

**KASB INCOME
OPPORTUNITY FUND**

QUARTERLY REPORT
September 30, 2010

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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
Mr. Muhammad Imran Khalil - Chief Executive
Mr. Syed Muhammad Rehmanullah
Mr. Muzaffar Ali Shah Bukhari
Mr. Masood Karim Shaikh

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Muhammad Kashif Masood

Audit Committee

Mr. Masood Karim Shaikh - Chairman
Mr. Robert John Richard Owen
Mr. Syed Muhammad Rehmanullah

Trustee

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

Fund Rating

BBB+(f) by PACRA
(July 2010)

Bankers to the Fund

KASB Bank Limited

Auditors

A.F. Ferguson & Co. - Chartered
Accountants, State Life Building I-C Off:
I.I.Chundrigar Road, P.O.Box 4716,
Karachi 74000, Pakistan.

Legal Advisor

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

Registrar

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

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

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the quarter ended September 30, 2010

The Board of Directors of KASB Funds Limited ("KFL" or "the Company"), the Management Company of KASB Income Opportunity Fund (formerly KASB Liquid Fund) ("KIOF" or "the Fund"), is pleased to present the condensed interim financial information of the Fund for the quarter ended September 30, 2010. In conformity with circular 7 of 2009 dated March 6, 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Aggressive Income" category and all references of the name have been replaced from KASB Liquid Fund to KASB Income Opportunity Fund.

Investing Activities and Fund's Performance

The devastating floods that recently hit the country have long term ramifications on the economy of the country which was on the stabilization path by the end of FY10. The economy is now confronted with destructive flood and the post flood projections raise significant apprehensions for short-to-medium term economic growth. As the economic impacts of the worst flood in the country's history are being assessed, the real GDP growth is likely to be hurt by 1.5-2.0% for FY11.

At the same time headline inflation is expected to increase significantly going forward due to supply side shocks as more than 20% of the cultivated area has been damaged. The agriculture sector, which accounts for ~ 22% of GDP, has been hit particularly hard. Recently, in this regard, the central bank increased the policy rate by 50bps to 13.5% in its last monetary policy due to consistent fiscal slippages and post-flood higher inflationary expectations.

The international monetary response to the floods has been dreary and the government may ultimately have to resort to deficit monetization which will be another push for inflation. Fiscal deficit is expected to reach over 7% this year against the government target of 4% and the balance of payment position of the country will remain under pressure. Burdened by relief efforts, the government will face significant income-expenditure gap. In this regard, the flood tax is expected to be introduced to raise additional revenue but external aid will be critical to cover flood costs.

The debt market continues to be under stress as the lack of liquidity & risk aversion persists in the market. Trading activities remained dull and only few selective highly rated TFCs / Sukuks are generally traded. The prices of majority of the corporate debts decreased due to higher yield required by investors after two consecutive raise in discount rate of cumulative 100bps during the last quarter.

The Fund recorded a return of 1.81% since inception and -7.43% p.a. for the three month period ended September 30, 2010 while the benchmark returns were 11.37% and 12.73% respectively. Overall asset allocation of the Fund stood at 81.3% for TFC/Sukuk/Government backed securities, 8.1% in T-bills and 10.6% for Cash/Placements as at September 30, 2010.

The Fund earned a gross income of Rs. 15.66 million during the period under consideration while the net loss of the Fund for the same period was Rs.1.23 million. The total net assets of the Fund stood at Rs. 838.27 million at the end of the period translating into a NAV per unit of Rs. 83.9336 (Par Rs. 100).

Future Outlook

The short term macroeconomic environment looks difficult with a renewed threat of inflation, higher fiscal deficit, deficit monetization, and lower GDP growth. The government will be under stress to overcome these challenges and generate greater domestic revenue through

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the quarter ended September 30, 2010

taxation. The next quarter will remain crucial in terms of government ability to take effective measures for the rehabilitation of flood affectees, keeping food inflation in control and confine the borrowing from SBP by convincing the international community to provide aid / soft loans. As the post-flood inflationary expectations have risen significantly the central bank is expected to continue its monetary tightening stance going forward as well.

While the consecutive increase in the discount rate during the last quarter adversely affected the secondary market prices of outstanding TFCs resulting in the subdued return of the Fund, going forward the Fund is expected to benefit from higher accrual on its TFCs coupon. In line with our view the Fund managed to offload few TFCs. Going forward, the Fund will continue to reduce its debt portfolio and replace it with short term cash placements.

Acknowledgement

The Board of Directors of the Management Company thanks the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan for their valuable support, assistance and guidance. The Board also thanks the employees of the Management Company and Trustee for their dedication and hard work and the unit holders for their confidence in the management.

For and on behalf of the Board

**October 28, 2010
Karachi**

**Muhammad Imran Khalil
Chief Executive**

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES

As at September 30, 2010

Note	(Un-audited)	(Audited)
	September 30	June 30
	2010	2010
	(Rupees in '000)	
ASSETS		
Bank balances	6 14,439	5,646
Placements	7 60,200	60,550
Certificate of investment	8 10,374	10,374
Investments	9 716,765	885,815
Income receivable	39,245	25,560
Advances, deposits, prepayments and other receivables	3,991	3,975
Preliminary expenses and floatation costs	362	513
Total assets	845,376	992,433
LIABILITIES		
Payable to KASB Funds Limited - Management Company	1,433	1,532
Payable to Central Depository Company of Pakistan Limited - Trustee	143	170
Payable to The Securities and Exchange Commission of Pakistan	172	1,243
Borrowing against redemption of units	-	25,000
Accrued expenses and other liabilities	5,358	5,087
Total liabilities	7,106	33,032
Net assets	838,270	959,401
Unit holders' funds	838,270	959,401
	(Number of units)	
Number of units in issue	9,987,304	11,210,112
	(Rupees)	
Net asset value per unit	83.9336	85.5835

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)

For the quarter ended September 30, 2010

Note	Quarter ended	
	September 30	September 30
	2010	2009
	(Rupees in '000)	
Income		
Income from term finance certificates and sukuk certificates	39,261	84,118
Income from term deposit receipts	-	17,090
Income from government securities	21	-
Income from placements	3,499	3,790
Income from certificates of investment	328	1,718
Profit on bank deposits	328	4,191
Capital loss on sale of investments	(36,069)	(45,066)
Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	9.5 8,292	(3,717)
	15,660	62,124
Expenses		
Remuneration of KASB Funds Limited - Management Company	4,583	10,499
Remuneration of Central Depository Company of Pakistan Limited - Trustee	458	952
Annual fee - The Securities and Exchange Commission of Pakistan	172	525
Transaction costs on securities	107	141
Settlement and bank charges	54	8
Legal and professional charges	150	57
Fees and subscription	60	35
Auditors' remuneration	142	275
Amortisation of preliminary expenses and floatation costs	152	152
Printing and other expenses	30	35
Borrowing cost	638	362
Provision against non-performing placements	(3,150)	-
Provision against non-performing investments	27,274	13,518
Provision for doubtful income receivable	4,210	14,929
	34,880	41,488
	(19,220)	20,636
Net realised element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	17,987	(30,262)
Net loss for the period	(1,233)	(9,626)
Loss per unit	11	

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(UN-AUDITED)**

For the quarter ended September 30, 2010

	Quarter ended September 30	
	2010	2009
	(Rupees in '000)	
Net loss for the period	(1,233)	(9,626)
Other comprehensive income:		
Net unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'	(22,983)	28,559
Provision against non-performing 'available for sale' investments	25,493	1,685
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	(127)	34,248
Other comprehensive income for the period	2,383	64,492
Total comprehensive income for the period	1,150	54,866

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive

For KASB Funds Limited
(Management Company)

Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED)

For the quarter ended September 30, 2010

	Quarter ended September 30	
	2010	2009
	(Rupees in '000)	
Accumulated (loss) / income brought forward	(153,568)	41,418
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	(127)	34,248
Net loss for the period	(1,233)	(9,626)
Final distribution: Nil (June 30, 2009: Rs. 1.25 per unit)	-	(39,571)
	(1,360)	(14,949)
Accumulated (loss) / income carried forward	(154,928)	26,469

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive

For KASB Funds Limited
(Management Company)

Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN
UNIT HOLDERS' FUNDS (UN-AUDITED)**

For the quarter ended September 30, 2010

	Quarter ended September 30	
	2010	2009
	(Rupees in '000)	
Net assets at beginning of the period	959,401	3,145,099
Issue of 4,698 units (2009: 1,718,335 units)	404	169,494
Issue of Nil bonus units (2009: 143,226 units)	-	14,050
Redemption of 1,227,506 units (2009: 17,690,027 units)	104,825	(1,762,404)
	(104,421)	(1,578,860)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:		
- amount representing loss / accrued (income) and realised capital losses / (gains) - transferred to the Income Statement	(17,987)	30,262
- amount representing unrealised capital losses / (gains) - reported in other comprehensive income	127	(34,248)
	(17,860)	(3,986)
Unrealised diminution in fair value of investments classified as 'available for sale' at end of the period	(244,644)	(91,704)
Provision against non-performing investments	25,493	1,685
Unrealised diminution in fair value of investments classified as 'available for sale' at beginning of the period	221,661	118,578
Unrealised appreciation in fair value of investments classified as 'available for sale' during the period	2,510	28,559
Distribution during the period:		
- Issue of bonus units	-	(14,050)
- Dividend	-	(25,521)
	-	(39,571)
Net income for the period (excluding unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital losses)	26,544	39,157
Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	8,292	(3,717)
Capital loss on sale of investments	(36,069)	(45,066)
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	(127)	34,248
Net (loss) / income (including net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution))	(1,360)	24,622
Net assets at end of the period	838,270	1,575,863

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

For the quarter ended September 30, 2010

	Quarter ended September 30	
	2010	2009
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(1,233)	(9,626)
Adjustments for:		
Unrealised (appreciation) / diminution in fair value of investments classified as 'at fair value through profit or loss'	(8,292)	3,717
Provision against non-performing placements	(3,150)	-
Provision against non-performing investments	27,274	13,518
Provision for doubtful income receivable	4,210	14,929
Net realised element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(17,987)	30,262
Amortisation of preliminary expenses and floatation costs	152	152
	2,207	62,578
Decrease / (increase) in assets		
Placements	3,500	(18,872)
Certificate of investment	-	34,000
Investments - net	156,467	612,089
Income receivable	(21,785)	38,960
Advances, deposits, prepayments and other receivables	(16)	(5,801)
	138,166	660,376
Increase / (decrease) in liabilities		
Payable to KASB Funds Limited - Management Company	(99)	(1,694)
Payable to Central Depository Company of Pakistan Limited - Trustee	(27)	(113)
Payable to The Securities and Exchange Commission of Pakistan	(1,071)	(3,988)
Borrowing against redemption of units	(25,000)	25,000
Accrued expenses and other liabilities	271	84,487
	(25,926)	103,692
Net cash generated from operating activities	113,214	817,020
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend Paid	-	(25,521)
Payable on redemption of units	-	(48)
Net payments from sale and redemption of units	(104,421)	(1,592,910)
Net cash used in financing activities	(104,421)	(1,618,479)
Net increase / (decrease) in cash and cash equivalents during the period	8,793	(801,459)
Cash and cash equivalents at beginning of the period	5,646	818,684
Cash and cash equivalents at end of the period	14,439	17,225

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
(UN-AUDITED)**

For the quarter ended September 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Income Opportunity Fund (formerly KASB Liquid Fund) ("the Fund" or "KIOF") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on February 20, 2006 and the Fund was approved by the Securities and Exchange Commission of Pakistan (SECP) on March 17, 2006 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). In conformity with circular 7 of 2009 dated March 6, 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Aggressive Income" category and all references of the name have been replaced from KASB Liquid Fund to KASB Income Opportunity Fund.

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

KIOF is an open end 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. There are no non-compliant investments with the investment criterion of assigned category as at September 30, 2010.

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

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

2. BASIS OF PREPARATION

This financial information has been prepared in condensed form in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting as required under regulation 38 (g) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). This does not include all the information required for full annual financial statements and should be read in conjunction with the financial statements for the year ended June 30, 2010.

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
(UN-AUDITED)**

For the quarter ended September 30, 2010

This condensed interim financial information comprises of the condensed interim statement of assets and liabilities as at September 30, 2010 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds, condensed interim cash flow statement and notes thereto for the quarter ended September 30, 2010.

The comparatives in the statement of assets and liabilities presented in the condensed interim financial information as at September 30, 2010 have been extracted from the audited financial statements of the Fund for the year ended June 30, 2010.

This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the Fund's functional and presentation currency and has been rounded off to the nearest thousand rupees.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation followed in the preparation of this condensed interim financial information are the same as those applied in the preparation of financial statements for the year ended June 30, 2010.

4. ESTIMATES AND JUDGEMENTS

The preparation of condensed interim financial information require the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates. The significant judgements made by the management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to financial statements as at and for the year ended June 30, 2010.

5. FINANCIAL RISK MANAGEMENT

The Fund's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended June 30, 2010.

	(Un-audited) September 30 2010	(Audited) June 30 2010
	(Rupees in '000)	
6. BANK BALANCES		
In current accounts	6	6
In deposit accounts	6.1	5,640
	<u>14,439</u>	<u>5,646</u>

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

7. PLACEMENTS - Unsecured

These represent placements with financial institutions and carry profit rate ranging from 12.71% to 13.42% (June 30, 2010: 12.51% to 13.42% per annum) and maturity ranging from 8 to 19 days (June 30, 2010: 13 to 19 days).

Due to continuous delays in payments by the respective counter-parties, the Fund recognised provisions against the respective investments and suspended further accrual of mark-up in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
(UN-AUDITED)**

For the quarter ended September 30, 2010

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

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

8. CERTIFICATES OF INVESTMENT - Unsecured

This represents certificate of investment with a financial institution and carries profit at the rate of 15% per annum (June 30, 2010: 15% per annum) having a maturity of 15 days (June 30, 2010: 2 days).

9. INVESTMENTS

'At fair value through profit or loss'

Designated on initial recognition

		(Un-audited) September 30 2010	(Audited) June 30 2010
- Fixed income and other debt securities	9.2	184,153	325,816
- Advance against Pre Initial Public Offer Investments	9.3	-	-
- Government securities	9.4	64,877	-
		<u>249,030</u>	<u>325,816</u>

'Available for sale'

- Fixed income and other debt securities	9.6	467,735	559,999
		<u>716,765</u>	<u>885,815</u>

9.1 The cost of the above investments as at September 30, 2010 amounted to Rs. 1,142.60 million (June 30, 2010: Rs. 1,221.96 million).

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

Name of the investee company	Profit / mark-up rate (%)	----- Number of certificates -----				Market value as at September 30, 2010	Market value as a percentage of net assets	Outstanding principal value as a percentage of total debt issue
		As at July 01, 2010	Purchases during the period	Sales during the period	As at September 30, 2010			
(Rupees in '000)								
Term Finance Certificates - Listed								
Allied Bank Limited	13.72	11,000	-	-	11,000	49.772	5.94	1.10
NIB Bank Limited	14.01	2,000	-	-	2,000	9.465	1.13	1.67
Pace Pakistan Limited	14.31	1,000	-	-	1,000	3.702	0.44	0.33
Pakistan Mobile Communications Limited - IV								
Trust Investment Bank Limited - III	13.99	48,620	-	28,750	19,870	77.840	9.29	1.75
United Bank Limited - IV	14.20	10,000	-	-	10,000	33.931	4.05	8.33
					9,443		1.13	1.67
					<u>184,153</u>			

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
(UN-AUDITED)**

For the quarter ended September 30, 2010

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

Name of the investee company	Profit / mark-up rate (%)	----- Number of certificates -----			Market / Carrying value as at September 30, 2010	Market / Carrying value as a percentage of net assets	Outstanding principal value as a percentage of total debt issue
		As at July 01, 2010	Purchases during the period	Sales during the period			
(Rupees in '000)							
Dewan Cement Limited	9.3.1	16.12	30,000	-	-	30,000	3.00

9.3.1 This represents investment in advance against term finance certificates of Dewan Cement Limited (DCL). The investment in DCL is secured against collaterals. As per agreement, public offering was expected to be completed within 270 days from the signing of the agreement failing which DCL was required to refund the amount of Rs. 150 million along with interest accrued thereon.

The Fund has made full provision against the said investment and full provision against mark-up receivable till October 5, 2008. Moreover, the Fund suspended further accrual of mark-up thereagainst. Therefore, the investment is fully provided as at September 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.

9.4 Government securities - designated as 'at fair value through profit or loss' on initial recognition

Name of the investee company	----- Fees Value -----					Market value as at September 30, 2010	Market value as a percentage of net assets
	As at July 01, 2010	Purchases during the period	Sales during the period	Maturities during the period	As at September 30, 2010		
(Rupees in '000)							
Treasury bills							
6 Months							
April 8, 2010	-	50,000	-	-	50,000	49,905	5.95
						49,905	
3 Months							
July 15, 2010	-	15,000	-	-	15,000	14,972	1.79
						14,972	
						<u>64,877</u>	

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
(UN-AUDITED)**

For the quarter ended September 30, 2010

	(Un-audited) Quarter ended September 30	
	2010	2009
9.5 Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	(Rupees in '000)	
Fair value of investments	249,030	664,990
Less: Cost of investments	(430,223)	(793,016)
	(181,193)	(128,026)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' at beginning of the period	189,485	112,476
Provision against non-performing investments	-	11,833
	189,485	124,309
	8,292	(3,717)

9.6 Fixed income and other debt securities - 'available for sale'

Name of the investee company	Profit / mark-up rate (%)	----- Number of certificates -----				Market / Carrying value as at September 30, 2010	Market / Carrying value as a percentage of net assets	Outstanding principal value as a percentage of total debt issue
		As at July 01, 2010	Purchases during the period	Sales during the period	As at September 30, 2010			
(Rupees in '000)								
Term Finance Certificates								
Avani Hotels Limited	15.58	19,760	-	-	19,760	86,996	10.38	2.44
Azgard Nine Limited - IV	9.6.1	14.58	44,400	-	44,400	139,748	16.67	8.87
Engro Chemicals Pakistan Limited - II	14.60	360	-	-	360	1,756	0.21	0.05
Gharibwal Cement Limited	9.6.2	15.40	8,000	-	8,000	-	-	10.00
New Allied Electronics Industries (Private) Limited	9.6.3	15.43	13,000	-	13,000	-	-	7.22
Optimus Limited	14.46	10,000	-	-	10,000	48,107	5.74	10.00
						276,607		
Sukuk Certificates								
Al-Zamin Leasing Modaraba	9.6.4	14.81	14,000	-	14,000	41,562	4.96	8.34
Eden Builders Limited	15.04	1,720	-	-	1,720	7,292	0.87	0.30
Eden Housing Limited	15.46	5,185	-	-	5,185	11,580	1.38	2.66
Karachi Shipyard & Engineering Works Limited - II	13.18	200	-	-	200	971	0.12	0.03
Kohat Cement Company Limited	14.55	7,650	-	-	7,650	27,339	3.26	1.48
Maple Leaf Cement Factory Limited - II	13.72	26,600	-	-	26,600	97,693	11.65	1.66
Maple Leaf Cement Factory Limited - III	14.09	998	-	-	998	3,666	0.44	1.66
New Allied Electronics Industries (Private) Limited - I	9.6.5	14.91	32,000	-	32,000	-	-	1.33
New Allied Electronics Industries (Private) Limited - II	9.6.6	14.42	8,600	-	8,600	-	-	5.73
Pak Elektron Limited - II	-	14,000	-	14,000	-	-	-	-
Security Leasing Corporation Limited	6.00	500	-	-	500	1,025	0.12	0.18
						191,128		
						467,735		

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9.6.1 This represents term finance certificates of Azgard Nine Limited (ANL). The investment in ANL is secured against collaterals.

Due to financial difficulties, ANL was unable to make the due payments of principal and profit amounting to Rs.22.18 million and Rs. 16.22 million respectively on June 4, 2010. ANL is in the process of restructuring arrangement with term finance certificate holders. The Fund recognised partial provision against the respective investment and full provision against the profit accrued till June 4, 2010. Further, the Fund also suspended further accrual of profit thereagainst.

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

9.6.2 This represents privately placed term finance certificates of Gharibwal Cement Limited (GCL). The investment in GCL is secured against collaterals.

On July 18, 2009, owing to financial difficulties, no payment was made against the profit and principal due amounting to Rs. 3.67 million and Rs. 0.008 million respectively. However, principal due was subsequently received on August 11, 2009. The Fund recognised full provision against the said investment and full provision against profit receivable. Moreover, the Fund suspended further accrual of profit thereagainst. Therefore, the investment is fully provided as at September 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.

9.6.3 This represents privately placed term finance certificates of New Allied Electronics Industries (Private) Limited (NAEIL). The investment in NAEIL is secured against collaterals.

On November 15, 2008, owing to the financial difficulties, no payment was made against the mark-up and principal due amounting to Rs. 2.41 million and Rs. 5.42 million respectively. The Fund recognised full provision against the said investment and full provision against mark-up receivable. Moreover, the Fund suspended further accrual of mark-up thereagainst. Therefore, the investment is fully provided as at September 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.

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

9.6.4 This represents privately placed term finance certificates of Al Zamin Leasing Modaraba (AZLM). The investment in AZLM is secured against collaterals.

On August 12, 2010, owing to financial difficulties, no payment was made against the mark-up and principal due amounting to Rs. 0.71 million and Rs. 1.46 million respectively. However, principal and mark-up due was subsequently received. The Fund recognised partial provision against the said investment. Moreover, the Fund suspended further accrual of mark-up there against.

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.

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

On October 25, 2008, owing to financial difficulties, NAEIL paid full profit amounting to Rs. 0.42 million, however, no payment was made against the principal due amounting to Rs. 0.63 million. Subsequently NAEIL continuously defaulted on every repayment date. The Fund recognised full provision against the investment and suspended further accrual of profit thereagainst. Therefore, the investment is fully provided as at September 30, 2010.

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

9.6.6 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 profit amounting to Rs. 3.25 million.

On February 11, 2009 and March 20, 2009 the Fund received a partial payment amounting to Rs. 1.57 million and Rs. 0.84 million respectively against the outstanding profit. The Fund recognised full provision against the said investment and outstanding profit receivable accordingly. Moreover, the Fund suspended further accrual of profit thereagainst. Therefore, the investment is fully provided as at September 30, 2010.

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For the quarter ended September 30, 2010

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

(Un-audited) Quarter ended September 30		
9.7 Net unrealised appreciation in fair / carrying value of investments classified as 'available for sale'	2010	2009
(Rupees in '000)		
Fair / Carrying value of investments	467,735	791,323
Less: Cost of investments	(712,379)	(883,027)
	(244,644)	(91,704)
Unrealised diminution in fair / carrying value of investments classified as 'available for sale' at beginning of the period	221,661	118,578
Provision against non-performing investments	25,493	1,685
	247,154	120,263
	2,510	28,559

10. 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, 2009 amounting to Rs. 3.372 million. However, during the period under review, Ministry of Labor issued certain clarifications regarding applicability of WWF on mutual funds. Moreover, Federal Board of Revenue also circulated the clarification issued by the Ministry of Labor to its members and the matter is currently under review and discussion.

11. LOSS PER UNIT

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

12. 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, KASB Technology Services Limited, KASB Modaraba Management (Private) Limited being the subsidiary companies of KASB Bank Limited, Shakarganj Food Products Limited, New Horizon Exploration and Production Limited and KASB International Limited being the associated companies of KASB Bank Limited, Central Depository Company of Pakistan Limited being the Trustee of the Fund, other Funds managed by the management company (including KASB Stock Market Fund, KASB Asset Allocation Fund (formerly KASB Balanced Fund), KASB Islamic Income Opportunity Fund (formerly KASB Islamic Income Fund), KASB Cash Fund and KASB Capital Protected Gold Fund) and directors, key management personnel and officers of the Management Company.

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
(UN-AUDITED)**

For the quarter ended September 30, 2010

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

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

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

12.1 Transactions:

	(Un-audited) Quarter ended September 30	
	2010	2009
	(Rupees in '000)	
KASB Funds Limited		
Remuneration expense	4,583	10,499
Bonus units: Nil units (2009: 5,384 units)	-	528
Redemption from the Fund: Nil units (2009: 856,211 units)	-	85,028
Conversion out of the Fund: 29,495 units (2009: Nil units)	2,554	-
Units pledged with KASB Bank Limited: Nil units (2009: 457,759 units)	-	45,602
KASB Bank Limited		
Bank charges	6	6
Profit accrued on bank deposits	328	3,862
Borrowing against redemption of units	-	25,000
Financial charges on borrowing against redemption of units	638	362
Dividend paid	-	4,201
KASB Securities Limited - Brokerage House		
Brokerage expense 12.3	36	24
Sale of Nil units (2009: 5,000 units) of term finance certificates of KASB Securities Limited	-	20,794
New Horizon Exploration and Production Limited		
Bonus units: Nil units (2009: 1 units)	-	1
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	458	952
CDS charges	1	2

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
(UN-AUDITED)**

For the quarter ended September 30, 2010

(Un-audited)
Quarter ended
September 30

2010 2009

(Rupees in '000)

**Directors and Officers of the Management
Company**

Redemption from the Fund: Nil units (2009: 54,052 units)	-	5,354
Conversion in the Fund: Nil units (2009: 8,931 units)	-	891
Conversion out of the Fund: Nil units (2009: 18,720 units)	-	2,141
Switching in the Fund: Nil units (2009: 21,831 units)	-	2,178
Switching out of the Fund: Nil units (2009: 5,418 units)	-	537
Bonus units: Nil units (2009: 893 units)	-	88

12.2 Balances

KASB Funds Limited

	(Un-audited) September 30 2010	(Audited) June 30 2010
	(Rupees in '000)	
Payable to the Management Company	1,433	1,532
Units held: Nil units (June 30, 2010: 29,495 units)	-	2,524

KASB Cash Fund

Payable to KASB Cash Fund	-	44
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KASB Securities Limited - Brokerage House

Brokerage payable	23	12
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KASB Bank Limited

Bank balances 12.4	14,212	5,414
Profit receivable on bank deposits	128	80
Units held: 3,361,101 units (June 30, 2010: 3,361,101 units)	282,109	287,655
Borrowing against redemption of units	-	25,000

**Central Depository Company of Pakistan
Limited - Trustee**

Payable to the Trustee	143	170
Security deposit	100	100

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
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For the quarter ended September 30, 2010

- 12.3 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.
- 12.4 The rate of return on this deposit account is 12% per annum (June 30, 2010: 12% per annum).
13. **DATE OF AUTHORISATION FOR ISSUE**
This condensed interim financial information was authorised for issue on October 28, 2010 by the Board of Directors of the Management Company.



Chief Executive

For KASB Funds Limited
(Management Company)

Director