

REPORT

for the Year Ended June 30, 2010

Report

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) 3263 9188

URL: www.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman

Ms. Naz Khan - Chief Executive

Mr. Syed Muhammad Rehmanullah

Mr. Muzaffar Ali Shah Bukhari

Mr. Masood Karim Sheikh

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Muhammad Imran Khalil

Audit Committee

Mr. Masood Karim Sheikh - Chairman

Mr. Robert John Richard Owen

Mr. Syed Muhammad Rehmanullah

TrusteeCentral Depository Company of Pakistan Limited, CDC House,
99-B, Block 'B', SMCHS, Main Shakra-e-Faisal, Karachi**Fund Rating**

4 star by PACRA

(February 2010)

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

Bawaneey & 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 2010)

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 the year ended June 30, 2010

The Board of Directors of KASB Funds Limited ("KFL" or "the Company"), the Management Company of KASB Stock Market Fund ("KSMF" or "the Fund"), is pleased to present the fourth Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2010.

Financial Highlights

	FY 2010	FY 2009	Increase / (Decrease) (%)
Net Income / (loss) (Rs. in Million)	74.29	(140.92)	152.72
Net Assets as at June 30 (Rs. in Million)	217.85	299.28	(27.21)
NAV per Unit as on June 30 (Rs.) *	36.53	32.97	10.80
Return (%)	10.80	(32.10)	133.64

* Par value of each unit is Rs. 50.

Economic Environment

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD16.76bn), robust workers' remittances of over USD 8 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy and water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity

Interest rates in the economy continue to remain firm as the central bank strictly followed a tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

Capital Market

FY10 saw the equity market rise significantly as the KSE-30 index appreciated by 26.22% during the period under review. Net Foreign Portfolio Investment of USD 569 million has been the primary driver behind this bull run as abundant global liquidity has seen money flowing to all emerging and frontier markets. Substantial progress on political issues during the year, particularly the passage of the 18th amendment unanimously by the Senate and National Assembly, has been instrumental in our view in wooing foreign investors who have chosen to diversify their investments to Pakistan, given cheap valuations as compared to the region. Inclusion of Pakistan in the MSCI Frontiers Market Index, Moody's maintaining Pakistan's credit rating at B3 as well as regular release of funds by IMF under the standby agreement has further provided impetus to foreign portfolio investors, notwithstanding the fact that KSE-100 failed to garner enough confidence for upgrade to MSCI Emerging Market Index. However, Foreign Direct Investment (FDI), which is longer term and generally aids in building infrastructure and contributing to economic growth remains elusive.

The equity market has nonetheless witnessed a bearish streak over the last quarter due to concerns over imposition of the Capital Gains Tax. Local retail investors have chosen to remain on the sidelines until modalities on the mode of implementation becomes clearer. Furthermore, volumes have dried up of late due to absence of a leverage product in the market.

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. Liquidity is an important consideration in the stock selection process as well and illiquid but fundamentally undervalued stocks are kept at a minimum. For the outgoing fiscal year, banking, fertilizer and oil and gas sectors remained in favour with the fund as they offered most value as well as growth opportunities.

Fund Performance

KSMF has earned a return of 10.80% for FY10 as against a benchmark return of 26.22% of the KSE-30 Index. The under-performance has been due largely to the complete mark down of a Sukuk held in the fund due to credit concerns on the issuer. There are no exposures to any debt instruments now and there are no expectations of investing in any new debt instrument in the fund for the future. The Net Asset Value per unit of the Fund at the close of the period stood at Rs. 36.53. The net income for the year ended June 30, 2010 was Rs. 74.29 million

Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 11.50 per unit to the unit holders of the Fund for the year ended June 30, 2010.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the financial year ended June 30, 2010, as reduced by capital gains whether realized or unrealized, therefore, its income will not be subject to income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Sale and redemption of units

The fund size of KSMF was Rs. 299.28 million on June 30, 2009 which decreased by 27.21% by the end of the financial year to close at Rs. 217.85 million on June 30, 2010. During the year, units worth Rs. 76.86 million were issued and units with a value of Rs. 205.01 million were redeemed. As on June 30, 2010, the total number of outstanding units was 5,963,905 with a value of Rs. 217.85 million.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2010

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 except for the change in accounting policy as discussed in note 2.2 of the financial statements, and accounting estimates are based on reasonable and prudent judgments.
- Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts about the Fund's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- Key operating and financial data is enclosed.
- The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2010 is disclosed in note 23 of the financial statements.

The trades (if any) 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	125,684	107,239
2.	Mr. Muhammad Imran Khalil	CFO & Company Secretary	512	Nil

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2010, banks and financial institutions held 72.80% out of the total units; individuals held 12.76% units and 14.44% units were held by retirement funds. Detailed pattern is also annexed.

Future Outlook

The country remains on the path of economic stabilization with an improvement on a number of key economic indicators. Inflationary pressures in the economy continue to prevail constraining the central bank to use monetary policy to stimulate economic growth. Fiscal deficit continues to remain a concern with massive government borrowing crowding out the private sector. Impact of the vast devastation caused by the recent floods remains to be quantified and is likely to have a negative impact on the fiscal deficit as well as the economy for at least a couple of years. The trend of global commodity prices and external bi/multilateral inflows will remain critical for the direction of the country's economy.

As the modalities of Capital Gains Tax become clearer amongst investors and the fear of the unknown resides, market volumes are expected to pick up in the next fiscal year. Until volumes pick up, directional movement is likely to be subdued and we are likely to see a very range bound market for the upcoming quarter as investors adjust to this new tax regime. Potential downside risks for the market include a rise in interest rates due to a spike in inflation, negative developments on the pending IMF tranche or a substantial economic impact due to the recent floods.

Auditors

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadli & Co. – Chartered Accountants as auditors of KASB Stock Market Fund for the financial year ending June 30, 2011. The Board has approved the appointment.

Acknowledgement

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

For and on behalf of the Board

 August 27, 2010
Karachi

 Naz Khan
Chief Executive

DETAILS OF PATTERN OF HOLDING (UNITS)

As at June 30, 2010

	Units held	Units held (%)
Associated companies		
KASB Bank Limited	2,465,022	41.33
KASB Securities Limited	1,830,633	30.70
KASB Funds Limited	44,868	0.75
KASB Securities Limited Employees' Provident Fund	77,089	1.29
Directors & Chief Executive		
<i>Chief Executive</i>		
Ms.Naz Khan	35,478	0.59
Spouse and Minor Children of Directors & CEO		
Ms.Naseem Chohan	2,296	0.04
Executives	512	0.01
Banks & Financial Institutions	885	0.02
Individuals	722,797	12.12
Retirement Funds	784,325	13.15
Total	5,963,905	100.00

PRFORMANCE TABLE

	2010	2009	2008
Total net asset value as at June 30 (Rs. '000)	217,846	299,277	483,942
Net asset value per unit as at June 30 (Rs.)	36.53	32.97	48.56
Selling price for units as at June 30 (Rs.)	37.47	33.82	49.81
Repurchase price for units as at June 30 (Rs.)	36.53	32.97	48.56
Final dividend distribution per unit (Rs.)	11.50	-	-
Date of final distribution	July 3, 2010	-	-
Highest selling price per unit (Rs.)	44.53	49.60	62.08
Highest repurchase price per unit (Rs.)	43.41	48.36	60.52
Lowest selling price per unit (Rs.)	34.25	21.25	45.74
Lowest repurchase price per unit (Rs.)	33.39	20.71	44.59
Return (%)	10.80	-32.10	-10.41

Return since inception is -20.44%

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

Type & Category of Fund

Open-end equity market

Inception Date

March 22, 2007

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.

Accomplishment of objective

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

Benchmark

KSE 30 Index

	KSMF Return (%)	Benchmark return (%)
Since inception	-20.44	-32.49
FY 2010	10.80	26.22
CY 2010	-7.24	-2.98
For June 2010	1.61	3.39

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.

Asset Allocation	June 30, 2010 (%)	June 30, 2009 (%)
General Industrials	5.66	5.28
Oil & Gas	26.14	27.33
Power	5.71	4.84
Comm. Banks	18.23	17.31
Personal Goods	11.45	5.57
Chemical	9.93	19.01
Sukuks	-	5.34
Non-Life Insurance	7.53	-
Cash & Other Assets	9.23	8.91
Misc. Equity	6.12	12.20

Significant changes in asset allocation during the period

Asset allocation of the Fund changes dynamically as per sector and market outlook. The exposure in Sukuk taken last year was reduced from 5.34% to nil, while Cash & Other Asset allocation remained largely unchanged. (Please insert explanation if required).

Fund Performance

KSMF return has outperformed its benchmark since inception. In FY10, it provided a return of 10.80%, lower than its benchmark. Returns on the fund remained on the lower side as compared to the index due to complete marking down of its investment in the Sukuk.

The AUM of the fund were PKR 299 million (NAV per unit: Rs 32.97 on June 30, 2009 and at the end of the period the AUM of the fund stood at PKR 218 million (NAV per unit: Rs 36.53).

ANNUAL FUND MANAGER'S REPORT

Review of the market(s) invested in during the period

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD16.76bn), robust workers' remittances of over USD 8 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy & water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity

Interest rates in the economy continue to remain firm as the central bank strictly follows tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

FY10 saw the equity market rise significantly as the KSE-30 index appreciated by 26.22% during the period under review. Net Foreign Portfolio Investment of USD 569 million has been the primary driver behind this bull run as abundant global liquidity has seen money flowing to all emerging and frontier markets. Substantial progress on political issues during the year, particularly the passage of the 18th amendment unanimously by the Senate and National Assembly, has been instrumental in our view in wooing foreign investors who have chosen to diversify their investments to Pakistan, given cheap valuations as compared to the region. Inclusion of Pakistan in the MSCI Frontiers Market Index, Moody's maintaining Pakistan's credit rating at B3 as well as regular release of funds by IMF under the standby agreement has further provided impetus to foreign portfolio investors, notwithstanding the fact that KSE-100 failed to garner enough confidence for upgrade to MSCI Emerging Market Index. However, Foreign Direct Investment (FDI), which is longer term and generally aids in building infrastructure and contributing to economic growth remains elusive.

The equity market has nonetheless witnessed a bearish streak over the last quarter due to concerns over imposition of the Capital Gains Tax. Local retail investors have chosen to remain on the sidelines until modalities on the mode of implementation becomes clearer. Furthermore, volumes have dried up of late due to absence of a leverage product in the market.

Fund performance by market(s) and by instruments

For details, please refer to the full yearly accounts.

Distribution

The fund distributed Rs 11.50 as final dividend for FY10

Date of Distribution	Amount of Distribution (PKR)	NAV (PKR)	Ex-NAV of Fund (PKR)
July 03, 2010	11.50	36.53	25.03

Significant changes in the state of affairs

Changes in market rates of Sukuks had return implications on the fund. No other significant change in affairs was witnessed.

Breakdown of unit holdings by size

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

Unit Splits

There were no unit splits during the period.

Circumstances materially affecting the interests of the unit holders

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 unit holders.

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

The KASB Stock Market Fund (the Fund), an open-end fund 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, 2010 in accordance with the provisions of the following:

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

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

Karachi, September 22, 2010

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2010

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:

- 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.
- 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.
- 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 NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- On February 12, 2010, Mr. Amir Zahoor Khan resigned from the Board of the Management Company. Mr. Muzaffar Ali Shah Bukhari was appointed in his place to duly fill the vacancy. Further, on February 19, 2010 Mr. Farid Arshad Masood resigned from the Board of the Management Company and the Board appointed Mr. Masood Karim Sheikh in his place. However, application for appointment of Mr. Masood Karim Sheikh as Director on Board of the Management Company has been filed with the Securities and Exchange Commission of Pakistan and is currently under process.
- The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Management Company.
- 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.
- 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.
- 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 agendas and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
- During the year, there was a change of the Company Secretary and the Internal Auditors; however, there was no change of Chief Financial Officer.
- 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.
- The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
- 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.
- The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
- 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.
- 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.
- The Management Company had outsourced the internal audit function to a firm of Chartered Accountants (Ernst and Young Ford Rhodes Sidat Hyder & Co.) up to March 31, 2010. However, since Ernst and Young Ford Rhodes Sidat Hyder & Co. have been appointed as the Statutory Auditors of the Management Company for the year ending December 31, 2010, the Board Audit Committee has appointed Ms. Saman Hasan Qadri as the Internal Auditor of the Management Company. The said person is conversant with the policies and procedures of the Company and involved in the Internal Audit function on a full time basis.
- 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.
- 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.
- 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 (where 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.
- We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 27, 2010
Karachi

Naz Khan
Chief Executive

REVIEW REPORT TO THE UNIT HOLDERS OF KASB STOCK MARKET FUND "THE FUND" ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2010

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 Regulations of 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 Company 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-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited 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 transactions 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 under taken 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 Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2010.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

For the year ended June 30, 2010

We have audited the accompanying financial statements of **KASB Stock Market Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, cash flow statement, distribution statement, statement of movement in Unit Holders' Funds for the year ended 30 June 2010 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 2010, and of its financial performance, cash flows and transactions for the year ended 30 June 2010 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 (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2010

Note	2010	2009
	(Rupees in '000)	
ASSETS		
Bank balances	20,737	22,605
Receivable against sale of investments	30	4,198
Investments	197,746	272,619
Dividend and profit receivable	297	2,435
Advances, deposits and other receivables	2,753	3,821
Preliminary expenses and floatation costs	896	1,416
Total assets	222,459	307,094
LIABILITIES		
Payable against purchase of investments	1,416	3,457
Payable on redemption of units	6	1,465
Payable to KASB Funds Limited - Management Company	370	537
Payable to Central Depository Company of Pakistan Limited - Trustee	62	69
Payable to The Securities and Exchange Commission of Pakistan	252	303
Accrued expenses and other liabilities	2,507	1,986
Total liabilities	4,613	7,817
Net assets	217,846	299,277
Unit holders' funds	217,846	299,277
	(Number of units)	
Number of units in issue	5,963,905	9,078,238
	(Rupees)	
Net asset value per unit	36.53	32.97

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT

For the year ended June 30, 2010

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Income / (loss)			
Capital gain / (loss) on sale of investments		83,468	(136,230)
Dividend income		9,290	14,067
Income from sukuk certificates		-	2,369
Profit on bank deposits		3,080	3,474
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	5.4	<u>(18,272)</u>	<u>(742)</u>
Total income / (loss)		<u><u>77,566</u></u>	<u><u>(117,062)</u></u>
Expenses			
Remuneration of KASB Funds Limited - Management Company	9.1	<u>7,327</u>	<u>8,769</u>
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	<u>702</u>	<u>717</u>
Annual fee - The Securities and Exchange Commission of Pakistan	11.1	<u>252</u>	<u>303</u>
Transaction costs on securities		<u>3,081</u>	<u>3,878</u>
Settlement and bank charges		295	205
Legal and professional charges		468	122
Fees and subscription		140	135
Auditors' remuneration	14	<u>476</u>	<u>670</u>
Amortisation of preliminary expenses and flotation costs		520	520
Printing expenses		96	140
Provision for Workers' Welfare Fund	15	<u>1,486</u>	-
Provision against debt securities	5.5	<u>16,000</u>	<u>16,153</u>
Provision for doubtful income receivable	5.3.1	<u>-</u>	<u>1,075</u>
Total expenses		<u><u>30,843</u></u>	<u><u>32,687</u></u>
		<u>46,723</u>	<u>(149,749)</u>
Net realised element of income and capital gains included in prices of units issued less those in units redeemed		<u>27,562</u>	<u>8,831</u>
Net income / (loss) for the year		<u><u>74,285</u></u>	<u><u>(140,918)</u></u>
Earnings / (loss) per unit	16		

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2010

	2010 (Rupees in '000)	2009 (Rupees in '000)
Net income / (loss) for the year	74,285	(140,918)
Other comprehensive income:		
Net unrealised diminution in fair value of investments classified as 'available for sale'	<u>(16,000)</u>	<u>(16,153)</u>
Provision against non-performing 'available for sale' investments	16,000	16,153
Net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / (diminution)	-	263
Other comprehensive income / (loss) for the year	-	263
Total comprehensive income / (loss) for the year	<u><u>74,285</u></u>	<u><u>(140,655)</u></u>

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT

For the year ended June 30, 2010

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Accumulated losses brought forward	17	(154,961)	(14,306)
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed-amounts representing unrealised appreciation / (diminution)		-	263
Net income / (loss) for the year		<u>74,285</u>	<u>(140,918)</u>
Accumulated losses carried forward		<u>(80,676)</u>	<u>(154,961)</u>

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended June 30, 2010

	2010 (Rupees in '000)	2009 (Rupees in '000)
Net assets at beginning of the year	299,277	483,942
Issue of 1,916,276 units (2009: 2,956,597 units)	76,855	123,000
Redemption of 5,030,609 units (2009: 3,843,293 units)	(205,008)	(157,916)
	(128,153)	(34,916)
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	(27,562)	(8,831)
- amount representing unrealised capital gains-transferred directly to Other Comprehensive Income	-	(263)
	(27,562)	(9,094)
Net income / (loss) for the year (excluding unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' and capital gains / (losses))	9,089	(3,946)
Capital gains / (losses) on sale of investments	83,468	(136,230)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	(18,272)	(742)
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed-amounts representing unrealised appreciation / (diminution)	-	263
Net income / (loss) (including net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / (diminution))	74,285	(140,655)
Net assets as at end of the year	<u>217,846</u>	<u>299,277</u>
	<u>(Rupees)</u>	
Net asset value per unit as at beginning of the year	<u>32.97</u>	48.56
Net asset value per unit as at end of the year	<u>36.53</u>	32.97

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

 For KASB Funds Limited
(Management Company)

Chief Executive

Director

CASH FLOW STATEMENT

For the year ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

	2010	2009
	(Rupees in '000)	
Net income / (loss) for the year	74,285	(140,918)
Adjustments for:		
Dividend income	(9,290)	(14,067)
Profit on bank deposits	(3,080)	(3,474)
Amortisation of preliminary expenses and floatation costs	520	520
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	18,272	742
Provision against debt securities	16,000	16,153
Provision for Workers' Welfare Fund	1,486	-
Net realised element of income and capital gains included in prices of units issued less those in units redeemed	(27,562)	(8,831)
	70,631	(149,875)
Decrease / (increase) in assets		
Receivable against sale of investments	4,168	(4,054)
Investments	40,601	125,498
Advances, deposits and other receivables	1,068	(58)
	45,837	121,386
Increase / (decrease) in liabilities		
Payable against purchase of investments	(2,040)	(327)
Payable to KASB Funds Limited - Management Company	(167)	(469)
Payable to Central Depository Company of Pakistan Limited - Trustee	(7)	(18)
Payable to The Securities and Exchange Commission of Pakistan	(51)	(120)
Accrued expenses and other liabilities	(965)	1,136
	(3,230)	202
Dividend received	113,238	(28,287)
Profit on bank deposits received	11,343	14,259
Net cash generated from / (used in) operating activities	127,745	(10,146)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payable on redemption of units	(1,459)	-
Net payments against redemption of units	(128,154)	(34,512)
Net cash used in financing activities	(129,613)	(34,512)
Net decrease in cash and cash equivalents during the year	(1,868)	(44,655)
Cash and cash equivalents at beginning of the year	22,605	67,263
Cash and cash equivalents at end of the year	20,737	22,605

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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 and Pakistan Credit Rating Agency Limited (PACRA) has assigned a 4 star rating to 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.

Under circular 7 of 2009 dated March 6, 2009 issued by the SECP, all Collective Investment Schemes (CISs) are required to categorise open end CISs on the basis of investment parameters including eligible assets classes with pre-specified risk profile with the approval of Board of Directors of Asset Management Company. Funds are also required to disclose in the offering document the authorised investments and rating of securities that it would invest in. Accordingly, the Fund has submitted the amended offering document to the SECP for approval purposes by assigning Equity Scheme to the Fund. The management company would make the requisite amendments along with aligning investment portfolio, once it receives the required approval from SECP.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with 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, 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 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

2.2 Change in accounting policy

Starting July 01, 2009 the Fund has changed its accounting policy with respect to "Revised IAS 1 Presentation of Financial Statements (2007)". The revision to IAS 1 requires the Fund to present all unit holders changes and all non-unit holders changes in the Statement of Unit Holders' Fund, separately. Where the Fund restates / reclassifies comparative information, they are required to present a restated Statement of Asset and Liabilities as at the beginning of the comparative period. In addition, the standard introduces the Statement of Comprehensive Income: it presents all items of recognised income and expense, either in one single statement (i.e. Statement of Comprehensive Income), or in two linked statements (i.e. Income Statement and Statement of Comprehensive Income). The Fund has elected to present two statements.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policy only affects presentation / disclosures of financial statements, there is no impact on net income for the year / loss for previous year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

2.3 Other accounting developments

Disclosures pertaining to fair values and liquidity risk of financial instruments

The Fund has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

Apart from above other standards, amendments to published standards and interpretations of accounting standards became effective during the year, however they did not affect the Fund's financial statements.

2.4 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, 2010 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

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.

International Accounting Standard (IAS) 24 (Revised): Related Party Disclosures (effective for annual period beginning on or after January 01, 2011). The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party.

Amendments to IAS 32: Classification of Rights Issues (effective for period beginning on or after February 01, 2010). Under the amendment to IAS 32 rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for period beginning on or after July 01, 2010). IFRIC 19 clarifies the accounting when an entity extinguish the liability by issuing its own equity instruments to the creditor.

Amendments to IFRIC 14: Prepayment of a Minimum Funding Requirement (effective for period beginning on or after July 01, 2011). IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.

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

2.5 Basis of measurement

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

2.6 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.

2.7 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 and derivative financial instruments

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

Other assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented, except for change as disclosed in note 2.2 to these financial statements.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) *Financial instruments as '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 as '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'.

d) *Financial liabilities*

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

Recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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 as 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instruments 'at fair value through profit or loss' are expensed out immediately.

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

Fair value measurement principles

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

Basis of valuation of Term Finance / Sukuk Certificates

Investment in debt securities are valued at the rates determined and notified by Mutual Fund Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009 and Circular 3 of 2010. The circular also specifies a criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity up to six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009.

Securities under repurchase / resale agreements

Transactions of purchase under resale (reverse-repo) of marketable 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.

Any subsequent decrease in impairment loss on debt securities classified as 'available for sale', is recognised in the income statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non performing investments in compliance with Circular 13 of 2009 issued by SECP.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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' Funds

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

3.3 Issue and redemption of units

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

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

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

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

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in Unit Holders' Funds 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 after the close 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Defered

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 unutilised tax losses to the extent that these 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. Accordingly, no current tax and deferred tax has been recognised in these financial statements.

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 reverse repurchase transactions and debt securities is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair which they 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.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 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 deposits 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

	2010	2009
	(Rupees in '000)	
In current accounts	14	4
In deposit accounts	20,723	22,601
	<u>20,737</u>	<u>22,605</u>

4.1 These deposit accounts carry mark-up at the rate of 5% to 12% per annum (2009: 5% to 12.5% per annum).

5. INVESTMENTS

'At fair value through profit or loss- held for trading'

- Quoted equity securities

5.2	197,746	256,619
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'Available for sale'

- Fixed income and other debt securities

5.3	-	16,000
	<u>197,746</u>	<u>272,619</u>

5.1 The cost of the above investments as at June 30, 2010 amounted to Rs. 216.018 million (2009: Rs. 289.514 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

5.2 Quoted equity securities - 'at fair value through profit or loss' - held for trading

Shares of Listed Companies - Fully paid up ordinary shares of Rs. 10 each unless otherwise stated

Name of the investee company	(Number of shares)				As at June 30, 2010	Market value as at June 30, 2010	Market value as a percentage of total investments
	As at July 1, 2009	Purchases during the year	Bonus issue during the year	Sales during the year			
						(Rupees in '000)	
BANKS							
Allied Bank Limited	503,200	686,530	185	1,189,915	-	-	-
Bank Alfalah Limited	-	1,950,000	-	1,950,000	-	-	-
Habib Bank Limited	-	25,000	-	25,000	-	-	-
MCB Bank Limited	211,800	476,000	11,619	643,906	55,513	10,780	5.45
Meezan Bank Limited	-	95,000	-	95,000	-	-	-
NIB Bank Limited	-	1,045,045	-	990,045	455,000	1,360	0.69
National Bank of Pakistan	-	1,189,734	-	1,019,734	170,000	10,897	5.51
United Bank Limited	1,065	1,382,148	16,500	1,092,010	307,703	16,681	8.44
OIL AND GAS							
Oil & Gas Development Company Limited	421,000	840,360	-	1,176,105	85,255	12,079	6.11
Pakistan Oilfields Limited	177,000	389,594	-	533,636	32,958	7,116	3.60
Pakistan Petroleum Limited	-	326,900	21,780	263,000	85,680	15,775	7.98
Attock Petroleum Limited	-	80,365	-	69,250	11,135	3,226	1.63
Attock Refinery Limited	-	40,000	-	40,000	-	-	-
Pakistan State Oil Company Limited	107,000	269,300	-	304,226	72,074	18,754	9.48
FINANCIAL SERVICES							
Arif Habib Securities Limited	200,000	590,000	-	790,000	-	-	-
Jahangir Siddiqui & Company Limited	56	642,500	-	397,556	245,000	3,097	1.57
ELECTRICITY							
Hub Power Company Limited	534,500	1,100,792	-	1,277,100	358,192	11,447	5.79
Nisat Chunian Power Limited	-	100,000	-	-	100,000	994	0.50
CONSTRUCTION AND MATERIALS							
D.G. Khan Cement Company Limited	-	770,000	-	640,000	130,000	3,071	1.55
Lucky Cement Limited	269,700	705,000	-	867,200	107,500	6,680	3.38
PERSONAL GOODS							
Colgate Palmolive Pakistan Limited	2,300	-	-	2,300	-	-	-
Nisat Mills Limited	-	464,788	-	390,133	74,655	3,219	1.63
Nisat Mills Limited- LoR	-	54,555	-	54,555	-	-	-
Azgard Nire Limited	-	160,000	-	160,000	-	-	-
Nisat Chunian Limited	-	175,000	-	175,000	-	-	-
Ibrahim Fibres Limited	351,500	991,748	-	707,641	635,607	21,726	10.99
NON LIFE INSURANCE							
Adarnjee Insurance Company Limited	-	1,284,600	16,250	1,094,600	205,250	16,395	8.29
Pakistan Reinsurance Company Limited	-	55,000	-	55,000	-	-	-
FIXED LINE TELECOMMUNICATION							
Pakistan Telecommunication Company Limited 'A'	-	1,689,085	-	1,664,085	25,000	445	0.23
MEDIA							
Eye Television Network	141,000	-	-	141,000	-	-	-
CHEMICALS							
Engro Corporation Limited	142,621	437,109	6,892	533,600	53,022	9,204	4.65
Fajri Fertilizer Company Limited	306,712	212,500	-	421,000	98,212	10,123	5.12
Fajri Fertilizer Bin Qasim Limited	637,000	567,945	-	1,204,945	-	-	-
ICI Pakistan	-	25,000	-	12,958	12,042	1,428	0.72
Lotte Pakistan PTA	-	225,000	-	165,000	60,000	484	0.24
Deacon Qayyum Limited	-	304,079	-	215,296	88,763	405	0.20
GENERAL INDUSTRIES							
Packages Limited	23,200	187,400	-	164,100	46,500	5,510	2.79
Ecopack Limited	1,997,000	1,465,028	-	2,390,487	1,071,541	2,561	1.30
Tot-Pack Films Limited	-	71,731	-	28,000	43,731	4,265	2.16
SOFTWARE AND COMPUTER SERVICES							
Netsol Technologies Limited	-	194,961	-	194,000	961	24	0.01
						<u>197,746</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

- 5.2.1 Investments include quoted equity securities with market value as at June 30, 2010 aggregating to Rs. 19,637 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 (%)	----- (Number of certificates) -----				Carrying value as at June 30, 2010	Carrying value as a percentage of total investments
		As at July 01, 2009	Purchases during the year	Sales during the year	As at June 30, 2010		
New Allied Electronics Industries (Private) Limited - II	5.3.1 15.90	6,400	-	-	6,400	-	-

(Rupees in '000)

- 5.3.1 This represents sukuk certificates of New Allied Electronics Industries (Private) Limited - II (NAEIL). The investment in NAEIL is secured against collaterals.

On December 3, 2008, owing to the financial difficulties, no payment was made by NAEIL against mark-up amounting to Rs. 2.42 million. On February 11, 2009 and March 20, 2009, the Fund received a partial payment amounting to Rs. 1.17 million and Rs. 0.63 million respectively against the outstanding mark-up. The Fund has recognised full provision against the said investment and outstanding mark-up receivable accordingly. Moreover, the Fund suspended further accruals of mark-up there against. Therefore, the investment has been fully provided as at June 30, 2010.

The above provision against said investment and related mark-up are in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and related SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

5.4 Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	2010	2009
	(Rupees in '000)	
Fair value of investments	5.2 197,746	256,619
Less: Cost of investments	(216,018)	(257,361)
	(18,272)	(742)
Less: Net unrealised diminution / (appreciation) in fair value of investments at beginning of the year	742	(44,793)
Add: Realised on disposal during the year	(742)	44,793
	(18,272)	(742)
5.5 Unrealised diminution in fair value of investments classified as 'available for sale'		
Carrying value of investments	5.3 -	16,000
Less: Cost of investments	(32,153)	(32,153)
	(32,153)	(16,153)
Less: Unrealised diminution in fair value of investments at beginning of the year	16,153	-
Add: Realised on disposal during the year	-	-
Add: Provision against debt securities	16,000	16,153
	32,153	16,153
	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
6. DIVIDEND AND PROFIT RECEIVABLE		
Dividend receivable	163	2,216
Profit accrued on sukuk certificates	-	3,837
Profit accrued on bank deposits	134	219
Less: Provision for doubtful income receivable	-	(3,837)
	<u>297</u>	<u>2,435</u>
7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES		
Advances tax	153	153
Deposit with National Clearing Company of Pakistan Limited	2,500	3,500
Deposit with Central Depository Company of Pakistan Limited	100	100
Receivable from KASB Liquid Fund	-	68
	<u>2,753</u>	<u>3,821</u>
8. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs	1,416	1,936
Amortisation during the year	(520)	(520)
Balance as at June 30	<u>896</u>	<u>1,416</u>
9. PAYABLE TO KASB FUNDS LIMITED - MANAGEMENT COMPANY		
Management fee payable	9.1 370	536
Sales load payable	-	1
	<u>370</u>	<u>537</u>
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 thereafter, of an amount equal to two percent of such assets of the Fund. During the year, remuneration of management company is charged at the rate of 2.75 percent per annum of the average annual net assets of the Fund for the period from July 01, 2009 to June 15, 2010 and at the rate of 3 percent per annum of the average annual net assets of the Fund for the period from June 16, 2010 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 47,905 additional units were issued during the year to type 'B' unit holders at a value of Rs. 1.886 million. (48,762 additional units were issued during the year ended June 30, 2009 at a value of Rs. 1.647 million).		
10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
Trustee fee	10.1 58	58
CDS charges	4	11
	<u>62</u>	<u>69</u>
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 up to 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, 2010

		2010		2009	
		(Rupees in '000)			
11.	PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	11.1	<u>252</u>	<u>303</u>	
11.1	As per Schedule II of the NBFC Regulations 2008, equity funds are required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Scheme.				
12.	ACCRUED EXPENSES AND OTHER LIABILITIES				
	Auditors' remuneration		303	492	
	Legal and professional charges payable		151	162	
	Credit rating fee payable		100	-	
	Payable to KASB Islamic Income Fund		-	612	
	Others		<u>1,953</u>	<u>720</u>	
			<u>2,507</u>	<u>1,986</u>	
13.	NUMBER OF UNITS IN ISSUE				
		2010	2009	2010	2009
		(Units)		(Rupees in '000)	
	The units in issue as at June 30 in each class are:				
	Type 'A' Units	13.1	<u>1,263,026</u>	<u>3,878,238</u>	<u>46,135</u>
	Type 'B' Units	13.2	<u>4,700,879</u>	<u>5,200,000</u>	<u>171,711</u>
			<u>5,963,905</u>	<u>9,078,238</u>	<u>217,846</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	14.1	316	244	
	Other certifications and services		111	392	
	Out of pocket expenses		<u>49</u>	<u>34</u>	
			<u>476</u>	<u>670</u>	
14.1	Audit fee includes services for audit of annual financial statements and limited review of condensed interim financial information for the six months period.				
15.	PROVISION FOR WORKERS' WELFARE FUND				
	In pursuance of the order passed by the Honorable High Court of Sind against the constitutional petition filed by Mutual Funds Association of Pakistan (MUFAP), the Management Company recorded provision for Workers' Welfare Fund (WWF) for the year ended June 30, 2010 amounting to Rs.1.486 million in these financial statements. However, subsequent to the year end, Ministry of Labor has issued certain clarifications regarding applicability of WWF on mutual funds and the matter is currently under review and discussion.				
16.	EARNINGS / (LOSS) PER UNIT				
	Earnings / (loss) per unit has not been disclosed as in the opinion of the management, determination of weighted average number of units for calculating earnings / (loss) per unit is not practicable.				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

17.	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 realised and unrealised gains. However, it has not been bifurcated as it is impracticable to do so.				
18.	TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES				
	Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company, KASB Securities Limited, KASB Modaraba, and New Horizon Exploration and Production Limited being the companies under common management, Central Depository Company of Pakistan Limited being the Trustee, other Funds managed by the management company (including KASB Liquid Fund, KASB Balanced Fund, KASB Islamic Income Fund, KASB Cash Fund and KASB Capital Protected Gold Fund) and directors, key management personnel and officers of the Management Company.				
	Transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.				
	Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations 2008 and the Trust Deed respectively.				
	Details of transactions with connected persons / related parties and balances with them at year end are as follows:				
18.1	Transactions		2010	2009	
			(Rupees in '000)		
	KASB Funds Limited - Management Company				
	Remuneration	9.1	<u>7,327</u>	<u>8,769</u>	
	Sales load		<u>100</u>	<u>46</u>	
	Redemption from the Fund: 44,850 units (2009: Nil units)		<u>1,864</u>	<u>-</u>	
	KASB Funds Limited Employees' Provident Fund				
	Redemption from the Fund: Nil units (2009: 5,891 units)		<u>-</u>	<u>159</u>	
	KASB Securities Limited - Brokerage house				
	Brokerage	18.3	<u>357</u>	<u>416</u>	
	Redemption from the Fund: Nil units (2009: 25,718 units)		<u>-</u>	<u>950</u>	
	Additional units: 16,562 units (2009: 16,879 units)		<u>650</u>	<u>570</u>	
	KASB Liquid Fund				
	Purchase of sukuk certificates: Nil units (2009: 11,600 units)		<u>-</u>	<u>60,068</u>	
	Sale of sukuk certificates: Nil units (2009: 5,200 units)		<u>-</u>	<u>24,238</u>	
	KASB Bank Limited				
	Profit accrued		<u>3,070</u>	<u>3,471</u>	
	Bank charges		<u>7</u>	<u>3</u>	
	Additional units: 20,242 units (2009: 20,630 units)		<u>794</u>	<u>697</u>	
	Central Depository Company of Pakistan Limited - Trustee				
	Remuneration	10.1	<u>702</u>	<u>717</u>	
	CDS charges		<u>82</u>	<u>113</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
Directors and officers of the Management Company		
Investment in the Fund: 3,725 units (2009: 20,663 units)	<u>150</u>	<u>686</u>
Redemption from the Fund: 15,835 units (2009: 47,059 units)	<u>583</u>	<u>1,570</u>
Conversion in the Fund: 174,569 units (2009: 132,508 units)	<u>6,776</u>	<u>5,102</u>
Conversion out of the Fund: 156,731 units (2009: 122,911 units)	<u>6,199</u>	<u>4,666</u>
Switching in the Fund: 141,737 units (2009: Nil units)	<u>5,796</u>	<u>-</u>
Switching out of the Fund: 154,884 units (2009: Nil units)	<u>6,252</u>	<u>-</u>
Transfer in the Fund: 3,084 units (2009: Nil units)	<u>106</u>	<u>-</u>
Transfer out of the Fund: 3,084 units (2009: Nil units)	<u>106</u>	<u>-</u>
18.2 Balances		
KASB Funds Limited - Management Company		
Payable to the Management Company	<u>370</u>	<u>537</u>
Units held: 44,868 units (2009: 89,718 units)	<u>1,639</u>	<u>2,958</u>
KASB Liquid Fund		
Receivable from KASB Liquid Fund	<u>-</u>	<u>68</u>
KASB Islamic Income Fund		
Payable to KASB Islamic Income Fund	<u>-</u>	<u>612</u>
KASB Securities Limited - Brokerage house		
Brokerage payable	<u>10</u>	<u>14</u>
Units held: 1,830,633 units (2009: 1,814,071 units)	<u>66,873</u>	<u>59,810</u>
KASB Securities Limited Employees' Provident Fund		
Units held: 77,089 units (2009: 77,089 units)	<u>2,816</u>	<u>2,542</u>
KASB Bank Limited		
Profit receivable on bank deposits	<u>135</u>	<u>220</u>
Bank balance	<u>20,421</u>	<u>22,537</u>
Units held: 2,465,022 units (2009: 2,444,780 units)	<u>90,047</u>	<u>80,604</u>
Central Depository Company of Pakistan Limited - Trustee		
Payable to the Trustee	<u>62</u>	<u>69</u>
Security Deposit	<u>100</u>	<u>100</u>
Directors and officers of the Management Company		
Units held: 40,165 units (2009: 41,819 units)	<u>1,467</u>	<u>1,379</u>
18.3	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.	
18.4	The rate of return on this deposit account is 12% per annum (2009: 12.5% per annum).	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

19. 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's activities expose it to a variety of financial risks such as:

- Market risk;
- Credit risk; and
- Liquidity risk.

Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

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

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

Currency risk

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

Interest rate risk

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

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

As at June 30, 2010 the Fund has an investment in sukuk certificates of New Allied Electronics Industries (Private) Limited which has been fully provided, accordingly no sensitivity analysis has been prepared for the said investment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

On-balance sheet financial instruments	Effective rate of mark-up return %	June 30, 2010				Total
		Exposed to MROR Risk			Not exposed to MROR Risk	
		Up to three months	More than three months and up to one year	More than one year		
(Rupees in '000)						
Financial assets						
Bank balances	5 - 12	20,723	-	-	14	20,737
Receivable against sale of investments		-	-	-	30	30
Investments		-	-	-	197,746	197,746
Dividend and profit receivable		-	-	-	297	297
Deposits and other receivables		-	-	-	2,753	2,753
		<u>20,723</u>	<u>-</u>	<u>-</u>	<u>200,840</u>	<u>221,563</u>
Financial liabilities						
Payable against purchase of investments		-	-	-	1,416	1,416
Payable on redemption of units		-	-	-	6	6
Payable to KASB Funds Limited - Management Company		-	-	-	370	370
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	62	62
Accrued expenses and other liabilities		-	-	-	1,021	1,021
		<u>-</u>	<u>-</u>	<u>-</u>	<u>2,875</u>	<u>2,875</u>
On-balance sheet gap 2010		<u>20,723</u>	<u>-</u>	<u>-</u>	<u>197,965</u>	<u>218,688</u>

On-balance sheet financial instruments	Effective rate of mark-up return %	June 30, 2009				Total
		Exposed to MROR Risk			Not exposed to MROR Risk	
		Up to three months	More than three months and up to one year	More than one year		
(Rupees in '000)						
Financial assets						
Bank balances	5 - 12.5	22,601	-	-	4	22,605
Receivable against sale of investments		-	-	-	4,198	4,198
Investments		-	-	-	256,619	256,619
Dividend and profit receivable		-	-	-	4,435	2,435
Deposits and other receivables		-	-	-	3,668	3,668
		<u>22,601</u>	<u>-</u>	<u>-</u>	<u>266,924</u>	<u>289,525</u>
Financial liabilities						
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
		<u>-</u>	<u>-</u>	<u>-</u>	<u>7,514</u>	<u>7,514</u>
On-balance sheet gap 2009		<u>22,601</u>	<u>-</u>	<u>-</u>	<u>259,410</u>	<u>282,011</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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 price risk 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 within specified limits set by internal risk management guidelines.

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

A summary analysis of investments by industry sector, the percentage in relation to Fund's total investment as at June 30, 2010 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% (2009: 5%) and decreased by 5% (2009: 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 three years (2009: two years).

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

Effect on net assets attributable to unit holders of an increase in the KSE 30 index	2010	2009
	(Rupees in '000)	
Effect on investments	7,733	8,982
Effect on income statement	7,733	8,982

Effect on net assets attributable to unit holders of a decrease in the KSE 30 index

Effect on investments	(7,733)	(8,982)
Effect on income statement	(7,733)	(8,982)

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, 2010 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 resulting in financial loss to the Fund. 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, 2010

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.

	2010	2009
	(Rupees in '000)	
Bank balances	20,737	22,605
Receivable against sale of investments	30	4,198
Investments in fixed income and other debt securities	-	16,000
Dividend and profit receivable	297	2,435
Advances, deposits and other receivables	2,753	3,621
	<u>23,817</u>	<u>49,059</u>

None of the above financial assets were considered to be past due or impaired in 2010 and 2009 except for the exposures and the provisions there against 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 and for those exposures not covered by the said circular. For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated.

Settlement risk

Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

Bank balances

The Fund kept surplus liquidity with banks having credit rating from AAA to A-. The rating of the banks is monitored by the Fund Manager and Investment Committee.

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company.

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 its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. 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 documents and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

The Fund's policy to manage liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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 net assets at the time of borrowing with a condition of 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.

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

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

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

	June 30, 2010			Total
	Up to three months	More than three months and up to one year	More than one year	
	----- (Rupees in '000) -----			
Payable against purchase of investments	1,416	-	-	1,416
Payable on redemption of units	6	-	-	6
Payable to KASB Funds Limited - Management Company	370	-	-	370
Payable to Central Depository Company of Pakistan Limited - Trustee	62	-	-	62
Accrued expenses and other liabilities	1,021	-	-	1,021
	<u>2,875</u>	<u>-</u>	<u>-</u>	<u>2,875</u>
	----- (Rupees in '000) -----			
	June 30, 2009			Total
	Up to three months	More than three months and up to one year	More than one year	
	----- (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
Accrued expenses and other liabilities	1,986	-	-	1,986
	<u>7,514</u>	<u>-</u>	<u>-</u>	<u>7,514</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Units of the Fund are redeemable on demand at the holder's option, however, the Fund does not anticipate significant redemption of units.

Unit Holders' Funds risk management

As a result of the ability to issue and repurchase/ redeem units except for core investors, the Unit Holders' Funds 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 redemption of units.

The Fund's objectives in managing the unit holders' funds are to ensure a stable base to maximise return to all investors and also to manage liquidity risk arising from redemptions.

20. 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.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly from prices (i.e. derived from prices)
- Level 3: Valuation techniques using significant unobservable inputs.

Investment in equity securities disclosed in Note 5.2 to the Financial Statements falls with in level 1 of the fair value hierarchy as mentioned above reason being that such securities are valued using quoted prices from the stock markets.

21. 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	
	2010	2009	2010	2009	2010	2009
	(Numbers)		---(Rupees in '000)---		(%)	
Individuals	95	108	26,504	22,379	12.17	7.48
Associated companies	5	4	162,660	145,898	74.67	48.75
Directors	-	1	-	562	-	0.19
Bank / Financial Institution	1	2	32	72,697	0.01	24.29
Retirement Funds	6	10	28,650	57,741	13.15	19.29
Total	107	125	217,846	299,277	100.00	100.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

Broker Name	2010 (percentage)	Broker Name	2009 (percentage)
KASB Securities Limited	13.44	KASB Securities Limited	11.69
Foundation Securities (Private) Limited	10.22	Foundation Securities (Private) Limited	11.22
Live Securities (Private) Limited	11.30	Live Securities (Private) Limited	11.15
Elxir Securities Pakistan (Private) Limited	7.50	Elxir Securities Pakistan (Private) Limited	9.47
Invest Capital Securities Investment Bank Limited	4.43	Atlas Capital Markets (Private) Limited	8.39
Fortune Securities Limited	9.19	Invest Capital Securities (Private) Limited	7.80
Allalah Securities (Private) Limited	4.16	Fortune Securities Limited	6.35
JS Global Capital Limited	4.53	AKD Securities Limited	6.03
Global Securities Pakistan Limited	7.65	Atfalah Securities (Private) Limited	5.45
Taurus Securities Pakistan Limited	6.58	JS Global Capital Limited	5.44

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

Name of the Person	Designation	Meetings		
		Total	Attended	Leave Granted
Mr. Robert John Richard Owen	Chairman	8	8	-
Mr. Amir Zahoor Khan	Director*	5	5	-
Mr. Farid Arshad Masood	Director**	7	6	1
Ms. Naz Khan	Chief Executive & Director	8	8	-
Mr. Syed Muhammad Rehmanullah	Director	8	8	-
Mr. Muhammad Imran Khaili	Chief Financial Officer & Company Secretary	8	8	-
Mr. Irfan Saleem Awan	Company Secretary***	3	3	-
Mr. Mirza Mahmood-ul-Hassan	Company Secretary****	4	4	-

*Mr. Amir Zahoor Khan resigned from the Board in the meeting held on February 12, 2010 and Mr. Muzaffar Ali Shah Bukhari was appointed Director after SECP granted approval on March 5, 2010.

**Mr. Farid Arshad Masood resigned from the Board on February 19, 2010.

***Mr. Irfan Saleem Awan resigned on October 1, 2009.

****Mr. Mirza Mahmood-ul-Hasan resigned on June 10, 2010 and Muhammad Imran Khaili was appointed as Company Secretary on June 11, 2010 at his place.

Dates of the meetings of the Board of Directors

Thirty-second meeting	July 4, 2009
Thirty-third meeting	July 21, 2009
Thirty-fourth meeting	August 25, 2009
Thirty-fifth meeting	October 23, 2009
Thirty-sixth meeting	November 20, 2009
Thirty-seventh meeting	February 12, 2010
Thirty-eighth meeting	February 19, 2010
Thirty-ninth meeting	April 22, 2010

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

24. DETAILS OF MEMBERS OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	B.A. (USA)	17
Muhammad Faisal Potrik	Chief Investment Officer	MBA	10
Khurram Bashir	Fund Manager	M.Sc.(Eco. & Finance)	05
Muhammad Kashif Masood	Representative of Risk Management & Compliance	M.Sc.(Economics)	03

24.1 Details of other funds managed by the Fund Manager
 KASB Balanced Fund under the management of KASB Funds Limited.

25. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved the final dividend distribution of Rs. 11.50 per unit for the year ended June 30, 2010 (Rs. Nil for the year ended June 30, 2009) amounting to Rs. 68.585 million in total in their meeting held on July 3, 2010.

26. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 27, 2010 by the Board of Directors of the Management Company.

 For KASB Funds Limited
 (Management Company)

Chief Executive

Director