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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

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Mansoor Ali

Audit Committee

Mr. Robert John Richard Owen
Mr. Syed Muhammad Rehmanullah

Trustee

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

Fund Rating

BBB(f) by PACRA
(July 2010)

Bankers to the Fund

Dawood Islamic Bank Limited
Meezan Bank Limited
Al Baraka Bank (Pakistan) Limited

Auditors

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

Legal Advisor

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

Registrar

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

Distributors

KASB Funds Limited
KASB Bank Limited
KASB Securities Limited
IGI Investment Bank Limited
Summit Capital (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 and riba free Investment medium whereby investors can participate in a portfolio of Shariah Compliant income products 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 six months ended December 31, 2010

The Board of Directors of KASB Funds Limited ("KFL" or "the Company"), the Management Company of KASB Islamic Income Opportunity Fund (formerly KASB Islamic Income Fund) ("KIIOF" or "the Fund"), is pleased to present the condensed interim financial information of the Fund for the six months ended December 31, 2010.

Investing Activities and Fund's Performance

The country's economy is going through difficult times but more troublesome is the delay in the much needed reforms on the fiscal and administrative fronts. The country, after taking a huge economic hit due to devastating floods last year, needs to take crucial economic decisions in a timely manner so as to address the structural issues that the economy faces especially to resolve the energy crisis and persistent inflation.

As the government remained under stress in order to finance its fiscal deficit, it kept financing the gap through SBP and commercial banks. Due to continuous need of financing and tight monetary policy stance from SBP, the money market rates remained on higher side during the period under review. The SBP raised policy rate by 150 bps during 1HFY11 to 14.0%. The treasury bills cut-offs increased by 115,116 and 136 bps in 3M, 6M and 12M papers respectively. The activity in the corporate bonds remained dull and only highly rated TFCs/Sukuks were traded.

During the period under review, the activity in Sukuks and other Shariah compliant instruments remained dull and only highly rated Sukuks were traded. The rates in Islamic deposits were lower due to excess liquidity and lower appetite to mobilize new deposits.

While the benchmark (Average 3 month rates of three Islamic Banks) posted annualized returns of 7.57% and 9.87% since inception and six months respectively, the Fund recorded annualized returns of 3.9% and -4.18% since inception and six months respectively, resulting from downward Sukuk revaluations as well as credit issues in some of the instruments held in the portfolio. The overall asset allocation of the Fund stood at 57.5% and 42.5% for Sukuk/Government backed securities and Cash/Placements/other assets respectively as at December 31, 2010.

The Fund earned a gross income of Rs. 13.65 mln during the period under consideration while the net loss of the Fund for the same period was Rs. 5.22 mln and the total net assets of the Fund stood at Rs. 210.36 mln at the end of the period translating into a NAV per unit of Rs. 97.2340 (Par Rs. 100).

Future Outlook

The increasing revenue-expenditure gap is the most urgent issue the government is facing right now, especially after the floods. The targeted fiscal deficit seems too optimistic (4.7% of GDP) as the 1HFY11 deficit has already reached 2.9%. Although, the IMF has extended the SBA program by nine months, the next review will be critical to satisfy the IMF on the reformed GST and improved fiscal measures. The SBP's monetary policy is expected to remain contractionary due to persistent inflation and higher government borrowing.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the six months ended December 31, 2010

During the last six months the policy rate has increased by 150 bps, which has increased the required yields on the outstanding Sukuks resulting in the decline in secondary market prices of Sukuks. Moreover, as the trading activities in the corporate bonds remained subdued the prices of majority of the Sukuks were affected due to debt-repricing. Going forward, the Fund aims to reduce its Sukuks portfolio further and replace it with short term Islamic government papers/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

**February 17, 2011
Karachi**

**Muhammad Imran Khalil
Chief Executive**

TRUSTEE REPORT TO THE UNIT HOLDERS KASB ISLAMIC INCOME OPPORTUNITY FUND (formerly KASB Islamic Income Fund)

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

The KASB Islamic Income Opportunity Fund [KASB Islamic Income Fund] (the Fund), an open-end scheme was established under a trust deed dated February 29, 2008, executed between KASB Funds Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the period from July 01, 2010 to December 31, 2010 in accordance with the provisions of the following:

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

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

Karachi, February 22, 2011

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED
INTERIM FINANCIAL INFORMATION TO THE UNIT HOLDERS OF
KASB ISLAMIC INCOME OPPORTUNITY FUND
(formerly KASB Islamic Income Fund)**

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **KASB Islamic Income Opportunity Fund** (formerly KASB Islamic Income Fund) ("the Fund") as at 31 December 2010 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and notes to the condensed interim financial information for the six months period ended 31 December 2010 (here-in-after referred to as the "condensed interim financial information"). Management Company is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Other matters

The figures for the quarters ended 31 December 2010 and 31 December 2009 in the condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' funds have not been reviewed and we do not express a conclusion on them.

Date: 17 February 2011

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
MONEEZA USMAN BUTT

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES

As at December 31, 2010

| | | (Un-audited) December 31 | (Audited) June 30 |
|---|------|-----------------------------|----------------------|
| | Note | 2010 | 2010 |
| ---(Rupees in '000)--- | | | |
| Assets | | | |
| Bank balances | 6 | 81,330 | 103,706 |
| Income receivable | | 18,196 | 13,342 |
| Investments | 7 | 132,579 | 152,967 |
| Deposits and prepayments | | 129 | 123 |
| Preliminary expenses and floatation costs | | 487 | 587 |
| Total assets | | 212,721 | 270,725 |
| Liabilities | | | |
| Payable on redemption of units | | - | 42 |
| Payable to KASB Funds Limited - Management Company | | 222 | 273 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | 60 | 58 |
| Payable to The Securities and Exchange Commission of Pakistan | | 83 | 275 |
| Accrued expenses and other liabilities | | 2,001 | 2,691 |
| Total liabilities | | 2,366 | 3,339 |
| Net assets | | 210,355 | 267,386 |
| Unit holders' funds | | 210,355 | 267,386 |
| (Number of units) | | | |
| Number of units in issue | | 2,163,388 | 2,692,102 |
| (Rupees) | | | |
| Net asset value per unit | | 97.2340 | 99.3225 |

The annexed notes 1 to 11 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 six months and quarter ended December 31, 2010

| Note | Six months ended December 31 | | Quarter ended December 31 | |
|---|---------------------------------|----------------|------------------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | ------(Rupees in '000)----- | | | |
| Income | | | | |
| Income from sukuk certificates | 10,491 | 19,647 | 4,937 | 9,127 |
| Profit on bank deposits | 3,159 | 11,270 | 1,406 | 4,423 |
| Total income | 13,650 | 30,917 | 6,343 | 13,550 |
| Expenses | | | | |
| Remuneration of KASB Funds Limited - Management Company | 1,377 | 2,996 | 652 | 1,364 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 353 | 482 | 177 | 221 |
| Annual fee - The Securities and Exchange Commission of Pakistan | 83 | 180 | 39 | 82 |
| Transaction cost on securities | - | 1 | - | 1 |
| Settlement and bank charges | 7 | 41 | 4 | 23 |
| Legal and professional charges | 278 | 141 | 163 | 101 |
| Fees and subscription | 116 | 67 | 63 | 33 |
| Auditor's remuneration | 266 | 332 | 118 | 145 |
| Amortization of preliminary expenses and floatation costs | 101 | 101 | 51 | 51 |
| Printing and other expenses | 60 | 60 | 30 | 30 |
| Provision for Workers' Welfare Fund | 27 | - | 27 | - |
| Provision against non-performing investments | 12,685 | 21,873 | - | 21,873 |
| Provision against doubtful income receivable | 667 | 6,551 | - | 6,551 |
| Total expenses | 16,020 | 32,825 | 1,324 | 30,475 |
| | (2,370) | (1,908) | 5,019 | (16,925) |
| Net realized element of loss and capital losses included in prices of units issued less those in units redeemed | (2,851) | (5,244) | (190) | (2,822) |
| Net (loss) / income for the period | (5,221) | (7,152) | 4,829 | (19,747) |
| (Loss) / earnings per unit | | 8 | | |

The annexed notes 1 to 11 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 six months and quarter ended December 31, 2010

| | Six months ended December 31 | | Quarter ended December 31 | |
|--|---------------------------------|---------------|------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | ------(Rupees in '000)----- | | | |
| Net (loss) / income for the period | (5,221) | (7,152) | 4,829 | (19,747) |
| Other comprehensive income | | | | |
| Net unrealized (diminution) / appreciation in fair value of investments classified as 'available for sale' during the period | (16,381) | 251 | (7,058) | 710 |
| Provision against non-performing 'available for sale' investments | 12,685 | 18,354 | - | 18,354 |
| Net element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealized appreciation | 4,757 | 5,037 | 348 | 3,172 |
| Other comprehensive income / (loss) for the period | 1,061 | 23,642 | (6,710) | 22,236 |
| Total comprehensive (loss) / income for the period | (4,160) | 16,490 | (1,881) | 2,489 |

The annexed notes 1 to 11 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 six months and quarter ended December 31, 2010

| | Six months ended December 31 | | Quarter ended December 31 | |
|---|---------------------------------|-----------|------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| ------(Rupees in '000)----- | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net (loss) / income for the period | (5,221) | (7,152) | 4,829 | (19,747) |
| Adjustments for: | | | | |
| Net realized element of loss and capital losses included in prices of units issued less those in units redeemed | 2,851 | 5,244 | 190 | 2,822 |
| Amortization of preliminary expenses and flotation costs | 101 | 101 | 51 | 51 |
| | 2,952 | 5,345 | 241 | 2,873 |
| Decrease / (increase) in assets | | | | |
| Investments - net | 16,691 | 34,938 | 1,501 | 28,408 |
| Income receivable | (4,854) | 16,240 | (4,427) | 16,214 |
| Deposits and prepayments | (6) | 3,194 | 12 | 333 |
| | 11,831 | 54,372 | (2,914) | 44,955 |
| Increase / (decrease) in liabilities | | | | |
| Payable to KASB Funds Limited - Management Company | (51) | (248) | 2 | (204) |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 2 | (29) | 2 | (19) |
| Payable to The Securities and Exchange Commission of Pakistan | (192) | (395) | 39 | 82 |
| Accrued expenses and other liabilities | (690) | (27) | 130 | (297) |
| | (931) | (699) | 173 | (438) |
| Net cash generated from operating activities | 8,631 | 51,866 | 2,329 | 27,643 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Dividend paid | - | (18,546) | - | (7,130) |
| Payable on redemption of units | (42) | (28) | (214) | (141) |
| Net payments from sale and edemption of units | (50,965) | (180,083) | (2,485) | (106,531) |
| Net cash used in financing activities | (51,007) | (198,657) | (2,699) | (113,802) |
| Net decrease in cash and cash equivalents during the period | (42,376) | (146,791) | (370) | (86,159) |
| Cash and cash equivalents at beginning of the period | 103,706 | 264,855 | 61,700 | 204,223 |
| Cash and cash equivalents at end of the period | 61,330 | 118,064 | 61,330 | 118,064 |

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED)

For the six months and quarter ended December 31, 2010

| | Six months ended December 31 | | Quarter ended December 31 | |
|---|---------------------------------|----------|------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| ------(Rupees in '000)----- | | | | |
| Undistributed income brought forward | 13,333 | 30,223 | 7,692 | 24,805 |
| Net (loss) / income for the period | (5,221) | (7,152) | 4,829 | (19,747) |
| Net element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealized appreciation | 4,757 | 5,037 | 348 | 3,172 |
| Final distribution: Rs. Nil (Rs. 3.75 per unit for the year ended June 30, 2009) | - | (19,878) | - | - |
| Interim distribution: Rs. Nil (Rs 3.5 per unit as on October 23, 2009) | - | (16,754) | - | (16,754) |
| | (464) | (38,747) | 5,177 | (33,329) |
| Undistributed income / (loss) carried forward | 12,869 | (8,524) | 12,869 | (8,524) |

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

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

For the six months and quarter ended December 31, 2010

| | Six months ended December 31 | | Quarter ended December 31 | |
|---|---------------------------------|-----------|------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| | ----- (Rupees in '000) ----- | | | |
| Net assets at beginning of the period | 267,386 | 542,166 | 214,879 | 471,756 |
| Issue of 16,983 units (2009: 4,346,893 units) and 4,099 units (2009: 2,045,620 units) for the six months and quarter respectively | 1,634 | 432,419 | 400 | 203,199 |
| Issue of Nil bonus units (2009: 183,532 units) and Nil bonus units (2009: 97,655 units) for the six months and quarter respectively | - | 18,086 | - | 9,624 |
| Redemption of 545,696 units (2009: 6,148,326 units) and 30,533 units (2009: 3,115,841 units) for the six months and quarter respectively | (52,599) | (612,502) | (2,885) | (309,730) |
| | (50,965) | (161,997) | (2,485) | (96,907) |
| Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed | | | | |
| - amount representing accrued loss and realized capital losses - transferred to the Income Statement | 2,851 | 5,244 | 190 | 2,822 |
| - amount representing unrealized capital gains - transferred directly to Distribution Statement | (4,757) | (5,037) | (348) | (3,172) |
| | (1,906) | 207 | (158) | (350) |
| Unrealized (diminution) / appreciation in fair value of investments classified as 'available for sale' at end of the period | (42,019) | (17,875) | (7,058) | 710 |
| Provision against non-performing 'available for sale' investments | 12,685 | 18,354 | - | 18,354 |
| Unrealized diminution in fair value of investments classified as 'available for sale' at beginning of the period | 25,638 | 18,126 | - | - |
| Unrealized (diminution) / appreciation in fair value of investments classified as 'available for sale' during the period | (3,696) | 18,605 | (7,058) | 19,064 |
| Distributions during the period: | | | | |
| - Issue of bonus units | - | (18,086) | - | (9,624) |
| - Dividend | - | (18,546) | - | (7,130) |
| | - | (36,632) | - | (16,754) |
| Net (loss) / income for the period | (5,221) | (7,152) | 4,829 | (19,747) |
| Net element of income and capital gains included in prices of units issued less those in units redeemed - representing unrealized appreciation | 4,757 | 5,037 | 348 | 3,172 |
| Net (loss) / income (including net element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealized appreciation) | (464) | (2,115) | 5,177 | (16,575) |
| Net assets at end of the period | 210,355 | 360,234 | 210,355 | 360,234 |

The annexed notes 1 to 11 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 six months and quarter ended December 31, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Islamic Income Opportunity Fund (formerly KASB Islamic Income Fund) ("KIOF", the "Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on February 29, 2008 and the Fund was approved by the Securities and Exchange Commission of Pakistan (SECP) on May 02, 2008 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 "Islamic Aggressive Income" category and all references of the name have been replaced from KASB Islamic Income Fund to KASB Islamic 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 the Pakistan Credit Rating Agency (PACRA) has assigned a stability rating of 'BBB(f)' (Triple B - Fund Rating) to the Fund. Currently management has applied for assignment of fresh rating based on its latest financial statements and awaiting for response in this regard.

KIOF is an open end aggressive Islamic income 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 December 31, 2010. However, the details of investments which exceeds the maximum limit specified in constitutive documents of the Fund is disclosed in note no. 7.3 of this condensed interim financial information.

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

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

2. BASIS OF PREPARATION

This condensed interim financial information of the Fund has been prepared in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. This condensed interim financial information 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.

This condensed interim financial information comprises of the condensed interim statement of assets and liabilities as at December 31, 2010 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and notes thereto for the six months and quarter ended December 31, 2010.

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

For the six months and quarter ended December 31, 2010

The comparatives in the statement of assets and liabilities presented in the condensed interim financial information as at December 31, 2010 have been extracted from the audited financial statements of the Fund for the year ended June 30, 2010, where as the comparative condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' funds are stated from unaudited condensed interim financial information for the six months and quarter ended December 31, 2009.

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. The figures for the six months ended December 31, 2010 and December 31, 2009 have been reviewed by the auditor, however, figures for the quarter ended December 31, 2010 and December 31, 2009 have neither been audited nor reviewed by the auditor.

3. SIGNIFICANT 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. New interpretations and amendments to certain existing standards interpretations are effective during the period, however, adoption of such amendments / new interpretations did not have any impact on the accounting policies of the Fund.

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. In preparing these condensed interim financial information, 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.

6. BANK BALANCES

| | (Un-audited) December 31 | (Audited) June 30 |
|---------------------|-----------------------------|----------------------|
| | 2010 | 2010 |
| | ----(Rupees in '000)---- | |
| In current accounts | 320 | 605 |
| In deposit accounts | 61,010 | 103,101 |
| | <u>61,330</u> | <u>103,706</u> |

6.1 These deposit accounts carry profit at the rate of 5% to 9.5% per annum (June 30, 2010: 5% to 9.5% per annum).

7. INVESTMENTS

'Available for sale'

- Fixed income and other debt securities 7.2 132,579 152,967

7.1 The cost of the above investments as at December 31, 2010 amounted to Rs. 174.60 million (June 30, 2010: Rs. 178.61 million).

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

For the six months and quarter ended December 31, 2010

7.2 Fixed income and other debt securities - available for sale - Sukuk Certificates

| Name of the investee company | Profit rate (%) | ----- Number of certificates ----- | | | | Market / value as at December 31, 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 December 31, 2010 | | | |
| (Rupees in '000) | | | | | | | | |
| Agritech Limited (formerly: Pak - American Fertilizers Limited) 7.2.1 | 14.79 | 10,000 | - | - | 10,000 | 35,000 | 16.64 | 3.13 |
| Century Paper & Board Mills Limited | 14.29 | 2,000 | - | - | 2,000 | 7,806 | 3.71 | 0.29 |
| Eden Builders Limited | 15.66 | 5,480 | - | - | 5,480 | 21,784 | 10.36 | 1.10 |
| Kohat Cement Company Limited | 15.21 | 10,350 | - | - | 10,350 | 33,669 | 16.01 | 2.07 |
| Maple Leaf Cement Factory Limited | 14.37 | 7,400 | - | - | 7,400 | 23,183 | 11.02 | 0.46 |
| Maple Leaf Cement Factory Limited-II | 14.46 | 277 | - | - | 277 | 975 | 0.46 | 0.46 |
| GOP IJARA | 13.27 | 100 | - | - | 100 | 10,162 | 4.83 | |
| | | | | | | <u>132,579</u> | | |

7.2.1 This represents sukuk certificates of Agritech Limited (AL). The investment in AL's sukuk certificate is secured against collaterals. On August 6, 2010, owing to financial difficulties, no payment was made against the profit amounting to Rs. 3.54 million. The Fund made full provision against the said profit receivable. As at December 31, 2010, the Fund has recognized a partial provision against the respective investment and also suspended further accrual of profit thereagainst.

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 unrecognized markup and other charges etc.

7.3 Details of non-compliant investments with the investment criterion of assigned category

| Name of non-compliant investment | Type of instrument | Value of investment before provision | Provision held (if any) | Value of investment after provision | Percentage of net asset | Percentage of gross assets |
|---|--------------------|--------------------------------------|-------------------------|-------------------------------------|-------------------------|----------------------------|
| ----(Rupees in '000)---- | | | | | | |
| Agritech Limited (formerly: Pak - American Fertilizers Limited) | Sukuk | 50,000 | 15,000 | 35,000 | 16.64 | 16.45 |
| Kohat Cement Company Limited | Sukuk | 33,699 | - | 33,699 | 16.01 | 15.83 |

7.3.1 The above represents the investments which exceeds the maximum limit specified in constitutive documents of the fund.

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

For the six months and quarter ended December 31, 2010

| | (Un-audited) | |
|--|---------------------------------|-----------|
| | Six months ended December 31 | |
| 7.4 Unrealized (diminution) / appreciation in fair value of investments classified as 'available for sale' | 2010 | 2009 |
| | ----(Rupees in '000)---- | |
| Fair value of investments | 132,579 | 232,091 |
| Less: Cost of investment | (174,598) | (249,966) |
| | (42,019) | (17,875) |
| Unrealized diminution in fair value of investments classified as 'available for sale' at the beginning of the period | 25,638 | 18,126 |
| Provision against non-performing investments | 12,685 | 18,354 |
| | 38,323 | 36,480 |
| | (3,696) | 18,605 |

8. (LOSS) / EARNINGS PER UNIT

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

9. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The management intends to distribute at least 90% of the income earned by the year end by this Fund to the unit holders. The Fund is also exempt from the provisions of Section 113 (minimum tax) under Clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Accordingly, no provision has been made in this condensed interim financial information.

10. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company, KASB Securities Limited, KASB Modaraba, KASB Technology Services Limited, KASB Modaraba Management (Private) Limited 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 Income Opportunity Fund [formerly KASB Liquid Fund], KASB Stock Market Fund, KASB Asset Allocation Fund [formerly KASB Balanced 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.

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

For the six months and quarter ended December 31, 2010

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

| | (Un-audited) | | | |
|---|---------------------------------|--------|------------------------------|--------|
| | Six months ended December 31 | | Quarter ended December 31 | |
| 10.1 Transactions: | 2010 | 2009 | 2010 | 2009 |
| | ----- (Rupees in '000) ----- | | | |
| KASB Funds Limited | | | | |
| Remuneration expense | 1,377 | 2,996 | 652 | 1,364 |
| Sales load | - | 650 | - | 338 |
| KASB Bank Limited | | | | |
| Redemption from the Fund: Nil units (2009: 501,693 units) and Nil units (2009: Nil units) for the six months and quarter respectively | - | 50,000 | - | - |
| Conversion out of the Fund: Nil units (2009: 505,497 units) and Nil units (2009: Nil units) for the six months and quarter respectively | - | 50,000 | - | - |
| Dividend paid | - | 11,296 | - | 3,630 |
| Central Depository Company of Pakistan Limited - Trustee | | | | |
| Remuneration | 353 | 482 | 177 | 221 |
| CDS charges | 3 | 2 | 1 | 1 |
| Directors and Officers of the Management Company | | | | |
| Investment in the Fund: Nil units (2009: 11,772 units) and Nil units (2009: 596 units) for the six months and quarter respectively | - | 1,184 | - | 59 |
| Redemption from the Fund: Nil units (2009: 108,127 units) and Nil units (2009: 84,014 units) for the six months and quarter respectively | - | 10,804 | - | 8,378 |
| Conversion in the Fund: Nil units (2009: 319,242 units) and Nil units (2009: 69,308 units) for the six months and quarter respectively | - | 31,986 | - | 6,977 |
| Conversion out of the Fund: Nil units (2009: 177,695 units) and Nil units (2009: 115,893 units) for the six months and quarter respectively | - | 17,772 | - | 11,579 |

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

For the six months and quarter ended December 31, 2010

| (Un-audited) | | | |
|---------------------------------|------|------------------------------|------|
| Six months ended December 31 | | Quarter ended December 31 | |
| 2010 | 2009 | 2010 | 2009 |

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

| | | | | |
|--|---|-----|---|-----|
| Transfer in the Fund: Nil units (2009: 114 units) and Nil units (2009: Nil units) for the six months and quarter respectively | - | 11 | - | - |
| Transfer out of the Fund: Nil units (2009: 38 units) and Nil units (2009: 38 units) for the six months and quarter respectively | - | 4 | - | - |
| Bonus Units issued: Nil units (2009: 8,628 units) and Nil units (2009: 4,191 units) for the six months and quarter respectively | - | 850 | - | 413 |

| 10.2 Balances | (Un-audited) | (Audited) |
|---------------|--------------|-----------|
| | December 31 | June 30 |
| | 2010 | 2010 |

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

| | | |
|---|---------|---------|
| KASB Funds Limited | | |
| Payable to the Management Company | 222 | 273 |
| KASB Bank Limited | | |
| Bank balance | 320 | 605 |
| Units held: 1,037,084 (June 30, 2010: 1,037,084 units) | 100,840 | 103,006 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Payable to the Trustee | 60 | 58 |
| Security deposit | 100 | 100 |

| | | |
|---|----|-----|
| Directors and Officers of the Management Company | | |
| Units held: 119 units (June 30, 2010: 5,012 units) | 12 | 498 |

11. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on February 17, 2011 by the Board of Directors of the Management Company.

For KASB Funds Limited
(Management Company)

Chief Executive

Director