Payable to Central Depository Company of Pakistan Limited - Trustee	10	99
Payable to the Securities and Exchange Commission of Pakistan	11	53
Accrued expenses and other liabilities	12	345
Total liabilities		2,267
Commitments	13	
Net assets		670,700
Unit holders' funds (as per statement attached)		670,700
Number of units in issue		(Number of units) 6,656,534
Net asset value per unit		(Rupees) 100.76

The annexed notes 1 to 26 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Income Statement

For the period from May 02, 2008 to June 30, 2008

	<i>Note</i>	From May 2, 2008 to June 30, 2008 (Rupees in '000)
Income		
Income from Sukuk Certificates		546
Income from Term Deposit Receipts		691
Profit on bank deposits		3,653
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	5.4	30
Total income		4,920
Expenses		
Remuneration of KASB Funds Limited - Management Company	9.1	560
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	108
Annual fee - the Securities and Exchange Commission of Pakistan	11.1	45
Transaction cost on securities		69
Settlement and bank charges		7
Legal and professional charges		114
Fees and subscription		35
Auditors' remuneration	14	130
Amortisation of preliminary expenses and floatation costs		13
Printing and other expenses		25
Total expenses		1,106
		3,814
Net realised element of income and capital gains included in prices of units issued less those in units redeemed		(48)
Net income for the period		3,766
Earnings Per Unit	15	

The annexed notes 1 to 26 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Distribution Statement

For the period from May 02, 2008 to June 30, 2008

**From May 2, 2008
to June 30, 2008
(Rupees in '000)**

Net income for the period	3,766
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised capital gain.	(6)
Undistributed income carried forward	3,760

The annexed notes 1 to 26 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Statement Of Movement In Unit Holders' Funds For the period from May 02, 2008 to June 30, 2008

**From May 2, 2008
to June 30, 2008
(Rupees in '000)**

Issue of 7,360,538 units		736,352
Redemption of 704,004 units		(70,753)
		665,599
Element of income and capital gains included in prices of units issued less those in units redeemed:		
- amount representing accrued income and realised capital gains - transferred to the Income Statement		48
- amount representing net unrealised diminution in fair value of investments - transferred directly to Distribution Statement		6
		54
Unrealised appreciation in fair value of investments classified as 'available for sale' during the period	5.5	1,287
Net income available for distribution (excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss')		3,730
Unrealised appreciation in fair value of investments 'at fair value through profit or loss' and future contracts		30
Net income available for distribution (including net unrealised element of income and capital gains included in prices of units issued less those in units redeemed)		3,760
Net assets at the end of the period		670,700
		(Rupees)
Net asset value per unit as at the beginning of the period		-
Net asset value per unit as at the end of the period		100.76

The annexed notes 1 to 26 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Cash Flow Statement

For the period from May 02, 2008 to June 30, 2008

	From May 2, 2008 to June 30, 2008 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the period	3,766
Adjustments for:	
Unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	(30)
Net realised element of income and capital gains included in prices of units issued less those in units redeemed	48
Amortisation of preliminary expenses and floatation costs	13
Profit before working capital changes	3,797
(Increase) in assets	
Investments	(171,738)
Income receivable	(6,499)
Deposits	(100)
	(178,337)
Increase in liabilities	
Payable on redemption of units	58
Payable to KASB Funds Limited - Management Company	712
Payable to Central Depository Company of Pakistan Limited - Trustee	99
Payable to the Securities and Exchange Commission of Pakistan	53
Accrued expenses and other liabilities	345
	1,267
Net cash outflow from operating activities	(173,273)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net receipts from sale and redemption of units	665,599
Net increase in cash and cash equivalents during the period and at the end of the period	492,326

The annexed notes 1 to 26 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

Notes to the Financial Statements

For the period from December 10, 2007 to June 30, 2008

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Islamic Income Fund ("KIIF", 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 29, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on May 02, 2008 in accordance with the Non-Banking Finance Companies & Notified Entities Regulations, 2007.

The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as Non Banking Finance Company under the NBFC Rules by SECP. The registered office of the management company is situated in Karachi, Pakistan. The Pakistan Credit Rating Agency Limited has assigned management quality rating of AM3+ to the Management Company and JCRVIS has assigned management quality rating of AM2- to the Management Company.

KIIF is an open-end Islamic income fund and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder, except for the units issued to core investors which are not redeemable for a period of two years from the date of issue.

The primary objective of KIIF is to provide investors with halal and regular income by investing in shariah compliant income products. The Scheme is a purely Shariah based Unit Trust which shall make Investment only in designated authorised Shariah compliant Investments and shall thus offer Shariah Compliant returns to the investors in the Units of the Scheme.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Initial application of a standard or an interpretation

During the period, amendments to International Accounting Standards (IAS) 1, Presentation of Financial Statements relating to capital disclosures became effective and have resulted in an additional disclosure. International Financial Reporting Standard (IFRS) 2 – Share Based Payment, IFRS 3 – Business Combinations, IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 6 – Exploration for and Extraction of Mineral Resources, IFRIC 8 – Scope of IFRS 2 – Share Based Payment and IFRIC 10 – Interim Financial Reporting and Impairment became effective during the year. The application of these standards and interpretations did not have any material effect on the Fund's financial statements.

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

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after July 01, 2008 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

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

IAS 29 – Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after July 1, 2008).

Revised IAS 23 – Borrowing costs (effective from January 1, 2009). Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.

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

IFRS 2 (amendment) – Share-based payments (effective for annual periods beginning on or after January 1, 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share based payment arrangement.

IFRS 3 (amendment) – Business Combinations and consequential amendments to IAS 27 – Consolidated and separate financial statements, IAS 28 – Investment in associates and IAS 31 – Interest in Joint Ventures (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009).

IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after July 1, 2008).

IFRIC 12 – Service Concession Arrangements (effective for annual period beginning on or after January 1, 2008).

IFRIC 13 – Customer Loyalty Programmes (effective for annual period beginning on or after July 1, 2008).

IFRIC 14 & IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual period beginning on or after January 1, 2008).

IFRIC 15 – Agreement for the Construction of Real Estate (effective for annual period beginning on or after October 1, 2009).

IFRIC 16 – Hedge of Net Investment in a Foreign Operation (effective for annual period beginning on or after October 1, 2008).

2.4 Basis of measurement

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

2.5 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and

Notes to the Financial Statements

For the period from May 02, 2008 to June 30, 2008

rounded to the nearest thousand rupees.

2.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are given in note 20 to these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

- b) *Held to maturity*
These are investments with fixed or determinable payments and fixed maturity in respect of which the Fund has positive intent and ability to hold such investments to maturity. These investments are stated at amortised cost less impairment losses, if any. Amortisation is determined using the effective yield method.
- c) *Available-for-sale*
Available for sale financial assets are non-derivative that are either designated in this category or not classified in any other category.
- d) *Loans and receivables originated by the enterprise*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available for sale. This includes receivable

against sale of investments, other receivables and are carried at amortised cost using effective yield method, less impairment losses, if any.

e) *Financial liabilities*

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

Recognition

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

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

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement. Unquoted securities are carried at investment price or break-up value which ever is lower, except for government and debt securities which are stated at fair value.

Fair value measurement principles

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

Basis of valuation of Sukuk Certificates

The Fund values its investments in Sukuk Certificates using the rates notified by the Mutual Funds Association of Pakistan (MUFAP). However, Securities for which rates are not notified by MUFAP are carried at cost.

Impairment

Financial assets not carried at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is

Notes to the Financial Statements

For the period from December 10, 2007 to June 30, 2008

recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

If in subsequent period the amount of impairment loss decreases, the reduction in impairment loss on financial assets other than the securities classified as available-for-sale is recognised in the income statement. However, the decrease in impairment loss on securities classified as available-for-sale is recognised in unit holders' fund, except where such decrease can be objectively related to an event occurring after the impairment loss was recognized in Income statement, in which case the decrease in impairment loss is recognized in income statement

Derecognition

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

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

Offsetting of financial instruments

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

3.2 Issue and redemption of units

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

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

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

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

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

3.4 Net asset value - per unit

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

3.5 Taxation

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

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

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

3.6 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised capital gain / (losses) arising on the valuation of investment classified as financial assets at fair value through profit or loss are included in the Income Statement in the year in which they arise.
- Income on bank deposits is recognised on a time proportionate basis.
- Income on debt securities is recognised on time proportion basis using effective interest rate method.
- Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the Income Statement.
- Dividend income is recognised when the right to receive the dividend is established.
- Element of income / (loss) and capital gain / (loss) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.7 Expenses

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

3.8 Provisions

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

Notes to the Financial Statements

For the period from May 02, 2008 to June 30, 2008

3.9 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from the last day of the IPO period as per the Trust Deed of the Fund and shall be reimbursed by the Fund subject to the audit of expenses over a period of not less than 5 years or with in the maturity date of the Fund or any other time period as specified by the Commission.

3.10 Cash and cash equivalents

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

3.11 Other assets

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

3.12 Dividend and bonus units

Dividend declared subsequent to the balance sheet date is considered as non-adjusting event and is recognized in the period in which it is authorised or approved

4. BANK BALANCES

		2008
		(Rupees in '000)
In deposit accounts	4.1	352,326
Term deposit receipts	4.2	140,000
		492,326

4.1 Profit rates on deposit accounts range between 10.9% to 11.1% per annum.

4.2 These term deposit receipts carry profit rates ranging from 12.85% to 12.90% per annum and maturity ranging from 61 days to 92 days.

5. INVESTMENTS

At fair value through profit or loss

- Shares of listed companies	5.1	16,281
- Future Contracts	5.2	23
		16,304

Available for sale

- Sukuk certificates – Unlisted	5.3	156,751
		173,055

The cost of these securities as at June 30, 2008 amounted to Rs. 171.738 million.

5.1 Ordinary shares of listed companies - 'at fair value through profit or loss'

Name of the investee company	As at May 02, 2008	Purchases during the period	Bonus during the period	Sales during the period	As at June 30, 2008	Market value as at June 30, 2008	Percentage of total investment on the basis of market value
	Number of shares					(Rupees in '000)	
Shares / certificates of listed companies / mutual funds							
- Fully paid ordinary shares / certificates of Rs. 10/- each unless stated otherwise							
Cement							
D.G. Khan Cement Company Limited	-	242,500	-	-	242,500	16,281	9.41
		- 242,500	-	-	242,500	16,281	

5.2 This represents the unrealized gain on deferred sale contracts to sell a designated financial instrument at a specified future date for a specified price and settled in cash. These commitments are standardized exchange-traded and other contracts. These deferred sale contracts have little credit risk because the counter parties in most of the contracts are brokers. The underlying security under these contracts are 242,500 shares of DG Khan Cement Company Limited and settlement date is August 5, 2008.

It results in exposure to market risk based on changes in market prices related to contracted amount. Market risk arises due to the possibility of movement in indices and securities value underlying these instruments.

Nominal amounts are the underlying reference amounts to stock exchange indices, upon which the fair values of the deferred sale contracts, traded by the Fund are based. While notional amounts do not represent the current fair value and are not necessarily indicative of the future cash flows of the Fund's deferred sale contracts, the underlying price changes in relation to the variables specified by the notional amounts affect the fair value of these derivative financial instruments.

Notes to the Financial Statements

For the period from December 10, 2007 to June 30, 2008

5.3 Available for sale -Sukuk certificates - unlisted

Name of the investee company	As at May 02, 2008	Purchases during the period	Sales during the period	Redemptions during the period	As at June 30, 2008	Market value as at June 30, 2008	Percentage of total investment on the basis of market value
Maple Leaf Cement Factory Limited	5.3.1	-	14,000	-	14,000	50,585	29.23
Pak Electron Limited	5.3.2	-	10,000	-	10,000	70,406	40.68
Engro Chemicals Pakistan Limited	5.3.3	-	7,000	-	7,000	35,760	20.66
		-	31,000	-	31,000	156,751	

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

5.3.2 The Privately Placed Issue of Sukuk – Diminishing Musharakah Based has a tenor of Five (5) Years inclusive of 18 months Grace Period, carrying profit equal to 3 months KIBOR plus 175 basis points per annum with floor of 10% and cap of 25%, payable Quarterly in arrears to be purchased in fourteen (14) consecutive quarterly units, the first such unit falling due not later than the end of twenty one (21) months from the Issue Date.

5.3.3 The Privately Placed Sukuk Issue has a tenor up to eight (8) years starting from the date of first contribution under the facility, carrying profit equal to 6 months KIBOR plus 150 basis points per annum payable semi-annually in arrears. The first Rental Payment will fall due and payable at the end of the 6th month from the date of first Contribution under the Facility. Rentals will be calculated on the basis of actual number of days elapsed in a year of 365 days on the outstanding Musharaka Amount.

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

	2008 (Rupees in '000)
Fair value of investments	16,304
Less: Cost of investments	(16,274)
	<u>30</u>

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

Fair value of investments	156,751
Less: Cost of investments	(155,464)
	<u>1,287</u>

6. INCOME RECEIVABLE

Income accrued on bank deposits	3,626
Income accrued on term deposit receipts	692
Income accrued on Sukuk Certificates	2,181
	<u>6,499</u>

7. DEPOSITS

	2008 (Rupees in '000)
Deposit with Central Depository Company of Pakistan Limited	7.1 <u>100</u>

7.1 This deposit is non remunerative.

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	1,000
Less: Amortisation during the period	(13)
Balance as at June 30, 2008	<u>987</u>

Preliminary expenses and floatation costs represent expenditure incurred for the launching of the Fund and are being amortised over a period of five years commencing from June 8, 2008 as per the Trust Deed of the Fund and shall be reimbursable by the fund subject to the audit of expenses over a period of not less than five years or within the maturity of the Fund, or any other time period as specified by the Commission.

9. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY

Management fee payable	9.1	560
Sales load payable		5
Other payable	9.2	1,147
		<u>1,712</u>

9.1 Under the provisions of Non Banking Finance Companies and Notified Entities Regulations, 2007, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. During the current period remuneration of management company is charged at the rate of 1.25 percent per annum of the average annual net assets of the Fund.

9.2 This includes an amount of Rs. 1 million paid by the management company on behalf of the Fund in respect of preliminary expenses and floatation costs.

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

Trustee fee	10.1	98
CDS charges		1
		<u>99</u>

Notes to the Financial Statements

For the period from May 02, 2008 to June 30, 2008

10.1 The trustee is entitled to a monthly remuneration for services rendered to the Fund in accordance with the provisions of the Trust Deed at the higher of 0.7 million or 0.2% per annum on amount upto Rs. 1.0 billion of average daily net assets of the Fund and Rs. 2 million plus 0.1% per annum on amount exceeding Rs. 1.0 billion of average daily net assets of the Fund.

11. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

	2008
	(Rupees in '000)
11.1	<u><u>53</u></u>

11.1 Under the provisions of Non Banking Finance Companies and Notified Entities Regulations, 2007, an open end scheme is required to pay as annual fee to SECP, an amount equal to one tenth of 1% of the average annual net assets of the Scheme.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	130
Brokerage	69
Others	146
	<u><u>345</u></u>

13. COMMITMENTS

Purchase of Sukuk Certificates	<u><u>70,000</u></u>
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14. AUDITORS' REMUNERATION

Audit fee	50
Other certifications and services	80
	<u><u>130</u></u>

15. EARNINGS PER UNIT

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

16. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Related parties / connected persons include KASB Funds Limited (the Management Company), KASB Capital Limited (Holding Company of the Management Company), KASB Bank Limited, KASB Securities Limited, Network Leasing Corporation Limited and New Horizon Exploration and Production Limited (associated companies of the Management Company), KASB Liquid Fund, KASB Stock Market Fund and KASB Balanced Fund (Funds managed by the Management Company), Central Depository Company of Pakistan Limited (trustee of the Fund) and directors and key management personnel 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 the Trustee is determined in accordance with the provisions of NBFC and Notified Entities Regulations 2007 and the Trust Deed respectively.

Details of transactions with connected persons and balances with them at period end are as follows:

16.1 Transactions with connected persons can be summarised as follows:

	From May 02, 2008 to 30 June 2008 (Rupees in '000)
KASB Funds Limited	
Remuneration expense	9.1 <u><u>560</u></u>
Sale load	<u><u>5</u></u>
Amount paid on behalf of the Fund	<u><u>1,147</u></u>
KASB Bank Limited	
Investment in the Fund: 1,999,600 units	<u><u>200,000</u></u>
KASB Liquid Fund	
Purchase of Sukuk Certificate: 14,000 units	<u><u>70,721</u></u>
Central Depository Company of Pakistan Limited - Trustee	
Remuneration	<u><u>108</u></u>
CDS charges	<u><u>1</u></u>
Payments during the period	<u><u>9</u></u>

16.2 Balances with connected persons can be summarised as follows:

KASB Funds Limited	
Investment in the Fund: 1,800 units	<u><u>180</u></u>
Conversion in the Fund: 92 units	<u><u>9</u></u>
Payable to the Management Company	9 <u><u>1,712</u></u>

Notes to the Financial Statements

For the period from December 10, 2007 to June 30, 2008

	From May 02, 2008 to 30 June 2008 (Rupees in '000)
KASB Bank Limited	
Units held: 1,999,600 units	201,480
Central Depository Company of Pakistan Limited - Trustee	
Payable to the Trustee	10 99
Security deposit	100
Officers of the Management Company	
Units held: 1,892 units	191

17. MATURITIES OF ASSETS AND LIABILITIES

	2008					
	Total	Not later than one month	Later than one month and upto three months	Later than three months and not later than one year	Later than one year and not later than five years	Later than five years
	----- (Rupees in '000) -----					
Assets						
Bank balances	492,326	352,326	140,000	-	-	-
Investments	173,055	16,304			50,585	106,166
Income receivable	6,499	6,499	-	-	-	-
Deposits	100		-	-	-	100
Preliminary expenses and floatation costs	987	16	33	148	790	-
	672,967	375,145	140,033	148	51,375	106,266
Liabilities						
Payable against purchase of investments	58	58	-	-	-	-
Payable to KASB Funds Limited - Management Company	1,712	1,712	-	-	-	-
Payable to Central Depository Company of Pakistan Limited -Trustee	99	99	-	-	-	-
Payable to The Securities and Exchange Commission of Pakistan	53	53	-	-	-	-
Accrued expenses and other liabilities	345	345	-	-	-	-
	2,267	2,267	-	-	-	-
Net Assets	670,700	372,878	140,033	148	51,375	106,266

18. RISK MANAGEMENT

The Fund has a policy to provide investors with Halal and regular income by investing in Shariah compliant income products.

The Fund has invested in diversified portfolio of Shariah compliant securities primarily including money market instruments, placements with Islamic Financial Institutions, ready future transaction and Sukuk Certificates etc. Investments by the Fund are subject to varying degree of risks. These risks emanate from various factors that include, but are not limited to:

18.1 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market profit rate or 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 mitigates market risk by monitoring exposure on marketable securities by following the internal risk management guidelines, investment policy approved by the investment committee of Management Company and applicable regulations laid down by the Securities and Exchange Commission of Pakistan.

18.2 Profit rate risk

This risk arises on interest bearing financial instruments recognized in the balance sheet and some of those financial instruments which are not recognized on the balance sheet (e.g loan commitments) due to the changes in market interest rates. Sensitivity to profit rate risk also

Notes to the Financial Statements For the period from May 02, 2008 to June 30, 2008

arises from mismatches of financial assets and liabilities and off-balance sheet commitments that mature or re-price in a given period.

The Management Company manages this risk by following risk management guidelines and approved investment policy thereby keeping appropriate duration for its portfolio of investments and making appropriate portion of its investments in floating rate instruments. Moreover, the Fund has no interest bearing financial liabilities giving rise to mismatch of financial assets and liabilities.

Market rate of return risk

The Fund's exposure to mark-up / profit rate risk based on contractual repricing and maturity dates, whichever is earlier at June 30, 2008 is as follows:

	Effective rate of mark-up/return (%)	2008						Non-profit bearing financial instruments
		Total	Exposed to market / profit rate risk					
			Not later than one month	Later than one month and upto 3 months	Later than 3 months and not later than one year	Later than one year and not later than 5 years	Later than 5 years	
------(Rupees in '000)-----								
On-balance sheet financial instruments								
Financial Assets								
Bank balances	10.90 - 12.90	492,326	352,326	140,000	-	-	-	
Investments	11.76 -15.57	173,055	16,304	86,345	70,406	-	-	
Income receivable		6,499	-	-	-	-	6,499	
Deposits and other receivables		100	-	-	-	-	100	
		671,980	368,630	226,345	70,406	-	6,599	
Financial Liabilities								
Payable on redemption of units		58	-	-	-	-	58	
Payable to KASB Funds Limited		1,712	-	-	-	-	1,712	
Payable to Central Depository Company of Pakistan Limited -Trustee		99	-	-	-	-	99	
Payable to Securities and Exchange Commission of Pakistan		53	-	-	-	-	53	
Accrued expenses and other liabilities		345	-	-	-	-	345	
		2,267	-	-	-	-	2,267	
On-balance sheet gap		669,713	368,630	226,345	70,406	-	4,332	

18.3 Currency Risk

Currently the fund has no such investments which are denominated in a foreign currency.

18.4 Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant Islamic financial institutions or counterparties in case of reverse re-purchase transactions, placements, sukus or other arrangements to fulfill their obligations. This risk is limited to the principal amount and accrued profit thereon, if any.

Credit risk management

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines designed for credit risk management. This risk is primarily managed through assignment of credit limits, obtaining adequate collaterals and by following strict credit evaluation criteria laid down in the investment policy and risk management guidelines for the Fund. The Management Company has a process of post investment reviews for investments by the Fund which is

very useful in managing the credit risk profile of the Fund.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Financial assets subject to credit risk amount to Rs. 671.980 million. The Fund's portfolio of financial instruments is diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating risk of significant concentration of credit. Moreover, the Fund limits its exposures to any group or sector in accordance with its investment policy, risk management guidelines and applicable Regulations of the Securities and Exchange Commission of Pakistan.

18.5 Liquidity risk

This is the risk that the Fund, although balance sheet solvent, cannot meet or generate sufficient cash resources to meet its payment obligations with respect to its financial liabilities in full

Notes to the Financial Statements For the period from December 10, 2007 to June 30, 2008

as they fall due, or can only do so at materially disadvantageous terms.

The Management Company manages liquidity risk by following internal policies and procedures designed for liquidity risk management which include maintaining adequate cash balances, continuously monitoring maturities of the financial instruments, monitoring the credit ratings of the instruments or the issuers of those instruments and capital market developments which can impact the liquidity risk.

18.6 Capital risk management

The Fund seeks to provide investors with halal and regular income by investing in shariah compliant income products. The scheme is a purely shariah based unit trust which shall make investment only in designated authorised shariah compliant investments with an aim to continue to provide returns for unitholders and benefits for other stake holders.

The units of the Fund are transferable and can be redeemed by surrendering them to the Fund at the option of the unitholder, except for the units issued to core investors which are not redeemable for a period of two years from the date of issue, as per the NBFC Regulations.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

20. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Investments stated at fair value

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

Other assets

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

21. PATTERN OF UNITHOLDING

Category	No. of Unitholders	Investment Amount (Rupees in '000)	%age of total investment
Individuals	107	116,650	17.39%
Associated companies	1	201,480	30.04%
Directors	-	-	-
Insurance Companies	-	-	-
Banks / Financial Institutions	4	307,298	45.82%
Non Banking Finance Companies	2	25,248	3.76%
Retirement Funds	-	-	-
Public Limited Companies	1	20,024	2.99%
Others	-	-	-
	115	670,700	

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

The operations of the Fund were started on June 9, 2008 and no brokerage was paid till June 30, 2008 for the period ended June 30, 2008.

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

No meetings of the Board of Directors of KASB Funds Limited were held since the launch of the Fund (i.e May 02, 2008 to June 30, 2008).

24. DETAILS OF MEMBERS OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	BA, (USA)	15
Muhammad Faisal Potrik	Head of Fund Management	MBA	07
Ali Hussain	Head of Research	MBA, CFA	05
Mir Taimur	Fund Manager	ACCA, BSc (hon.)	05
Irfan Saleem	Head of Risk Management & Compliance and Company Secretary	ACA	08

25. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management company have approved bonus of Rs. 0.55 per unit for the period ended June 30, 2008 amounting to Rs. 3.661 million in total in their meeting held on July 02, 2008. The financial statements for the period ended June 30, 2008 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2009.

26. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 20, 2008 by the Board of Directors of the Management Company.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

