



**KASB STOCK**  
**MARKETFUND**

**ANNUAL REPORT**

June 30, 2009

(Audited)

managed by



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## Fund Information

### Management Company

KASB Funds Limited

### Registered Office:

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

### Principal Office:

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

### Board of Directors of KASB Funds Limited

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

### Chief Financial Officer

Mr. Muhammad Imran Khalil

### Company Secretary

Mr. Irfan Saleem Awan

### Audit Committee

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

### Trustee

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

### Bankers to the Fund

KASB Bank Limited

### Auditors

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

### Legal Advisor

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

### Registrar

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

### Distributors

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

### Management Company Rating

Rated AM3+ by JCR-VIS  
(May 2009)

## **Mission Statement**

KASB Stock Market Fund seeks to generate long-term capital appreciation and income from a portfolio that is substantially constituted of equity and equity related securities.



## Report Of The Directors Of The Management Company For KASB Stock Market Fund

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

### Financial Highlights

	FY 2009	FY 2008	Increase/ (Decrease) (%)
Net loss (Rs. in Million)	140.92	17.49	705.72
Net Assets as at June 30 (Rs. in Million)	299.28	483.94	(38.16)
NAV per Unit as on June 30 (Rs.) *	32.97	48.56	(32.10)
Return (%)	(32.10)	(10.41)	(208.36)

\* Par value of each unit is Rs. 50.

### Economic Environment

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

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

### Capital Market

Capital markets (both equity and income) bore the brunt in FY09 due to economic challenges facing the country as well as a liquidity crisis in the market. Thus, Karachi Stock Exchange (KSE) market capitalization reduced by 53% to US\$26bn from US\$55.2bn. KSE-100 index remained the worst performing index among its peers as it recorded a decline of 42% vs regional markets, which on average fell by 6% during the fiscal year. Stock market closure for more than 3 months only added to the steep fall of the market as it reopened.

There were a number of reasons for the lack luster performance of the capital markets including weak economic performance, liquidity shortfall in the system, uncertainty on the political front and a deteriorating security situation in the country. Investors were taken aback by imposition of price floor for three and half months which resulted in a massive outflow of foreign portfolio investments from the equity market. The extended flooring of prices also resulted in Pakistan being removed from MSCI Emerging Market Index in Dec 2008, though it was subsequently added to the MSCI foreign selling of US\$ 445mn in the same period.

In terms of sectors, Power Generation and E&P fared marginally better on the back of currency devaluation and higher realized oil and gas prices. In contrast, banks underperformed amid investors concern on banking asset quality, concerns of higher NPLs and slowing private sector credit off-take, while autos underperformed massively due to weak fundamentals caused by dwindling demand.

### Investment Strategy

KSMF seeks to generate long term capital appreciation and income, from portfolio that is substantially constituted of equity and equity related securities. The fund aims to maximize total returns and outperform the benchmark.

The Fund strives to invest in fundamentally undervalued stocks that have business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

### Fund Performance

KASB Stock Market Fund has earned a return of -32.10% for FY09 as against a benchmark return of -46.11% of the KSE-30 Index resulting in an out performance of 14.01% due to a research based strategy of investing in fundamentally undervalued stocks. The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 32.97. The net loss for the year ended June 30, 2009 was Rs. 140.92 million, primarily due to unrealised diminution in fair value of investments amounting to Rs. 0.742 million; provision against debt securities of Rs. 16.15 million; provision for doubtful income receivable of Rs. 1.08 million and capital loss on sale of investments of Rs. 136.23 million. Dividend income and profit on bank deposits however contributed Rs. 14.07 million and Rs. 3.47 million respectively towards loss reduction.

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

As explained in note 18 of the financial statements, the Management Company, in compliance with the circular 23 of 2008 dated October 7, 2008, issued by the Securities and Exchange Commission of Pakistan, suspended the pricing, issuance and redemption of units of the Fund with effect from October 07, 2008 and removed suspension on the third business day after the floor was removed i.e. December 18, 2008. Apart from this, no suspension of redemption was made by the Fund during the year.

### Income Distribution

As the Fund has incurred a 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, 2009.

### Sale and redemption of units

The fund size of KSMF was Rs. 483.94 million on June 30, 2008 which decreased by 38.16% by the end of the financial year to close at Rs. 299.28 million on June 30, 2009. During the year, units worth Rs. 123.00 million were issued and units with a value of Rs. 157.92 million were redeemed. As on June 30, 2009, the total number of outstanding units was 9,078,238 with a value of Rs. 299.28 million.

### Code of Corporate Governance

The Board of Directors states that:

- The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- Proper books of accounts of the Fund have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements of the Fund and accounting estimates are based on reasonable and prudent judgments.

## Report OfThe Directors OfThe Management Company For KASB Stock Market Fund

- d. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations 2007), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2007, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2007, the NBFC Regulations 2008 and the said directives shall prevail.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts about the Fund's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
- i. Key operating and financial data is enclosed.
- j. The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k. The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

### Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors from July 1, 2008 to June 30, 2009 is disclosed in note 22 of the financial statements.

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

S. No	Trades By	Designation	Investment (No. of Units)	Redemption (No. of Units)
1.	Ms. Naz Khan	Director & Chief Executive	7,364	30,294
2.	Mr. Farid Arshad Masood	Director	Nil	10,237

### Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2009, banks and financial institutions held 72.19% out of the total units; individuals 7.67% units and 20.14% units were held by retirement funds. Detailed pattern is also annexed.

### Future Outlook

Coming off a very difficult FY09, KSE is likely to remain pegged to the gradual improvement in macro economic variables during FY10. Under our base case we envisage that initial part of FY10 should see inflation declining substantially where it would potentially touch single digit towards the end of 2009. This should in turn pave way for monetary easing leading to further cuts in discount rate by December 2009.

The stock market is trading at around 6.57x forward earnings, 1.31x forward book value and giving a forward dividend yield of about 8.9%, very attractive levels when seen in Pakistan's historical context as well as in a regional context. As political uncertainty abates and the economic environment improves the market should respond positively.

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

### Auditors

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadi & Co. – Chartered Accountants as auditors of KASB Stock Market Fund for the financial year ending June 30, 2010. The Board has approved the appointment.

### Acknowledgement

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

For and on behalf of the Board

25 August 2009  
Karachi

Naz Khan  
Chief Executive Officer

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

	Units Held	Units Held (%)
<b>Associated companies</b>		
KASB Bank Limited	2,444,780	26.93
KASB Securities Limited	1,814,071	19.98
KASB Funds Limited	89,718	0.99
KASB Securities Limited Employees' Provident Fund	77,089	0.85
<b>Directors and Chief Executive</b>		
Chief Executive		
Ms. Naz Khan	17,033	0.19
<b>Executives</b>	20,742	0.23
<b>Banks and Financial Institutions</b>	2,205,183	24.29
<b>Individuals</b>	658,101	7.25
<b>Retirement Funds</b>	1,751,521	19.29
	<b><u>9,078,238</u></b>	<b><u>100.00</u></b>



## Performance Table

	<b>2009</b>	2008	2007*
Total net assets value as at June 30 (Rs. '000)	<b>299,277</b>	483,942	411,603
Net asset value per unit as at June 30 (Rs.)	<b>32.97</b>	48.56	59.64
Selling price for units as at June 30 (Rs.)	<b>33.82</b>	49.81	61.17
Repurchase price for units as at June 30 (Rs.)	<b>32.97</b>	48.56	59.64
Dividend distribution per unit (Rs.)	<b>NIL</b>	NIL	4.87
Date of distribution	-	-	July 6, 2007
Highest Selling Price per unit (Rs.)	<b>49.60</b>	62.08	61.17
Highest Repurchase Price per unit (Rs.)	<b>48.36</b>	60.52	59.64
Lowest Selling Price per unit (Rs.)	<b>21.25</b>	45.74	50.00
Lowest Repurchase Price per unit (Rs.)	<b>20.71</b>	44.59	49.81
Return	<b>-32.10%</b>	-10.41%	19.28%

*Return since inception is -28.20%*

*\*Launch date of the Fund is March 22, 2007.*

### Disclaimer

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

# Annual Fund Manager's Report

### Investment Objective

The Fund seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities.

### Inception Date

March 22, 2007

### Type & Category of Fund

Open-end equity market

### Benchmark

KSE 30 Index

### Fund Size

PKR 299 million

### Current NAV

PKR 32.97 (30-06-09)

### Load Structure

Front-end : 2.5%  
Back-end : Nil

### Performance Return (Absolute)

	KSMF Return	Benchmark return
Since Inception	-28.20%	-46.51%
FY 2009	-32.10%	-46.11%
CY 2009	46.79%	38.02%
For June 09	-2.66%	-3.71%

### Indicators (since Inception)

	KSMF	KSE 30
Sharpe Ratio	N/M*	N/M*
Beta	0.70	1
Std. Deviation	1.51%	2.02%
Correlation	0.94	N/A
Avg Mkt Cap (b)	68.1	100.5
Price to Earning (x)	7.65	6.7
Price to Book (x)	1.63	1.88
Dividend Yield	8.63%	8.68%

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

### Accomplishment Of Objective

The fund has so far successfully achieved its stated objective and has outperformed its benchmark by a significant margin.

### Strategies And Policies Employed During The Period

The fund invested a maximum of 100% and a minimum of 70% in equity and equity related securities. The Fund invested in fundamentally undervalued stocks that had business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

### Review Of The Markets(s) Invested In During The Period

FY2009 turned out to be one of the most difficult years in recent times, where KSE market capitalization reduced by 53% to US\$26bn from US\$55.2bn. KSE-100 index remained the worst performing index among its peers as it recorded a decline of 42% vs regional markets, which on average fell by 6% during the year.

Main reasons for the lack luster performance was subdued economic growth, lack of liquidity in the system, uncertainty on the political front and a deteriorating security situation in the country. Investors were also taken aback by imposition of price floor for three and half months by SECP resulting in massive outflow of foreign portfolio investments from the equity market. The extended flooring of prices resulted in Pakistan being removed from MSCI Emerging Market Index in Dec 2008, though subsequently added to the MSCI Frontier Index in May 2009, and coupled with the global financial crisis, was responsible for net foreign selling of US\$ 445mn.

In terms of sectors, Power generation and E&P sector fared marginally better on the back of currency devaluation and higher realized gas prices. In contrast, banks slightly under performed amid investors concern on banking asset quality, concerns of higher NPLs

and slowing private sector credit off-take, while autos underperformed massively due to weak fundamentals caused by dwindling demand.

### Fund Performance

KSMF return has clearly outperformed its benchmark in all categories, especially in CY09 where it provided return of 46.79% on annualized basis, against benchmark return of 38.02%. Since inception the fund provided annualized return of -28.20% and -32.10% during FY09.

The AUM of the fund were PKR 484 million (NAV per unit: Rs 48.56 on June 30, 2008 and at the end of the period the AUM of the fund stood at PKR 299 million (NAV per unit: Rs 32.97).

### Significant Changes In Asset Allocation During The Period

Asset allocation of the Fund changes dynamically as per sector and market outlook. The Fund took exposure of 5.34% in Sukuks during the period.

### Distribution

No distribution was made during the year

### Unit Splits

There were no unit splits during the period.

### Significant Changes In The State Of Affairs

SECP decision of marking down TFC prices in a bid to improve trading volumes and liquidity saw debt instruments valuation and pricing at deep discounts from their fair values. This resulted in an unnecessary fall in NAV of funds holding sukuks and TFCs.

### Circumstances Materially Affecting The Interests Of Unitholders

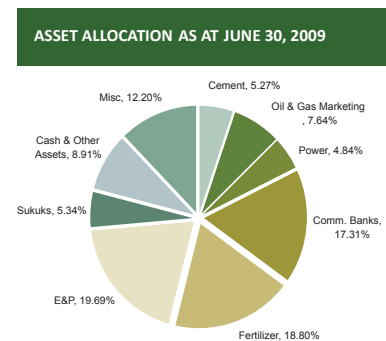
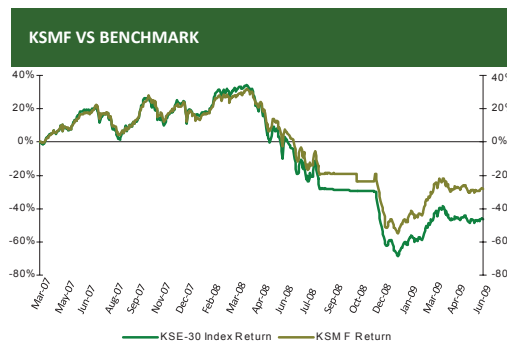
Any significant change in market rates of the instruments invested in and any significant change in the credit profile of the counterparties can materially affect the interests of unitholders.

### Breakdown of unit holdings by size

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

### Soft Commission

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



## Trustee Report To The Unit Holders Of KASB Stock Market Fund

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

KASB Stock Market Fund (the Fund), an open-end scheme was established under a trust deed dated January 09, 2007, executed between KASB Funds Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee.

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

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

During the first half of the year, the Fund entered into certain reverse repo transactions which were subsequently disallowed by the Securities and Exchange Commission of Pakistan upon intimation by the Trustee. These transactions were accordingly reversed and the Management Company has compensated the Fund for any losses incurred, accordingly there is no loss to the Fund or any of its unit holders as a result of these transactions.

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

Karachi, October 5, 2009

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

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 35 of the 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 Stock Market Fund ("the Fund"). The Fund being an open-end scheme doesn't have its own Board of Directors ("the Board"). The Management Company, which manages the affairs of the Fund, has applied the 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. On July 04, 2008, Mr. Muneer Kamal resigned from the Board of the Management Company. An appointment was within 30 days to fill this casual vacancy however the appointee withdrew his consent prior to seeking required approval for his appointment from the Securities and Exchange Commission of Pakistan ("the Commission") by the Management Company. Hence, Mr. Amir Zahoor Khan was appointed, within 30 days of withdrawal of consent by the appointee, to fill this casual vacancy subject to the approval of his appointment by the Commission. On October 25, 2008 the election of directors of the Management Company was held upon completion of the three years' term of the previous Board and the appointment of Mr. Amir Zahoor Khan, along with other directors, was approved by the Commission on his election as director. No casual vacancy has arisen on the Board since the election of directors.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by the all the directors and employees of the Management Company.
6. The Board has developed a vision/mission statement and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman of the Board. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
10. During the year, there was no change of Chief Financial Officer, Company Secretary and the Internal Auditors.
11. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit-holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for compliance.
17. The Management Company has outsourced the internal audit function to a firm of Chartered Accountants which is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors of the Fund or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions have been placed before the Audit Committee and approved by the Board with necessary justification for non arm's length transactions (if any) and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

25 August 2009  
Karachi

Naz Khan  
Chief Executive Officer

## Review Report To The Unit Holders Of KASB Stock Market Fund "The Fund" On Statement Of Compliance With The Best Practices Of Code Of Corporate Governance

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

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

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

Further, Sub-Regulation (xiii) of Listing Regulation no.35 (previously Regulation No.37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transaction which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2009.

25 August 2009  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

## Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **KASB Stock Market Fund ("the Fund")**, which comprise the statement of assets and liabilities as at 30 June 2009, and the income statement, cash flow statement, distribution statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

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

### Auditors' responsibility

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

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

### Opinion

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

### Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

25 August 2009  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Moneeza Usman Butt

## Statement of Assets and Liabilities

### As at June 30, 2009

	Note	2009 (Rupees in '000)	2008
<b>Assets</b>			
Bank balances	4	22,605	67,263
Receivable against sale of investments		4,198	144
Investments	5	272,619	415,012
Dividend and profit receivable	6	2,435	3,035
Advances, deposits and other receivables	7	3,821	3,763
Preliminary expenses and floatation costs	8	1,416	1,936
<b>Total assets</b>		<b>307,094</b>	491,153
<b>Liabilities</b>			
Payable against purchase of investments		3,457	3,784
Payable on redemption of units		1,465	1,061
Payable to KASB Funds Limited - Management Company	9	537	1,006
Payable to Central Depository Company of Pakistan Limited - Trustee	10	69	87
Payable to The Securities and Exchange Commission of Pakistan	11	303	423
Accrued expenses and other liabilities	12	1,986	850
<b>Total liabilities</b>		<b>7,817</b>	7,211
<b>Net assets</b>		<b>299,277</b>	483,942
<b>Unit holders' funds</b>		<b>299,277</b>	483,942
<b>(Number of units)</b>			
<b>Number of units in issue</b>	13	<b>9,078,238</b>	9,964,934
<b>(Rupees)</b>			
<b>Net asset value per unit</b>		<b>32.97</b>	48.56

The annexed notes 1 to 24 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Income Statement

### For the year ended June 30, 2009

	Note	2009	2008
<b>(Loss) / Income</b>		<b>(Rupees in '000)</b>	
Capital (loss) / gain on sale of investments		<b>(136,230)</b>	24,973
Dividend income		<b>14,067</b>	9,614
Income from sukuk certificates		<b>2,369</b>	-
Profit on bank deposits		<b>3,474</b>	4,121
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	5.4	<b>(742)</b>	(44,793)
<b>Total loss</b>		<b>(117,062)</b>	(6,085)
<b>Expenses</b>			
Remuneration of KASB Funds Limited - Management Company	9.1	<b>8,769</b>	12,680
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	<b>717</b>	846
Annual fee - The Securities and Exchange Commission of Pakistan	11.1	<b>303</b>	423
Transaction costs on securities		<b>3,878</b>	7,244
Settlement and bank charges		<b>205</b>	250
Legal and professional charges		<b>122</b>	166
Fees and subscription		<b>135</b>	135
Auditors' remuneration	14	<b>670</b>	574
Amortisation of preliminary expenses and floatation costs		<b>520</b>	521
Printing expenses		<b>140</b>	160
Provision against debt securities	5.5	<b>16,153</b>	-
Provision for doubtful income receivable	5.3.1	<b>1,075</b>	-
<b>Total expenses</b>		<b>32,687</b>	22,999
		<b>(149,749)</b>	(29,084)
Net realised element of income and capital gains included in prices of units issued less those in units redeemed		<b>8,831</b>	11,595
<b>Net loss for the year</b>		<b>(140,918)</b>	(17,489)
<b>Loss per unit</b>	15		

The annexed notes 1 to 24 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director



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

	Note	<b>2009</b> <b>(Rupees in '000)</b>	2008
Accumulated (loss) / income brought forward	16	<b>(14,306)</b>	35,019
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed- amounts representing unrealised capital gains		<b>263</b>	1,777
Net loss for the year		<b>(140,918)</b>	(17,489)
Final distribution: Nil (2008: Rs. 4.87 per unit; issue of bonus units on July 1, 2007)		-	(33,613)
		<b>(140,655)</b>	(49,325)
Accumulated loss carried forward		<b>(154,961)</b>	(14,306)

*The annexed notes 1 to 24 form an integral part of these financial statements.*

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

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

	Note	2009 (Rupees in '000)	2008
Net assets at beginning of the year		483,942	411,603
Issue of 2,956,597 units (2008: 4,737,337 units)		123,000	258,792
Issue of nil bonus units (2008: 613,704 bonus units)		-	33,613
Redemption of 3,843,293 units (2008: 2,288,066 units)		(157,916)	(125,884)
		(34,916)	166,521
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		(8,831)	(11,595)
- amount representing unrealised capital gains - transferred directly to Distribution Statement		(263)	(1,777)
		(9,094)	(13,372)
Realized gain on sale of investment classified as 'available for sale'	5.5	-	(31,486)
Issue of bonus units on July 1, 2007		-	(33,613)
Net (loss) / income for the year (excluding unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gain)		(3,946)	2,332
Capital (loss) / gain on sale of investments		(136,230)	24,973
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'		(742)	(44,793)
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed - amounts representing unrealised capital gains		263	1,777
Net assets as at end of the year		(140,655)	(15,711)
		299,277	483,942
		<b>(Rupees)</b>	
<b>Net asset value per unit as at beginning of the year</b>		48.56	54.77
<b>Net asset value per unit as at end of the year</b>		32.97	48.56

The annexed notes 1 to 24 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Cash Flow Statement

### For the year ended June 30,2009

	2009	2008
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	(140,918)	(17,489)
<b>Adjustments</b>		
Dividend income	(14,067)	(9,614)
Profit on bank deposits	(3,474)	(4,121)
Amortisation of preliminary expenses and floatation costs	520	521
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	742	44,793
Provision against debt securities	16,153	-
Net realised element of income and capital gains included in prices of units issued less those in units redeemed	(8,831)	(11,595)
	(149,875)	2,495
<b>Decrease / (increase) in assets</b>		
Receivable against sale of investments	(4,054)	15,824
Investments	125,498	(105,859)
Advances, deposits and other receivables	(58)	(2,663)
	121,386	(92,698)
<b>Increase / (decrease) in liabilities</b>		
Payable against purchase of investments	(327)	(1,761)
Payable to KASB Funds Limited - Management Company	(469)	(3,548)
Payable to Central Depository Company of Pakistan Limited - Trustee	(18)	9
Payable to The Securities and Exchange Commission of Pakistan	(120)	312
Accrued expenses and other liabilities	1,136	604
	202	(4,384)
	(28,287)	(94,587)
Dividend received	14,259	8,400
Profit on bank deposits received	3,882	3,803
<b>Net cash used in operating activities</b>	(10,146)	(82,384)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net (payments) / receipts from sale and redemption of units	(34,512)	133,969
Net (decrease) / increase in cash and cash equivalents during the year	(44,658)	51,585
Cash and cash equivalents at beginning of the year	67,263	15,678
Cash and cash equivalents at end of the year	22,605	67,263

The annexed notes 1 to 24 form an integral part of these financial statements.

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

## Notes To The Financial Statements For The Year Ended June 30, 2009

### 1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Stock Market 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 January 9, 2007 and was approved by The Securities and Exchange Commission of Pakistan (SECP) on February 23, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as Non-Banking Finance Company under the NBFC Rules issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Trade Centre, I.I. Chundrigar Road, Karachi, Pakistan. The JCR-VIS has assigned management quality rating of AM3+ to the Management Company.

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

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

The Fund seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities. The Fund may also invest a certain portion of its corpus in debt and money market securities in order to meet liquidity requirements from time to time.

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

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations 2007), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2007, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2007, the NBFC Regulations 2008 and the said directives shall prevail.

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

During the year, amendments to International Accounting Standards (IAS) 39- Financial instruments: Recognition and Measurement and IFRS 7-Financial Instruments: Disclosures- regarding reclassification of financial assets became effective from July 1, 2008. Further IAS 29 -Financial Reporting in

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

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

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after July 01, 2009 are either not relevant to operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

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

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

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

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

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

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

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

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

## Notes To The Financial Statements For The Year Ended June 30, 2009

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

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

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

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

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

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

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

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

### 2.4 Basis of measurement

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

### 2.5 Functional and presentation currency

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

### 2.6 Critical accounting estimates and judgments

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

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

#### *Investments stated at fair value*

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

#### *Other assets*

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

- b) *'Available-for-sale'*  
'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.
- c) *Loans and receivables*  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'. This includes receivable against sale of investments and other receivables and are carried at amortised cost using effective yield method, less impairment losses, if any.

## Notes To The Financial Statements For The Year Ended June 30, 2009

### d) *Financial liabilities*

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

### **Recognition**

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

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

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

### **Measurement**

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

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

### **Fair value measurement principles**

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

### **Basis of valuation of Sukuk Certificates**

The SECP vide its circular no. 1/2009 dated January 06, 2009 has changed the methodology for valuation of debt securities. Under the said directive, investment in sukuk certificates are valued on the basis of traded, thinly traded and non traded securities. The circular also specifies a criteria for application of discretionary discount to yield of any debt security calculated by Mutuals Fund Association of Pakistan (MUFAP) and contains criteria for the provisioning of non-performing debt securities. Accordingly, investment in sukuk certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular. Prior to the issuance of the said directive investment in sukuk certificates were valued as follows:

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

Had all the sukuk certificates been valued on the basis of rates notified by MUFAP, the net assets value of the Fund calculated during the period would have been different and consequently the number of units issued / redeemed during the period as well as element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was impracticable to do so.

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

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

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

### **Impairment**

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

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

### **Derecognition**

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

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

### **Offsetting of financial instruments**

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

### **3.2 Unit holders' fund**

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

### **3.3 Issue and redemption of units**

Units issued are recorded at the offer price, determined by the

## Notes To The Financial Statements For The Year Ended June 30, 2009

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

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

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

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

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

### 3.5 Preliminary expenses and floatation costs

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

### 3.6 Provisions

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

### 3.7 Net asset value per unit

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

### 3.8 Taxation

#### Current

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

#### Deferred

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

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

### 3.9 Revenue recognition

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

### 3.10 Expenses

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

### 3.11 Cash and cash equivalents

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

### 3.12 Other assets

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

### 3.13 Dividend distributions and appropriations

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

## 4. BANK BALANCES

	2009	2008
	(Rupees in '000)	
In current accounts	4	5
In deposit accounts	4.1 <u>22,601</u>	<u>67,258</u>
	<u>22,605</u>	<u>67,263</u>

- 4.1 These deposit accounts carry mark-up at the rate of 5% to 12.5% per annum (2008: 6% to 12.5% per annum).

## Notes To The Financial Statements For The Year Ended June 30, 2009

5. INVESTMENTS	2009 (Rupees in '000)	2008
<b>'At fair value through profit or loss- held for trading'</b> - Quoted equity securities	5.2 <b>256,619</b>	415,012
<b>'Available for sale'</b> - Fixed income and other debt securities	5.3 <b>16,000</b>	-
	<b>272,619</b>	415,012

5.1 The cost of the above investments as at June 30, 2009 amounted to Rs. 289.514 million (2008: Rs. 459.805 million).

### 5.2 Quoted equity securities- held for trading

Shares of listed companies - fully paid up ordinary shares of Rs. 10/- each unless otherwise stated

Name of the Investee Company	As at July 01, 2008	Purchases during the year	Bonus Issued during the year	Sales during the year	As at June 30, 2009	Market Value as at June 30, 2009	Market value as a percentage of total investments
	----- (Number of Shares) -----					(Rupees in '000)	
<b>Commercial Banks</b>							
Allied Bank Limited	-	811,100	-	307,900	503,200	18,920	6.94
Bank Alfalah Limited	277,500	1,527,900	70,200	1,875,600	-	-	-
BankIslami Pakistan Limited	-	254,000	-	254,000	-	-	-
Habib Bank Limited	39,150	51,300	-	90,450	-	-	-
MCB Bank Limited	5.2.1 112,600	1,033,900	14,200	948,900	211,800	32,835	12.04
NIB Bank Limited	-	1,050,500	-	1,050,500	-	-	-
National Bank of Pakistan	116,400	1,097,000	16,000	1,229,400	-	-	-
United Bank Limited	162,850	1,764,200	22,615	1,948,600	1,065	41	0.02
<b>Oil and Gas Exploration Companies</b>							
Oil & Gas Development Company Limited	5.2.1 342,200	1,293,900	-	1,215,100	421,000	33,107	12.14
Pakistan Oilfields Limited	5.2.1 58,000	664,600	12,200	557,800	177,000	25,824	9.47
Pakistan Petroleum Limited	102,000	586,600	9,700	698,300	-	-	-
<b>Oil and Gas Marketing Companies</b>							
Attock Petroleum Limited	5,000	-	-	5,000	-	-	-
Pakistan State Oil Company Limited	52,000	567,500	-	512,500	107,000	22,861	8.39
<b>Investment Banks/Companies/Securities</b>							
Arif Habib Securities Limited	67,500	1,765,000	16,250	1,648,750	200,000	5,528	2.03
Jahangir Siddiqui & Company Limited	40,894	250,402	80,048	371,288	56	1	0.0
<b>Power Generation and Distribution</b>							
Hub Power Company Limited	5.2.1 633,500	2,714,000	-	2,813,000	534,500	14,480	5.31
Kot Addu Power Company Limited	-	280,600	-	280,600	-	-	-
<b>Cement</b>							
D.G. Khan Cement Company Limited	136,500	1,575,900	-	1,712,400	-	-	-
Lucky Cement Limited	112,900	1,386,000	-	1,229,200	269,700	15,786	5.79
Lafarge Pakistan Cement Limited (formerly Pakistan Cement Company Limited)	164,000	-	-	164,000	-	-	-
<b>Textile Composite</b>							
Nishat Mills Limited	57,000	405,000	-	462,000	-	-	-
Azgard Nine Limited	-	130,000	-	130,000	-	-	-
<b>Insurance</b>							
Adamjee Insurance Company Limited	38,600	719,200	5,400	763,200	-	-	-
<b>Paper and Board</b>							
Packages Limited	-	179,400	-	156,200	23,200	3,643	1.34
<b>Refinery</b>							
Pakistan Refinery Limited	-	10,000	-	10,000	-	-	-
<b>Technology and Communication</b>							
Pakistan Telecommunication Company Limited 'A'	422,500	1,861,600	-	2,284,100	-	-	-
Eye Television Network Limited	182,000	275,500	-	316,500	141,000	4,054	1.49
<b>Fertilizer</b>							
Engro Chemicals Pakistan Limited	78,115	613,406	-	548,900	142,621	18,317	6.72
Fauji Fertilizer Company Limited	107,600	905,300	42,612	748,800	306,712	26,669	9.78
Fauji Fertilizer Bin Qasim Limited	273,000	1,313,000	-	949,000	637,000	11,269	4.13



## Notes To The Financial Statements For The Year Ended June 30,2009

Name of the Investee Company	As at July 01, 2008	Purchases during the year	Bonus Issued during the year	Sales during the year	As at June 30, 2009	Market Value as at June 30, 2009	Market value as a percentage of total investments
	----- Number of Shares -----					(Rupees in '000)	
<b>Chemicals</b>							
Colgate-Palmolive (Pakistan) Limited	4,200	5,800	1,100	8,800	2,300	644	0.24
Descon Oxychem Limited	-	895,098	-	895,098	-	-	-
ICI Pakistan Limited	42,800	76,200	-	119,000	-	-	-
Sitara Chemical Industries Limited	42,310	3,300	-	45,610	-	-	-
Nimir Resins Limited (Rs. 5 each)	-	868,000	-	868,000	-	-	-
<b>Engineering</b>							
Huffaz Seamless Pipe Industries Limited	101,140	84,600	12	185,752	-	-	-
International Industries Limited	21,700	-	-	21,700	-	-	-
<b>Synthetic and Rayon</b>							
Ibrahim Fibres Limited	122,000	419,500	-	190,000	351,500	10,478	3.84
<b>Miscellaneous</b>							
Pace (Pakistan) Limited	212,500	-	-	212,500	-	-	-
Ecopack Limited	451,500	3,606,500	-	2,061,000	1,997,000	12,162	4.46
Tri-Pack Films Limited	44,300	4,500	-	48,800	-	-	-
						<b>256,619</b>	

**5.2.1** Investments include quoted equity securities with market value as at June 30, 2009 aggregating to Rs. 40.620 million which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Fund's trades in terms of Circular No. 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

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

Name of the Investee Company	Profit rate %	As at July 01, 2008	Purchases during the year	Sales during the year	Redemption during the year	As at June 30, 2009	Carrying Value as at June 30, 2009	Carrying value as a percentage of total investments
		----- Number of Certificates -----					(Rupees in '000)	
New Allied Electronics Industries (Private) Limited - II	5.3.1	15.90	-	6,400	-	6,400	16,000	5.87
Sitara Chemical Industries Limited - III	-	-	5,200	5,200	-	-	-	-
						<b>16,000</b>		

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

On December 03, 2008, owing to financial difficulties, the borrower has defaulted on payment of mark-up amounting to Rs. 2.416 million. On February 11, 2009 and March 20, 2009 the Fund received partial payments amounting to Rs. 1.166 million and Rs. 0.62 million respectively against the outstanding mark-up. The Fund has made provision against mark-up receivable amounting to Rs. 1.075 and has suspended further accruals of mark-up amounting to Rs. 2.762 million till June 30, 2009. The investment has been classified as non-performing debt securities by MUFAP and credit rating of investment has been down graded in view of default. The investment has been marked down in light of Circular 1 2009 issued by SECP specifying provision criteria for non performing debt securities. The investment has been further marked down by Rs. 6.4 million in accordance with the provisioning policy approved by the Board of Directors.

The mark-down amounting to Rs. 16.153 million has been recognized in the Income Statement as 'provision against debt securities'. Management is continuously monitoring exposure to this investment and is making necessary efforts for the recovery of the amount.

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

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

	2009	2008	
	(Rupees in '000)		
Fair value of investments	5.2	256,619	415,012
Less: Cost of investments		(257,361)	(459,805)
		(742)	(44,793)
Less: Net unrealised diminution in fair value of investments at the beginning of the year		(44,793)	(1,083)
Add: Realised on disposal during the year		44,793	1,083
		(742)	(44,793)

## Notes To The Financial Statements For The Year Ended June 30, 2009

	2009	2008
	(Rupees in '000)	
<b>5.5 Unrealised diminution in fair value of investments classified as 'available for sale'</b>		
Carrying value of investments	5.3 <b>16,000</b>	-
Less: Cost of investments	<b>(32,153)</b>	-
	<b>(16,153)</b>	-
Less: Unrealised diminution in fair value of investments at the beginning of the year	<b>-</b>	(31,486)
Add: Realised on disposal during the year	<b>-</b>	31,486
Add: Provision against debt securities	<b>16,153</b>	-
	<b>16,153</b>	-
	<b>-</b>	-
<b>6. DIVIDEND AND PROFIT RECEIVABLE</b>		
Dividend receivable	<b>2,216</b>	2,408
Profit accrued on sukuk certificates	<b>3,837</b>	-
Profit accrued on bank deposits	<b>219</b>	627
Less: Provision for doubtful income receivable	5.3.1 <b>(3,837)</b>	-
	<b>2,435</b>	3,035
<b>7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES</b>		
Advance tax	<b>153</b>	152
Deposit with National Clearing Company of Pakistan Limited	<b>3,500</b>	3,500
Deposit with Central Depository Company of Pakistan Limited	<b>100</b>	100
Receivable from KASB Liquid Fund	<b>68</b>	-
Other receivable	<b>-</b>	11
	<b>3,821</b>	3,763
<b>8. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>		
Preliminary expenses and floatation costs	<b>1,936</b>	2,457
Amortisation during the year	<b>(520)</b>	(521)
Balance as at June 30	<b>1,416</b>	1,936
<b>9. PAYABLE TO KASB FUNDS LIMITED – MANAGEMENT COMPANY</b>		
Management fee payable	9.1 <b>536</b>	985
Sales load payable	<b>1</b>	21
	<b>537</b>	1,006

**9.1** Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and there after, of an amount equal to two percent of such assets of the Fund. During the year, remuneration of management company is charged at the rate of 3 percent per annum of the average annual net assets of the Fund for the period from July 01, 2008 to September 19, 2008 and at the rate of 2.75 percent per annum of the average annual net assets of the Fund for the period from September 20, 2008 and onwards.

**9.2** In accordance with Clause 6.2.1.2 of the offering document, Management Company has issued type 'B' Units to core investors. The Management Company offers a special rebate on the management fee to type 'B' units, (currently rebate is applicable at one-third of the management fee applicable to type 'B' units). However, difference between normal rates and reduced rates is passed on to type 'B' unit holders by way of issuance of type 'A' additional units, as a result the management fee charged to Income Statement remains at the rates specified in note 9.1. Total 48,762 additional units were issued during the year to type 'B' unit holders at a value of Rs. 1.647 million. (52,081 additional units were issued during the year ended June 30, 2008 at a value of Rs. 2.835 million.)

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

Trustee fee	10.1 <b>58</b>	79
CDS charges	<b>11</b>	8
	<b>69</b>	87

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

## Notes To The Financial Statements For The Year Ended June 30,2009

		2009 (Rupees in '000)	2008
<b>11. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
	11.1	<u>303</u>	<u>423</u>

11.1 As per Schedule II of the NBFC Regulations 2008, equity funds are required to pay an annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Scheme. Uptil November 20, 2008 annual fee is accrued at the rate of one tenth of one percent under the provisions of NBFC Regulations 2007.

### 12. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	492	290
Legal and professional charges payable	162	140
Payable to KASB Islamic Income Fund	612	-
Payable to KASB Liquid Fund	-	355
Others	<u>720</u>	<u>65</u>
	<u>1,986</u>	<u>850</u>

### 13. NUMBER OF UNITS IN ISSUE

		2009	2008	2009	2008
				(Rupees in '000)	
The units in issue as at June 30 in each class are:					
Type 'A' Units	13.1	3,878,238	4,764,934	127,852	231,407
Type 'B' Units	13.2	<u>5,200,000</u>	<u>5,200,000</u>	<u>171,425</u>	<u>252,535</u>
		<u>9,078,238</u>	<u>9,964,934</u>	<u>299,277</u>	<u>483,942</u>

13.1 Type 'A' units are meant for all types of investors, except for core investors.

13.2 Type 'B' units are meant for the core investors (refer note 9.2).

### 14. AUDITORS' REMUNERATION

Audit fee	187	150
Other certifications and services	449	365
Out of pocket expenses	<u>34</u>	<u>59</u>
	<u>670</u>	<u>574</u>

### 15. LOSS PER UNIT

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

### 16. ACCUMULATED (LOSS) / INCOME BROUGHT FORWARD / CARRIED FORWARD

As per Schedule V to the NBFC Regulations 2008, accumulate (loss) / income brought forward / carried forward needs to be bifurcated in to realized and unrealized gains. However, it has not been bifurcated as it is impracticable to do so.

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

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

Limited (trustee of the Fund) and directors and key management personnel of the Management Company.

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

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

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

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

#### 17.1 Transactions with connected persons / related parties can be summarised as follows:

		2009 (Rupees in '000)	2008
<b>KASB Funds Limited - Management Company</b>			
Remuneration	9.1	<u>8,769</u>	<u>12,680</u>
Sales load		<u>46</u>	<u>339</u>
Investment in the Fund: Nil units (2008: 89,718 units)		<u>-</u>	<u>5,000</u>

## Notes To The Financial Statements For The Year Ended June 30, 2009

		2009 (Rupees in '000)	2008
<b>KASB Funds Limited Employees' Provident Fund</b>			
Investment in the Fund: Nil units (2008: 5,891 units)		-	300
Redemption from the Fund: 5,891 units (2008: Nil units)		<u>159</u>	<u>-</u>
<b>KASB Securities Limited - Brokerage house</b>			
Brokerage	17.3	<u>416</u>	<u>745</u>
Transfer in the Fund: Nil units (2008: 2,418,500 units)		-	<u>142,256</u>
Transfer out from the Fund: Nil units (2008: 2,418,500 units)		-	<u>142,256</u>
Redemption from the Fund: 25,718 units (2008: 160,485 units)		<u>950</u>	<u>8,835</u>
Bonus units issued: Nil units (2008: 160,485 units)		-	<u>8,790</u>
Additional units issued: 16,879 units (2008: 18,028 units)		<u>570</u>	<u>981</u>
<b>KASB Liquid Fund</b>			
Purchase of sukuk certificates		<u>60,068</u>	-
Sale of sukuk certificates		<u>24,238</u>	-
<b>KASB Bank Limited</b>			
Profit accrued		<u>3,471</u>	<u>3,160</u>
Bank charges		<u>3</u>	<u>13</u>
Transfer in the Fund: Nil units (2008: 2,418,500 units)		-	<u>142,256</u>
Transfer out from the Fund: Nil units (2008: 2,418,500 units)		-	<u>142,256</u>
Bonus units issued: Nil units (2008: 196,149 units)		-	<u>10,743</u>
Additional units issued: 20,630 units (2008: 22,034 units)		<u>697</u>	<u>1,120</u>
<b>KASB Securities Limited Employees' Provident Fund</b>			
Investment in the Fund: Nil units (2008: 77,089 units)		-	<u>4,300</u>
<b>Central Depository Company of Pakistan Limited-Trustee</b>			
Remuneration	10.1	<u>717</u>	<u>846</u>
CDS charges		<u>113</u>	<u>160</u>
<b>Directors and officers of the Management Company</b>			
Investment in the Fund: 20,663 units (2008: 32,795 units)		<u>686</u>	<u>1,840</u>
Bonus units issued: Nil units (2008: 1,155 units)		-	<u>63</u>
Conversion in the Fund: 132,508 units (2008: 156,134 units)		<u>5,102</u>	<u>8,301</u>
Conversion out of the Fund: 122,911 units (2008: 101,732 units)		<u>4,666</u>	<u>5,603</u>
Redemption from the Fund: 47,059 units (2008: 44,238 units)		<u>1,570</u>	<u>2,335</u>
<b>17.2 Balances with connected persons / related parties can be summarised as follows:</b>			
<b>KASB Funds Limited - Management Company</b>			
Payable to the Management Company		<u>537</u>	<u>1,006</u>
Units held: 89,718 units (2008: 89,718 units)		<u>2,958</u>	<u>4,357</u>
<b>KASB Funds Limited Employees' Provident Fund</b>			
Units held: Nil units (2008: 5,891 units)		-	<u>286</u>
<b>KASB Liquid Fund</b>			
Payable to KASB Liquid Fund		-	<u>355</u>
Receivable from KASB Liquid Fund		<u>68</u>	-
<b>KASB Islamic Income Fund</b>			
Payable to KASB Islamic Income Fund		<u>612</u>	-
<b>KASB Securities Limited - Brokerage house</b>			
Brokerage payable		<u>14</u>	-
Units held: 1,814,071 units (2008: 1,822,910 units)		<u>59,810</u>	<u>88,521</u>
<b>KASB Securities Limited Employees' Provident Fund</b>			
Units held: 77,089 units (2008: 77,089 units)		<u>2,542</u>	<u>3,743</u>
<b>KASB Bank Limited</b>			
Profit receivable on bank deposits	17.4	<u>220</u>	<u>627</u>
Bank balance		<u>22,537</u>	<u>67,163</u>
Units held: 2,444,780 units (2008: 2,424,150 units)		<u>80,604</u>	<u>117,717</u>
<b>Central Depository Company of Pakistan Limited-Trustee</b>			
Payable to the Central Depository Company of Pakistan Limited-Trustee		<u>69</u>	<u>87</u>
Security Deposit		<u>100</u>	<u>100</u>

## Notes To The Financial Statements For The Year Ended June 30, 2009

### Directors and officers of the Management Company

Units held: 41,819 units (2008: 57,104 units)

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

**17.4** The rate of return on this deposit account is 12.5% (2008:12.5%) per annum.

### 18. RISK MANAGEMENT

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

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

The Fund seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities. The Fund may also invest a certain portion of its corpus in debt and money market securities in order to meet liquidity requirements from time to time.

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

- Market risk
- Credit risk
- Liquidity risk

#### Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in

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

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

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

#### Currency risk

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

#### Interest rate risk

Interest rate risk arises from the possibility that changes in prevailing level of interest rates will affect future cash flows or the fair values of financial instruments. The Fund holds floating rate sukuk certificates that expose the Fund to cash flow interest rate risk.

The Fund has suspended the accrual of mark-up on NAEIL's exposure in view of default as detailed in note 5.3.1. Accordingly no sensitivity analysis has been prepared as change in KIBOR does not have any effect on amount recognised in the Statement of Assets and Liabilities.

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

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

2009  
(Rupees in '000)  
**1,379**

2008  
**2,773**

	Effective rate of mark-up/return (%)	June 30, 2009				Total
		Exposed to MROR risk			Not exposed to MROR risk	
		Upto three months	More than three months and upto one year	More than one year		
(Rupees in '000)						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	5 - 12.5	22,601	-	-	4	22,605
Receivable against sale of investments		-	-	-	4,198	4,198
Investments		-	-	-	256,619	256,619
Dividend and profit receivable		-	-	-	2,435	2,435
Deposits and other receivables		-	-	-	3,668	3,668
		<b>22,601</b>	-	-	<b>266,924</b>	<b>289,525</b>
<b>Financial liabilities</b>						
Payable against purchase of investments		-	-	-	3,457	3,457
Payable on redemption of units		-	-	-	1,465	1,465
Payable to KASB Funds Limited - Management Company		-	-	-	537	537
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	69	69
Accrued expenses and other liabilities		-	-	-	1,986	1,986
		-	-	-	7,514	7,514
<b>On-balance sheet gap 2009</b>		<b>22,601</b>	-	-	<b>259,410</b>	<b>282,011</b>

## Notes To The Financial Statements For The Year Ended June 30, 2009

	June 30, 2008					
	Effective rate of mark-up/return (%)	Exposed to MROR risk			Not exposed to MROR risk	Total
		Upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	6 -12.5	67,258	-	-	5	67,263
Receivable against sale of investments		-	-	-	144	144
Investments		-	-	-	415,012	415,012
Dividend and profit receivable		-	-	-	3,035	3,035
Deposits and other receivable		-	-	-	3,611	3,611
		67,258	-	-	421,807	489,065
<b>Financial liabilities</b>						
Payable on redemption of units		-	-	-	3,784	3,784
Payable on redemption of units		-	-	-	1,061	1,061
Payable to KASB Funds Limited - Management Company		-	-	-	1,006	1,006
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	87	87
Accrued expenses and other liabilities		-	-	-	850	850
		-	-	-	6,788	6,788
<b>On-balance sheet gap 2008</b>		<u>67,258</u>	<u>-</u>	<u>-</u>	<u>415,019</u>	<u>482,277</u>

### Other price risk

Other price risk includes equity price risks which is the risk of changes in the fair value of equity securities as a result of changes in the levels of KSE 30 Index and the value of individual shares. The equity pricerisk exposure arises from investments in equity securities held by the Fund for which prices in the future are uncertain. The Fund policy is to manage price risk through diversification and selection of securities with inspecified limits set by internal risk management guidelines.

The Fund manages the risk by limiting exposure to any single investee company and to a particular sectoras per the risk management parameters.

A summary analysis of investments by industry sector, the percentage in relation to Fund's total investmentas at June 30, 2009 is presented in Note 5.2.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at June 30. The analysis is based on the assumption that KSE 30 index increased by 5% (2008:5%) and decreased by 5% (2008: 5%), with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 30 index, having regard to the historical volatility of index of past two years (2008: one year).

The impact below arises from the reasonable possible change in the fair value of listed equity securities:

	2009	2008
	(Rupees in '000)	
<i>Effect on net assets attributable to unit holders of an increase in the KSE 30 index</i>	<u>8,982</u>	<u>15,355</u>
Effect on investments		
Effect on income statement	<u>8,982</u>	<u>15,355</u>
<i>Effect on net assets attributable to unit holders of a decrease in the KSE 30 index</i>		
Effect on investments	<u>(8,982)</u>	<u>(15,355)</u>
Effect on income statement	<u>(8,982)</u>	<u>(15,355)</u>

There is no sensitivity effect on 'unit holders' funds' as the Fund has no quoted equity securities classified as 'available for sale'.

The composition of the Fund's investment portfolio and the correlation thereof to the KSE 30 index, is expected to change over the time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 30 index.

### Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfil their obligations. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure

of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

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

### Credit risk management

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

## Notes To The Financial Statements For The Year Ended June 30, 2009

Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund only uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery. Further in securities under repurchase/ resale agreements the Fund receives securities as collateral. The Fund kept surplus liquidity with banks having credit rating from A to AAA.

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

	<b>2009</b>	<b>2008</b>
	<b>(Rupees in '000)</b>	
Bank balances	<b>22,605</b>	67,263
Receivable against sale of investments	<b>4,198</b>	144
Investments in fixed income and other debt securities	<b>16,000</b>	-
Dividend and profit receivable	<b>2,435</b>	3,035
Deposits and other receivables	<b>3,821</b>	3,763
	<b><u>49,059</u></b>	<b><u>74,205</u></b>

None of the above financial assets were considered to be past due or impaired in 2009 and 2008 except for exposures as provided in note 5.3.1. The management company follows Circular 1 of 2009 containing criteria for provisioning of non-performing debt securities issued by SECP for the purpose of making provision against non-performing debt securities. Further management company has devised provisioning policy duly approved by the Board of Directors of the management company to make provision over and above required by the said circular against non performing exposures. For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated.

### *Concentration of credit risk*

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

### **Liquidity risk**

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

The Fund's policy is to manage this risk by keeping adequate assets as cash and cash equivalents. Further the Fund invests majority of its assets in investments that are traded in an active market and can be disposed. The Fund invests primarily in marketable securities and other financial instruments, which

under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement.

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

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

Due to the introduction of a 'floor' on the equity prices at the stock exchanges and to protect the interest of the unit holders, SECP issued circular No. 23 of 2008 dated October 07, 2008 directing all asset management companies managing open end schemes with direct exposure to equity securities to suspend pricing, issuance and redemption of units till third business day after the floor is removed at the stock exchanges. The Management Company, in compliance with the said circular, suspended the pricing, issuance and redemption of units of the Fund with effect from October 07, 2008 and removed suspension on the third business day after the floor was removed i.e. December 18, 2008. Apart from this, no suspension of redemption was made by the Fund during the year.

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

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

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

## Notes To The Financial Statements For The Year Ended June 30, 2009

	June 30, 2009			
	Up to three months	More than three months and upto one year	More than one year	Total
	(Rupees in '000)			
Payable against purchase of investments	3,457	-	-	3,457
Payable on redemption of units	1,465	-	-	1,465
Payable to KASB Funds Limited - Management Company	537	-	-	537
Payable to Central Depository Company of Pakistan Limited - Trustee	69	-	-	69
Payable to The Securities and Exchange Commission of Pakistan	303	-	-	303
Accrued expenses and other liabilities	1,986	-	-	1,986
	<u>7,817</u>	<u>-</u>	<u>-</u>	<u>7,817</u>
	June 30, 2008			
	Up to three months	More than three months and upto one year	More than one year	Total
	(Rupees in '000)			
Payable against purchase of investments	3,784	-	-	3,784
Payable on redemption of units	1,061	-	-	1,061
Payable to KASB Funds Limited - Management Company	1,006	-	-	1,006
Payable to Central Depository Company of Pakistan Limited - Trustee	87	-	-	87
Payable to The Securities and Exchange Commission of Pakistan	423	-	-	423
Accrued expenses and other liabilities	850	-	-	850
	<u>7,211</u>	<u>-</u>	<u>-</u>	<u>7,211</u>

Units of the Fund are redeemable on demand at the holder's option. However, holders of these units typically retain them for the medium to long term.

### Unit Holders' Fund risk management

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

The Fund's objective for managing Unit holders' Fund are to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity

related securities. The Fund may also invest a certain portion of its corpus in debt and money market securities in order to meet liquidity requirements from time to time.

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### 20. PATTERN OF UNIT HOLDING

Unit holding pattern of the fund as at June 30 is as follows:

Category	Number of unit holders		Investment amount		Percentage of total investment	
	2009 (Numbers)	2008	2009 (Rupees in '000)	2008	2009 (%)	2008
Individuals	108	140	22,379	65,861	7.48	13.61
Associated companies	4	5	145,898	214,623	48.75	44.35
Directors	1	2	562	2,438	0.19	0.50
Bank / Financial Institution	2	3	72,697	112,144	24.29	23.17
Insurance Companies	-	-	-	-	-	-
Non Banking Finance Companies	-	-	-	-	-	-
Retirement Funds	10	9	57,741	84,077	19.29	17.37
Public Limited Companies	-	-	-	-	-	-
Others	-	1	-	4,799	-	0.99
<b>Total</b>	<u>125</u>	<u>160</u>	<u>299,277</u>	<u>483,942</u>	<u>100</u>	<u>100</u>



## Notes To The Financial Statements For The Year Ended June 30,2009

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

<b>Broker Name</b>	<b>2009 (percentage)</b>
KASB Securities Limited	<b>11.69%</b>
Foundation Securities (Private) Limited	<b>11.22%</b>
Live Securities (Private) Limited	<b>11.15%</b>
Elixir Securities Pakistan (Private) Limited	<b>9.47%</b>
Atlas Capital Markets (Private) Limited	<b>8.39%</b>
Invest Capital Securities (Private) Limited	<b>7.80%</b>
Fortune Securities Limited	<b>6.35%</b>
AKD Securities Limited	<b>6.03%</b>
Alfalah Securities (Private) Limited	<b>5.45%</b>
JS Global Capital Limited	<b>5.44%</b>

<b>Broker Name</b>	<b>2008 (percentage)</b>
Arif Habib Limited	10%
KASB Securities Limited	9%
Atlas Capital Markets (Private) Limited	9%
AKD Securities Limited	9%
Alfalah Securities (Private) Limited	9%
Foundation Securities (Private) Limited	8%
Fortune Securities Limited	8%
Invest Capital and Securities (Private) Limited	8%
Live Securities (Private) Limited	7%
First Capital Equities Limited	7%

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

<b>Name of the Person</b>	<b>Designation</b>	<b>Meetings</b>		
		<b>Total</b>	<b>Attended</b>	<b>Leave granted</b>
Mr. Robert John Richard Owen	Chairman	8	8	-
Mr. Amir Zahoor khan	Director*	5	5	-
Mr. Farid Arshad Masood	Director	8	7	1
Ms. Naz Khan	Chief Executive & Director	8	8	-
Mr. Syed Muhammad Rehmanullah	Director	8	8	-
Mr. Muneer Kamal	Director**	1	-	1
Mr. Muhammad Imran Khalil	Chief Financial Officer	8	8	-
Mr. Irfan Saleem Awan	Company Secretary	8	8	-

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

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

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

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

### 23. DETAILS OF MEMBERS OF INVESTMENT COMMITTEE

<b>Name</b>	<b>Designation</b>	<b>Qualification</b>	<b>Experience (Years)</b>
Naz Khan	Chief Executive Officer	B.A (USA)	16
Muhammad Faisal Potrik	Head of Fund Management	MBA	09
Khurram Bashir	Fund Manager	M Sc.(Econ & Finance)	04
Irfan Saleem Awan	Head of Risk Management & Compliance and Company Secretary	ACA	10

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

KASB Balanced Fund under the management of KASB Funds Limited.

### 24. DATE OF AUTHORISATION FOR ISSUE

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

For KASB Funds Limited  
(Management Company)

Chief Executive

Director

