PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

Financial Statements

For the year ended 30 June 2014

Our Mission

"To provide higher risk adjusted returns to investors at large by investing into a diversified range of investment assets on consistent basis."

Our Vision

"Pak Oman Advantage Islamic Income Fund aims to provide diversified portfolio and return that is risk adjusted to suit investors at large, on a consistent basis."

FUND INFORMATION

Management Company
Pak Oman Asset Management Company Limited.
Horizon Vista, Mezzanine Floor – 2,
Plot No. Commercial – 10, Scheme – 5,
Block – 4, Clifton, Karachi – 75600.
Phone : +92 – 21 – 35361465 – 68
Fax : +92 – 21 – 35361469
Web site : www.pakomanfunds.com

Board of Director of The Management Company

H.E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman
Mr. Humayun Murad	Director
Mr. Agha Ahmed Shah	Director
Mr. Sulaiman Hamad Al Harthy	Director
Mr. Ali Said Ali	Director
Mr. Saif Said Salim Al Yazidi	Director
Mr. Parveiz Usman	Director
Ms. Hina Ghazanfar	MD & CEO

Audit Committee

Mr. Humayun Murad	Chairman
Mr. Sulaiman Hamad Al Harthy	Member
Mr. Saif Said Salim Al Yazidi	Member

Investment Committee

Mr. Ali Said Ali	Chairman
Mr. Agha Ahmed Shah	Member
Mr. Sulaiman Hamad Al Harthy	Member
Mr. Saif Said Salim Al Yazidi	Member

Human Resource & Remuneration Committee

Mr. Saif Said Salim Al Yazidi	Chairman
Mr. Humayun Murad	Member
Ms. Hina Ghazanfar	Member

Acting Unit Head Finance
Mr. Tanveer Ahmed

Company Secretary
Mr. Asif Javed

Trustee
MCB Financial Services Limited
3rd Floor, Adamjee House,
I.I. Chundrigar Road,
Karachi - 74000
Phone : +92 – 21 – 32419770
Fax : +92 – 21 – 32416371

Auditors
KPMG Taseer Hadi & Co.
Chartered Accountants
First Floor, Sheikh Sultan Trust Building,
No. 2 Beamount Road, Karachi – 75530
Pakistan

Bankers to the Fund
Bank Islami Pakistan Limited
Bank Al – Falah Limited – Islamic Banking

Shariah Advisor
Dr. Muhammad Najeeb Khan

Legal Advisor
Mohsin Tayebaly & Co.
2nd Floor, Dime Center,
BC – 4, Block – 9,
KDA Scheme 5, Clifton,
Karachi.
Phone : +92 – 21 – 35375658 – 9

Transfer Agent
JWAFFS Registrar Services (Pvt.) Limited
Kashif Center, Room No. 505,
Near Hotel Mehran,
Shahrah – e – Faisal, Karachi.
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Fax : +92 – 21 – 35643873

Rating of The Funds
AA – (f) PACRA

DIRECTORS REPORT OF THE MANAGEMENT COMPANY

The Board of Directors (BOD) of Pak Oman Asset Management Company Limited, the Management Company of **Pak Oman Advantage Islamic Income Fund (POAIIF)** is pleased to present the audited financial statements of the Fund for the **year ended June 30, 2014.**

Economic Review:

The financial year 2014 was the first year of new government of PMLN in which the economy has shown some improvement on the back of economic and fiscal reforms. Despite the current political turmoil due to sit-ins that has been prolonged for more than a month, several steps taken by PMLN government to support economic growth and to enhance investments from local as well as foreign side has changed the country's picture on international forum. Privatization process of different State Owned Entities (SOEs) coupled with issuance of Eurobond in International market is also resumed by the government to further support the economic progress.

Foreign exchange reserves stood at USD 14.14bn for the period ended FY14. At the time of taking over the government, foreign exchange reserves was at deteriorating position so the new government signed a loan facility from International Monetary Fund (IMF) of USD 6.7bn to avoid default on the debt service as the country's balance of payment position was in doldrums. Furthermore, inflows from 3G/4G auction coupled with inflows from Eurobond issuance and foreign remittances supported the foreign exchange reserves.

On the back of improved macroeconomic figures, Pakistan's GDP growth rate is expected to rise by 4.1% for the fiscal year ended 2014 as compared to 3.6% in the same period last year. During the year, the CPI inflation remained near the target set by the government of 8.0%. The average CPI inflation for the year FY14 was recorded as 8.6% as compared to 7.4% for the year of FY13.

On account of foreign portfolio investment (FPI), which includes foreign public investment, Pakistan attracted USD 2.74bn during the July 2013-June 2014 period, more than 21 times higher than the FPI worth USD 124.2mn received in the preceding fiscal year. Foreign Direct Investment (FDI) also recorded a growth of 11.99% on year over year basis, as FDI for the fiscal year period ended 2014 stood at USD 1.63bn as compared to USD 1.46bn in the corresponding period last year.

Current account posted a deficit of USD 2.9bn (1.2% of GDP) in the period of FY14 as compared to a deficit of USD 2.3bn in FY13. Current account deficit increased due to decline in the service sector as country received less Coalition Support Fund (CSF) during the year as compared to previous year.

Money Market:

The average overnight repo rate stood at 9.00% for the year ended June 30, 2014. The State Bank of Pakistan conducted twenty six T-bill auctions during the year and assimilated PKR 6,628.55bn collectively from all the auctions. The breakup of which is as follows: PKR 4,824.37bn in the 3-month tenor, PKR 914.23bn in the 6-month tenor and PKR 889.95bn in the 12-month tenor. Twelve PIB auctions were also conducted during the year. SBP accepted PKR 248.70bn against the participation of PKR 603.04bn. Besides T-bill and PIB auctions, one Government of Pakistan Ijara Sukuks auction was also conducted by SBP of which amount accepted equaled to PKR 49.54bn against participation of PKR 113.72bn.

Operating Performance

The Fund during the year ended June 30, 2014, earned a total income of PKR. 15.494mn (2013: PKR. 27.229 mn). The income for the year comprised mainly profit earned on deposits with banks amounting to PKR. 14.824mn (2013: PKR. 6.031mn) and Sukuk certificates amounting to PKR. 2.455 (2013: PKR. 20.796mn) and gain / (loss) on sales of marketable securities amounting to PKR.-1.785mn. (2013: PKR. 0.402 mn). After accounting for expenses of PKR.8.336 mn (2013: PKR. 19.414mn), the net income for the year was Rs. 4.879 mn (2013: PKR. 19.276 mn). The net assets of the fund as at June 30, 2014 were PKR 146.866 mn, (2013 : PKR. 298.610 mn) resulting in a net asset value of PKR 51.59/units (2013 : 52.01/unit).

Emphasis of Matter Paragraph

The Auditors has drawn attention attention to note 1.6 to the accompanying financial statements which explains the current status of the Management Company's license to provide asset management services and details of the fact that the Board of Directors have concluded a scheme of arrangement for amalgamation with another assets management company. The merger is subject to the approval of Securities and Exchange Commission of Pakistan. The Auditors have however remarked in their report that their opinion is not qualified in respect of this matter.

Future Outlook

During June 2014, Consumer Price Index (CPI) went up by 8.22% YoY as against 8.34% YoY a month ago. Healthy foreign exchange reserves that reached to USD 14.14bn at the year end kept PKR/USD parity stabilized at 98.5 with nominal appreciation of PKR against the greenback. After getting a positive response to Eurobond, the government has planned to issue Islamic Bonds/ Sukuks in the international market in upcoming months.

The Key indicators for monetary policy direction for FY15 will be external account developments as the CPI is expected to be well in control in the range of 8.00% - 8.75%. Going forward, a status quo is expected in the upcoming MPS to be announced in September 2014.

Investment Policy

Investment Policy of the Fund is stated in Clause 2.2 of the Offering Document. The Investment Policy of the Scheme is constructed to help ensure overall compliance with the investment objective stated above. The Investment Policy shall focus on selecting investments, executing transactions and constructing a portfolio to match the investment objective. The Investment Policy of the Scheme shall select instruments from within the specified Authorized Investments as stated in Clause 17.6 of the Offering Document.

Statement on Corporate and Financial Reporting Framework

- These financial statements, prepared by the management of the Fund, present its state of affairs fairly, the result of its operations, cash flows and movement in unit holders' fund.

- Proper books of accounts of the Fund have been maintained.

- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed and explained.

- The system of internal control is sound in design and has been effectively implemented and monitored: and

- There are no significant doubts upon the Fund's ability to continue as a going concern other than that disclosed in note 1.4 to the financial statements.

- The Directors, Executives of the Management Company including their spouse and minor children do not hold any interest in the units of the Fund other than those disclosed in the financial statements.

- Pattern of units holding is given in note 21.3 to the financial statements.

- Key financial data for five years given in note 21.2 to the financial statements.

- The number of board and committees` meeting held during the year and attendance by each director is as follows

	Designation	Board		Audit Committee		HR&R Committee	
		Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
H. E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman	10	8	0	0	0	0
Agha Ahmed Shah,	Director	10	8	0	0	0	0
Mr. Humayun Murad	Director	10	8	4	3	1	1
Mr. Parveiz Usman	Director	10	3	0	0	0	0
Mr. Sulaiman Hammad Al Harty	Director	10	5	4	2	0	0
Mr. Ali Said Ali	Director	10	7	0	0	0	0
Mr.Saif Said Salim Al Yazidi	Director	10	5	4	3	1	1
Ms. Hina Ghazanfar	MD & CEO	10	10	0	4	1	1

- Mr. Agha Ahmed Shah is a certified director from Pakistan Institute of Corporate Governance. In addition H. E. Yahya Bin Said Bin Abdullah Al-Jabri, Chairman and Mr. Humayun Murad, Director meets the criteria of exemption under clause (xi) of CCG and is accordingly exempted from directors` training program.

Merger of Management Company

The Board of Directors of Pak Oman Asset Management Company Limited (POAMCL), the Management Company of the fund, has approved merger of POAMCL with and into KASB Funds Limited (KFL). The shareholders of Management Company vide a special resolution approved the said merger in their extra ordinary general meeting. Competition Commission of Pakistan vide their letter dated 30 May 2014 has also given a 'No Objection Certificate' for the said merger. Funds' Trustees have also consented for the change of the management company and NOC from SECP has also been received.

Subsequent to the above processes and after fulfilling all the legal requirements, including those stipulated by SECP in its above referred NOC, a joint application has been submitted to the SECP for their final approval and the merger would take effect, from the date as advised by the SECP and subject to their approval.

Re-appointment of Auditors

The present auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants, retired and being eligible, offered themselves for re-appointment. The Audit Committee of the Management Company recommended and the Board of Directors approved their re-appointment as auditors for the year ending June 30, 2015.

Rating of the Fund and the Management Company

In accordance with criteria specified by the rating agency, the ranking of the fund is 'AA-' (Double A Minus) as assigned by The Pakistan Credit Rating Agency (PACRA). Further, Quality Rating of the Management Company is 'AM3-'; by the Credit Rating Agency JCR-VIS which is defined as stable management quality.

Acknowledgement

We thank all our investors who have placed their confidence in us. We also offer our sincere gratitude to the Securities and Exchange Commission of Pakistan, the Trustee – MCB Financial Services Limited and the management of the Karachi Stock Exchange. We also wish to place on record our appreciation for the personnel of the Management Company.

September 30,2014
Karachi – Pakistan.

For and on behalf of the Board
Hina Ghazanfar
MD & CEO

PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

REPORT OF THE FUND MANAGER OF THE MANAGEMENT COMPANY

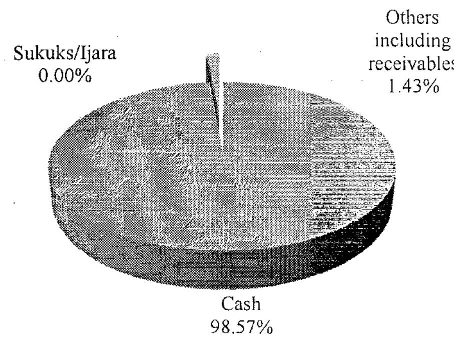
Pak Oman Asset Management Company Limited, the Management Company of Pak Oman Advantage Islamic Income Fund (the Fund) is pleased to present the Fund Manager's Report of the Fund for the year ended June 30, 2014.

INVESTMENT OBJECTIVE

The primary investment objective is to provide investor(s) with competitive current income and long-term capital growth primarily by investing in a diversified portfolio of Shariah Compliant investment instruments, including Shariah compliant securities available for investments outside Pakistan, subject to applicable laws.

Terms and Structure	
Type of Scheme	Open – End Fund
Nature of Scheme	Shariah Compliant Income
Inception Date	Oct 30th, 2008
Face Value	PKR 50 per Unit
Fund Size	PKR 146.866 Million
NAV (Jun 30th, 2014)	PKR 51.59
Benchmark	6-month average deposit rate of 4 Islamic Banks with minimum rating of A- or above.
Fund Stability Rating	AA- (f) (PACRA)
AMC Rating	AM3- (JCR – VIS)
Listing	Karachi Stock Exchange Limited
Trustee	MCB Financial Services Ltd.
Auditor	KPMG TaseerHadi& Co.
Legal Advisor	Mohsin Tayebaly& Co.
Registrar	JWAFFS Registrar Services Pvt Ltd.
Management Fee	1.10% p.a.
Investment Committee	Ms. HinaGhazanfar, CEO Mr. Imran Rahim Khan, Fixed Income Fund Manager Mr.Meraj Uddin Mazhar, Equity Fund Manager

POAIIF Asset Allocation



Unit Holding Pattern

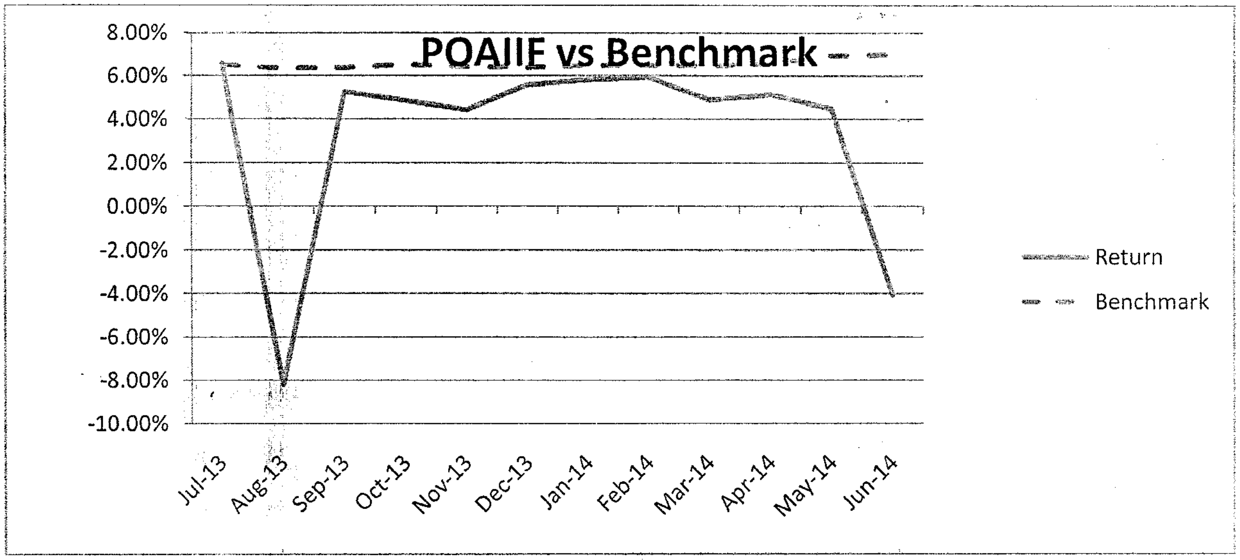
Units	# of Unit Holders
0 – 1,000	68
1,001 – 50,000	30
50,001 – 500,000	0
500,001 – 1,000,000	1
1000,001 - Above	1

Fund Returns	POAIIF	Benchmark
Year-to-Date (YTD)	3.43%	6.54%

Asset Allocation (% of Assets)	2014	2013
Cash	98.57	31.04
Other Including Receivables	1.43	2.15
Sukuk / Ijara	0.00	66.81
Leverage	0.00	0.00

POAIIF Performance	
Yield since inception	53.66%
Return (FY'14)	3.43%
Risk free rate (12M T-Bill)	9.81%
Sharpe Ratio	-7.7271
Distributions FY14 (PKR)	1.73

PAK OMAN ADVANTAGE ISLAMIC INCOME FUND



Fund Review:

POAIIF posted a return of 4.08% against its benchmark of 6.54%. The low YTD return is due to mark to market revaluation of IJARA Sukuk, as also previously there was no standard methodology for the mark to market, but on recommendation of MUFAP, the mark to market revaluation is carried out. Currently the fund is 98.57% invested in cash & cash equivalent and 1.43% in the receivables.

August 29, 2014
Karachi

Mr. Imran Rahim Khan
Fixed Income Fund Manager

Report of the Shar'iah Advisor - Pak Oman Advantage Islamic Income Fund (POAIIF)

Karachi

August 06, 2014

Alhamdulillah, the period from July 1, 2013 to June 30, 2014 was the forth year of operations of Pak Oman Advantage Islamic Income Fund (POAIIF). This report is being issued in accordance with clause 3.A.4 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shar'iah Compliance of Fund's activity.

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

i. I have reviewed and approved the modes of investments of POAIIF in light of Shar'iah requirements.

ii. In light of above, I hereby certify that all the provisions of the Scheme and investments made on account of POAIIF by POAMCL are Shar'iah compliant and are in accordance with the Shar'iah policies & guidelines.

iii. On the basis of information provided by the management, all operations of the POAIIF for the year ended June 30, 2014 have been in compliance with the Shar'iah principles.

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

Address: Mufti Najeeb Khan c/o Muhammad Kaleem, Darul Uloom Karachi, Postal Code, 75180, Korangi, Karachi, Sindh, Pakistan

REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

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

Pak Oman Advantage Islamic Income Fund, an open end scheme established under a Trust Deed dated May 27, 2008 executed between Pak Oman Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

MCB Financial Services Limited was appointed as a new trustee in place of CDC under third supplemental Trust Deed dated 15 May 2012. Accordingly the Trust Deed was approved by SECP on 17 January 2012 under the Rules. However, the assets of the Fund were transferred on June 13, 2012.

1. Pak Oman Asset Management Company Limited, the Management Company of Pak Oman Advantage Islamic Income Fund has, in all material respects, managed Pak Oman Advantage Islamic Income Fund during the year ended 30th June 2014 in accordance with the provisions of the following:

   (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;

   (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;

   (iii) the creation and cancellation of units are carried out in accordance with the deed;

   (iv) and any regulatory requirement

For the purpose of information, the attention of unit holder is drawn towards auditor's report and note 1.6 to the accompanying financial statements which explain the current status of the Management Company's license to provide asset management services and the scheme of arrangement of amalgamation.

Khawaja Anwar Hussain
Chief Executive Officer
MCB Financial Services Limited

Karachi: 30th September 2014

PAKOMAN
ASSET
MANAGEMENT

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE2014

This statement is being presented to comply with the Code of Corporate Governance ('the Code') contained in Regulation No. 35 of listing regulations of the Karachi Stock Exchange where **Pak Oman Advantage Islamic Income Fund ('the Fund')** is listed. The purpose of the code is to establish a framework of good governance, whereby a listed entity is managed in compliance with the best practices of corporate governance.

Pak Oman Asset Management Company Limited ('the Management Company') an unlisted public company which manages the affairs of the Fund has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non executive directors and directors representing minority interests on its Board of Directors. At present the Board includes :

Category	**Names**
Independent directors	Mr. Humayun Murad Mr. Saif Said Salim Al Yazidi
Executive Directors	Ms. Hina Ghazanfar (MD & CEO)
Non – Executive Directors	H.E Yahya Bin Said Abdullah Al-Jabri Mr. Agha Ahmed Shah Mr. Sulaiman Hammad Al Harthy Mr. Ali Said Ali Mr. Parveiz Usman

   The independent directors meet the criteria of independence under clause I (b) of the Code.

2. The directors of the Management Company have confirmed that none of them is serving as a director on more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies where applicable).

3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. There is no casual vacancy on the Board of the Management Company.

5. The Management Company has prepared a "Code of Conduct ", and has ensured that appropriate steps have been taken place to disseminate it throughout the Management Company along with its supporting policies and procedures .

6. The Board of the Management Company has developed a vision/mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions including the appointment and determination of remuneration and terms and conditions of the employment of the Chief Executive Officer and other executives and non executive directors have been taken by the Board. There has been no new appointment of the Chief Executive Officer during the year.

8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board met atleast once in every quarter. Written notices of the Board meetings along with agenda and working papers were circulated atleast seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Directors are conversant with the relevant laws applicable to the Management Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities. However the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP) requires all the directors to have a certification under any directors training programe offered by the institutions that meet the criteria specified by SECP and that from 30 June 2012 to 30 June 2016, every year, a minimum of one director on the board shall acquire the said certification under this programe each year and thereafter all directors shall obtain it. One of the directors on the Board has obtained certification from the director's training program offered by a local institution that meet the criteria specified by the Securities Exchange Commission of Pakistan In addition two directors meet the criteria of exemption under clause (xi) of Code and are accordingly exempted from directors' training program.

10. There was no change of Head of Internal Audit and Company Secretary of the Management Company during the year. However, the Chief Financial Officer (CFO) position is still vacant due to expected merger of the Management Company with another asset management company as more fully explained in note 1.6 to the financial statements. However, in his absence another person has

been assigned the responsibility of overseeing the finance function. The remuneration and terms and condition of employment of Head of Internal Audit and Company Secretary were approved by the Board of the Management Company.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Fund were duly endorsed by the Chief Executive Officer (CEO). Furthermore, due to the vacant position of CFO, it was endorsed by the finance person responsible for the overseeing of the finance function.

13. The directors, Chief Executive Officer and executives do not hold any interests in the units of the Fund other than those disclose in the Directors' Report.

14. The Management Company has complied with all the corporate and financial reporting requirements of the Code with respect to the Fund except as explained in the statement.

15. The Board of the Management Company has formed an Audit Committee. It comprises of three members of whom two of them are non-executive directors and the Chairman of the Audit Committee is an independent director.

16. The meetings of the Audit Committee were held atleast once every quarter prior to approval of interim and final results of the Fund and as required by the code, except for the first quarter ended 30 September2013 in which no meeting was held (which was held in the second quarter of the year). The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has formed an HR and Remuneration committee. It comprises of three members, of whom two are non-executive directors and the Chairman of the committee is an independent director.

18. The Board of the Management Company has set up an internal audit function managed by qualified and experienced professionals who are conversant with the policies and procedures of the Management Company and industry best practices. The Head of Internal Audit functionally reports to the Audit Committee. During the year internal audit activities were not performed for most part of the year and no reports were issued.

PAKOMAN
ASSET
MANAGEMENT

19. 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 (ICAP), 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 the ICAP.

20. The statutory auditors 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.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the Net Asset Value of Fund's was determined and intimated to directors, employees and stock exchange.

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.

23. We confirm that all other applicable material principles enshrined in the code have been complied with except for the fact that the mechanism for an annual evaluation of the Board's own performance is not in place. This mechanism was not put in place as the management company is in the process of merger.

Ms. Hina Ghazanfar
MD & CEO

30 September 2014
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

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Review report to the Unit holders of Pak Oman Advantage Islamic Income Fund on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of the Management Company of Pak Oman Advantage Islamic Income Fund ("the Fund") for the year ended 30 June 2014 to comply with the listing regulation No. 35 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 of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not and to highlight any non compliance with the requirements of the Code. A review is limited primarily to inquiries of the Fund personnel and review of various documents prepared by the Fund 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 Fund's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2014.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph references where these are stated in the Statement of Compliance:

a) Paragraph 10 relating to the fact that the position of Chief Financial Officer (CFO) is still vacant.

b) Paragraph 12 relating to the endorsement of the financial statements of the Fund for the year ended 30 June 2014, which mentions that the financial statements for the year than ended have been, due to the vacant position of CFO have been endorsed by the Chief Executive Officer (CEO) only.

c) Paragraph 16 which mentions that meeting of the Audit Committee was not held in the first quarter of the financial year ended 30 June 2014. However as per the Code of Corporate Governance, such a meeting should be held in each quarter.

d) Paragraph 18 which, mentions that internal audit reports for the current year were not issued during the year.

e) Paragraph 23 relating to a mechanism for the annual evaluation of the Board's performance as per the requirements of the Code of Corporate Governance which have not been put in place by the Management Company.

KPMG Taseer Hadi & Co.

Date: 30 September 2014

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
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Karachi, 75530 Pakistan

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Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **Pak Oman Advantage Islamic Income Fund** ("the Fund") which comprise the statement of assets and liabilities as at 30 June 2014 and the related income statement, statement of comprehensive income, distribution statement, statement of movement in Unit Holders' fund, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of the financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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 our 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, we consider internal control relevant to the Fund'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 Fund'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 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of Matter

We draw attention to note 1.6 to the accompanying financial statements which explains the current status of the Management Company's license to provide asset management services and details of the fact that the Board of Directors have concluded a scheme of arrangement for amalgamation with another assets management company. The merger is subject to the approval of Securities and Exchange Commission of Pakistan. Our opinion is not qualified in this respect.

Report on Other Legal and Regulatory Requirements

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: 30 September 2014

Karachi

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Chartered Accountants
Amyn Pirani

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Independent Assurance Report on the Statement of Compliance with the Shariah Principles to the Unit holders

We were engaged by the Board of Directors of Pak Oman Asset Management Company Limited, Management Company of Pak Oman Advantage Islamic Income Fund (the Fund), to report on Fund's Compliance with the Shariah principles as set out in the annexed statement prepared by the management company for the year ended 30 June 2014 in the form of an independent reasonable assurance conclusion about whether the annexed statement presents fairly, in all material respects, the status of the Fund's compliance with Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor as required under clause 3.A.4 of the Trust Deed of the Fund.

Management Company's responsibility

The management company of the fund is responsible for preparing the annexed statement that is free from material misstatement in accordance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor. This responsibility includes designing, implementing and maintaining internal control relevant to the operations of the Fund in accordance with the Shariah principles and to ensure that Fund's investments are made in compliance with Shariah principles.

Responsibility of independent assurance providers

Our responsibility is to examine the annexed statement prepared by the Management Company and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE 3000) 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance about whether the annexed statement fairly presents the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliance with Shariah principles whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the operations of the Fund in accordance with the Shariah principles in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Fund's internal control.

The procedures performed included:

1. Checking compliance of specific guidelines specified in the Trust Deed relating to the investments of the Fund.

2. Check that the Shariah Advisor has certified that investments made by the Fund during the period ended 30 June 2014 are in compliance with the Shariah principles and where required purification of income from non-compliant sources has been made in consultation with the Shariah Advisor

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the annexed statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for the year ended 30 June 2014.

Date: 1 October 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Pak Oman Advantage Islamic Income Fund
Statement of Assets and Liabilities
As at 30 June 2014

	Note	30 June 2014	30 June 2013
		(Rupees in '000)	
Assets			
Bank balances	6	**152,425**	94,032
Investments	7	-	202,438
Profit receivables	8	**1,112**	3,754
Deferred formation cost	9	**1,000**	1,500
Deposit, prepayment and other receivables	10	**138**	1,261
Total assets		**154,675**	302,985
Liabilities			
Remuneration payable to the Management Company	11	**205**	414
Remuneration payable to the Trustee	12	**13**	56
Annual fee payable to the Securities and Exchange Commission of Pakistan	13	**164**	215
Accrued expense and other liabilities	14	**7,427**	3,690
Total liabilities		**7,809**	4,375
Net assets		**146,866**	298,610
Unit holders' fund (as per the statement attached)		**146,866**	298,610
		(Number of units)	
Number of units in issue	17	**2,846,929**	5,741,653
		(Rupees)	
Net assets value per unit (face value per unit Rs. 50/-)		**51.59**	52.01

The annexed notes from 1 to 23 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited
(Management Company)

Chief Executive Officer **Director**

Pak Oman Advantage Islamic Income Fund

Income Statement

For the year ended 30 June 2014

	Note	30 June 2014	30 June 2013
		(Rupees in '000)	
Income			
(Loss) / gain on disposal of marketable securities - net (at fair value through profit and loss-upon initial recognition)		(1,785)	402
Profit on bank deposit accounts		14,824	6,031
Profit on sukuk certificates (at fair value through profit and loss-upon initial recognition)		2,455	20,796
		15,494	27,229
Expenses			
Remuneration to the Management Company		3,825	5,012
Remuneration to the Trustee		262	343
Annual fee to the Securities and Exchange Commission of Pakistan		164	215
Auditors' remuneration	15	552	476
Fees and subscription		225	203
Amortisation of deferred formation cost	9	500	500
Bank, settlement and other charges	16	1,630	1,066
		7,158	7,815
		8,336	19,414
Element of (loss) / income and capital (losses) / gains included in prices of units sold less those in units redeemed - net		(3,355)	255
Provision for Workers' Welfare Fund	14.1	(102)	(393)
Net income for the year before taxation		4,879	19,276
Taxation	18	-	-
Net income for the year after taxation		4,879	19,276

The annexed notes from 1 to 23 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited
(Management Company)

Chief Executive Officer | **Director**

Pak Oman Advantage Islamic Income Fund

Statement of Comprehensive Income

For the year ended 30 June 2014

	30 June 2014	30 June 2013
	(Rupees in '000)	
Net income for the year	**4,879**	19,276
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**4,879**	19,276

The annexed notes from 1 to 23 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited
(Management Company)

Chief Executive Officer | **Director**

Pak Oman Advantage Islamic Income Fund
Distribution Statement
For the year ended 30 June 2014

	Note	30 June 2014	30 June 2013
		(Rupees in '000)	
Realised income at the beginning of the year		**11,751**	7,560
Unrealised income at the beginning of the year		-	4,633
Total undistributed income at the beginning of the year		**11,751**	12,193
Final distribution for the year ended 30 June 2013 at the rate of Re. 0.4128 (2013: Re. 0.7128) per unit approved on 04 July 2013 (2013: 04 July 2012)			
- Cash distribution		**(1,075)**	(1,856)
- Issue of bonus units 25,104 (2013: 37,335)		**(1,295)**	(1,920)
		(2,370)	(3,776)
Interim distribution for the year ended 30 June 2014 at the rate of Rs.1.7270 per unit approved on 27 June 2014			
- Cash distribution		**(4,497)**	(7,560)
- Issue of bonus units 7,869 (2013: 161,876)		**(406)**	(8,382)
		(4,903)	(15,942)
Net income for the year		**4,879**	19,276
Undistributed income at end of the year		**9,357**	11,751
Details of undistributed income at end of the year is as follow:			
Realised income at the end of the year		**9,357**	11,751
Total undistributed income at the end of the year		**9,357**	11,751

The annexed notes from 1 to 23 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited
(Management Company)

Chief Executive Officer **Director**

Pak Oman Advantage Islamic Income Fund
Statement of Movement in Unit Holders' Fund
For the year ended 30 June 2014

	30 June 2014	30 June 2013
	(Rupees in '000)	
Net assets at beginning of the year	**298,610**	276,218
Cash received on issue of 2,320,874 (2013: 8,665,622) units	**120,163**	451,964
Cash paid on redemption of 5,248,571 (2013: 8,420,832) units	**(274,569)**	(439,177)
	(154,406)	12,787
Element of loss / (income) capital losses / (gains) included in prices of units sold less those in units redeemed - net	**3,355**	(255)
Final distribution for the year ended 30 June 2013 at the rate of Re. 0.4128 (2013: Re. 0.7128) per unit approved on 04 July 2013 (2013: 04 July 2012)		
- Cash distribution	**(1,075)**	(1,856)
- Issue of bonus units 25,104 (2013: 37,335)	**(1,295)**	(1,920)
	(2,370)	(3,776)
Interim distribution for the year ended 30 June 2014 at the rate of Rs.1.7270 per unit approved on 27 June 2014		
- Cash distribution	**(4,497)**	(7,560)
- Issue of bonus units 7,869 (2013: 161,876)	**(406)**	(8,382)
Net income for the year less distribution	**(4,903)**	(15,942)
Issue of bonus units 25,104 (2013: 37,335) as final distribution	**1,295**	1,920
Issue of bonus units 7,869 (2013: 161,876) as interim distribution for 2014	**406**	8,382
	1,701	10,302
Net income for the year	**4,879**	19,276
Net assets at end of the year	**146,866**	298,610
Ex distribution net assets value per unit at the beginning of the year	**51.59**	51.43
Net asset value per unit at the end of the year	**51.59**	52.01

The annexed notes from 1 to 23 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited
(Management Company)

Pak Oman Advantage Islamic Income Fund

Cash Flow Statement

For the year ended 30 June 2014

	30 June 2014	30 June 2013
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	4,879	19,276
Adjustments for		
Profit on bank deposit accounts	(14,824)	(6,031)
and loss-upon initial recognition)	(2,455)	(20,796)
Amortisation of deferred formation cost	500	500
Element of loss / (income) included in prices of units sold less those in units redeemed - net	3,355	(255)
	(8,545)	(7,306)
Decrease / (increase) in assets		
Investments	202,438	46,678
Deposit, prepayment and other receivables	1,123	(367)
	203,561	46,311
(Decrease) / increase in liabilities		
Remuneration payable to the Management Company	(209)	(38)
Remuneration payable to the Trustee	(43)	18
Annual fee payable to the Securities and Exchange Commission of Pakistan	(51)	(24)
Accrued expenses and other liabilities	(760)	1,328
	(1,063)	1,284
Profit received on bank deposit accounts	14,188	5,972
Profit received on sukuk certificates (investments)	5,733	22,957
Net cash inflow from operating activities	213,874	69,218
CASH FLOWS FROM FINANCING ACTIVITIES		
Amount received on issue of units	120,163	451,964
Amount paid on redemption of units	(274,569)	(439,177)
Dividend paid during the year	(1,075)	(9,416)
Net cash (outflow) / inflow from financing activities	(155,481)	3,371
Net increase in cash and cash equivalents during the year	58,393	72,589
Cash and cash equivalents at beginning of the year	94,032	21,443
Cash and cash equivalents at end of the year	152,425	94,032

The annexed notes from 1 to 23 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited
(Management Company)

Chief Executive Officer **Director**

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Pak Oman Advantage Islamic Income Fund (the Fund) was established as an open-end scheme under a trust deed (the Trust Deed) executed between Pak Oman Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance 1984, and MCB Financial Services as a trustee under the third supplemental Trust Deed dated 15 May 2012. The Fund is registered as a notified entity under NBFC Regulations, 2008.

1.2 The registered office of the Management Company is situated at Horizon Vista, Mezzanine Floor - 2, Plot No. Commercial - 10 Scheme - 5, Block 4, Clifton, Karachi - 75600.

1.3 The Fund is a Shariah compliant open-end mutual Fund and is listed on the Karachi Stock Exchange. Its 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 unit holder. Title to the assets of Fund is held in the name of MCB Financial Services Limited as the Trustee of the Fund.

1.4 The Fund is categorised as an Income Fund in accordance with the requirements of the SECP's circular No. 7 dated 6 March 2009 and accordingly its investments comprise of shariah compliant income securities, so as to ensure a riba-free return on investments. All investments of the Fund are as per the guidelines of the shariah principles provided by the Shariah Advisor of the Fund and comprise the investments permissible as 'Authorised Investments' under the Trust Deed.

1.5 In accordance with the criteria specified by the rating agency, the ranking of the Fund is AA-(f) as assigned by PACRA. JCR-VIS has assigned an 'AM3-' rating to the Management Company.

1.6 The Management Company's license to provide asset management and investment advisory services has expired and an application was filed with the Securities and Exchange Commission of Pakistan (SECP) for its renewal. SECP had advised that the renewal application shall be considered only when the Management Company meets the minimum equity requirement (MER) of Rs. 230 million (net of losses). In view of this fact, the management company, with the approval of its Board of Directors have concluded a scheme of arrangement for amalgamation with KASB Funds Limited (KFL), with KFL being the surviving entity. The scheme of amalgamation was also approved by the majority shareholders of the management company vide a special resolution in their extra ordinary general meeting held on 06 August 2014. Competition Commission of Pakistan has also issued a no objection certificate for the proposed merger vide their approval letter dated 30 May 2014. Trustees of the Fund have also given their consent for the proposed merger. SECP, vide its letter dated 17 July 2014, has issued a no objection certificate for the proposed merger, subject to certain conditions mentioned therein. Management Company is of the view that these conditions have been met and accordingly a joint application has been filed with SECP for the merger. The proposed merger would be subject to the approval of SECP and would be effective from the date and subject to the conditions as may be notified by them. Management Company expects that approval for the proposed merger would be granted by SECP, subsequent to which, MER requirement and renewal of license would then stand resolved. Further, the Management Company is of the view that under the NBFC regulations it can carry on its business as the renewal application has been filed with the SECP and the latter has not declined the renewal.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with 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, provisions of and directives issued under the Companies Ordinance, 1984, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC rules and regulations). In case, the requirements differ, the provisions or directives of the Companies Ordinance, 1984 and the requirements of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

2.2 The transactions undertaken by the Fund in accordance with the process prescribed under the Shariah Guidelines issued by the Shariah Advisor are accounted for on substance rather than the form prescribed by the Shariah Advisor (refer note 1.4 above). This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

2.3 Basis of measurement

These financial statements have been prepared under historical cost convention, except that investment are stated at fair value.

2.4 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund. Figures have been rounded off to the nearest rupee in thousand.

3. USE OF 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 the reported amounts of assets, 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 judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are as follows:

Classification and valuation of investments (including impairment)

For details please refer notes 5.1, 5.12 and 20.6 to these financial statements.

Provision for taxation

For details please refer notes 5.7 and 18 to these financial statements.

Provision for workers' welfare fund liability

For detail please refer note 14.1 to these financial statements.

Other assets

For detail please refer note 5.16 to these financial statements.

Judgment is involved in assessing the realisability of other assets balances.

4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on Fund's financial statements.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on Fund's financial statements.

- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Fund's financial statements.

- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or join t ventures), associates and/or unconsolidated structured entities, into one place.

- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Fund's financial statements.

- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or join t ventures), associates and/or unconsolidated structured entities, into one place.

- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on Fund's financial statements.

- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

  - IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

  - IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

  - IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

  - Amendments to IAS 16'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

The above improvements are not likely to have an impact on the financial statements of the Fund.

5. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the periods presented.

5.1 Investment

5.1.1 All investments are initially recognized at cost, being the fair value of the consideration given including the transaction cost associated with the investment, except in case of held for trading, and at fair value through profit and loss - upon initial recognition investments, in which case the transaction costs are charged off to the income statement.

The Fund classifies its investments as fair value through profit or loss - upon initial recognition:

5.1.2 Financial assets at fair value through profit or loss - upon initial recognition

Investment designated at " fair value through profit or loss-upon initial recognition" include those group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management / investment strategy.

After initial recognition, these investments are remeasured at fair values, determined with reference to the year end rates quoted on a widely used electronic quotation system.

Gains or losses on remeasurement of these investments are recognised in income statement.

5.1.3 Valuation of debt securities

The government securities not listed on a stock exchange and traded in the interbank market are valued at the average rates quoted on a widely used electronic quotation system which are based on the remaining tenor of the securities.

The fair value of other debt securities is based on the value determined and announced by Mutual Funds Association of Pakistan (MUFAP) in accordance with the criteria laid down in circular No. 1 of 2009 dated 6 January 2009 and circular No. 33 of 2012 dated 24 October 2012 issued by the SECP.

Provision for non-performing debt securities is made on the basis as prescribed under the above mentioned circulars issued by the SECP. The Management Company may also make provision against non-performing debt securities over and above the minimum provision requirements prescribed in the aforesaid circular, in accordance with the provisioning policy approved by its board of directors.

5.1.4 Trade date accounting

All regular way purchases and sales of investments are recognised on the trade date, i.e. the date the Fund commits to purchase / sell the investments.

5.2 Issue and redemption of units

Units issued are recorded at the offer price prevalent on the day on which applications for purchase of units are issued (however units are issued on realisation of cheques). The offer price represents the net asset value of units at the end of the day plus the allowable sales load, provision of duties and charges and provision for transaction costs, if applicable. The sales load, if any, is payable to the distributors and the management company as processing fee.

Units redeemed are recorded at the redemption price prevailing at the end of the day in which the units are redeemed. The redemption price represents the net assets value per unit less any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

5.3 Element of income / (loss) and capital gains / (losses) in prices of units sold less those in units redeemed

To prevent the dilution of per unit income and distribution of income already paid out on redemption, as dividend, an equalisation account called "element of income and capital gains included in prices of units sold less those in units redeemed" is created.

Element of income is recognised in the income statement for the year to the extent that it is represented by income earned during the year.

5.4 Payables and accruals

Payables and accruals are carried at cost which is the fair value of the consideration to be paid in the future for the services received, whether billed or not to the Fund.

5.5 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events and 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 at each balance sheet date and adjusted to reflect the current best estimate.

5.6 Net asset value per unit

The net asset value (NAV) per unit as disclosed in the statement of assets and liabilities of the Fund is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

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5.7 Taxation

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its income, excluding realised and unrealised capital gains for the year is distributed amongst the unit holders. Since the Board of Directors of the management company has declared a dividend (refer note 22), accrual of tax liability has not been made.

5.8 Formation cost

Preliminary expenses and floatation cost represent expenditure incurred prior to the commencement of the operations of the Fund as permitted in the Non-Banking Finance Companies and Notified Entities Regulations 2008. Effective 1 July 2010 these cost are being amortised at the rate of 20% on a straight line basis.

5.9 Unit holder`s fund

Unit holder`s fund representing the units issued by the Fund, is carried at the redemption amount representing the investor`s right to a residual interest in the Fund`s assets.

5.10 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Fund looses control of the contractual rights that comprises that financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

Subsequent to initial recognition, all financial assets and financial liabilities are measured at fair value. The particular recognition method adopted for measurement of financial liabilities investments subsequent to initial recognition is disclosed in the individual policy statement associated with each item.

5.11 Offsetting of financial instruments

Financial assets and liabilities are only offset and the net amount is reported in the statement of assets and liabilities when there is a legally enforceable right to offset the recognised amounts and the Fund intends either to settle on a net basis, or realize the assets and settle the liabilities simultaneously.

5.12 Impairment

Impairment loss in respect of financial assets (other than debt securities) is recognised based on management`s assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments.

Provision for non-performing debt securities and other exposures is made in accordance with the criteria specified in Circular No. 33 dated October 24, 2012 issued by SECP. and based on management's assessment made in line with its provisioning policy approved by the Board of Directors of the Management Company pursuant to the requirements of the SECP's above referred circular. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the income statement.

5.13 Dividend distributions and appropriations

Dividend (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which they are approved.

5.14 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the income on the date at which the transaction takes place.

- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss - upon initial recognition are included in the income statement in the period in which they arise.

- Income on debt securities and bank balances are recognised in the income statement at rate of return implicit in the instrument balance on a time proportionate basis.

5.15 Cash and cash equivalents

Cash and cash equivalent for cash flow purposes comprise of bank balances.

5.16 Other assets

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

6. BANK BALANCES

		30 June 2014	30 June 2013
		(Rupees in '000)	
local currency			
In profit and loss sharing accounts	*6.1*	**152,425**	94,032
		152,425	94,032

6.1 These represents profit and loss account maintained with banks carrying mark-up rates ranging from 4.99% to 9.25% (2012: 6% to 10.8%) per annum.

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7. INVESTMENTS

At fair value through profit or loss -upon initial recognition (Government of Pakistan securities - GoP)

7.1 GoP Ijarah Sukuk certificates

Name of the investee company	Maturities	Mark-up rate	Holding as at 01 July 2013	Purchases during the year	Disposed / matured during the year	Holding as at 30 June 2014	Carrying value as at 30 June 2014	% of net assets
			----- (Number of certificates) -----				(Rupees in '000)	
Gop Ijara Sukuk Certificates - V	15 November 2013	Weighted average 6 months T-Bills	250	-	250	-	-	-
Gop Ijara Sukuk Certificates - VII	7 March 2014	Weighted average 6 months T-Bills	1,000	-	1,000	-	-	-
Gop Ijara Sukuk Certificates - IX	26 December 2014	Weighted average 6 months T-Bills	750	-	750	-	-	-
Gop Ijara Sukuk Certificates - XII	28 June 2015	Weighted average 6 months T-Bills	-	650	650	-	-	-
WAPDA Sukuk	14 October 2021	Weighted average 6 months T-Bills	-	5,000	5,000	-	-	-
			Total as at 30 June 2014				-	-
			Cost of investments				-	
			Total as at 30 June 2013				202,438	

GoP Ijarah Sukuk Certificates have face value of Rs. 100,000 each.

WAPDA Sukuks have a face value of Rs. 5,000 each.

			30 June 2014	30 June 2013
			(Rupees in '000)	
8.	**PROFIT RECEIVABLES**			
	Considered good			
	On bank balance		**1,112**	476
	On GoP Ijarah Sukuk certificates		**-**	3,278
			1,112	3,754
9.	**DEFERRED FORMATION COST**			
	Opening balance		**1,500**	2,000
	Amortisation for the year		**(500)**	(500)
	Closing balance		**1,000**	1,500
10.	**DEPOSIT, PREPAYMENT AND OTHER RECEIVABLES**			
	Security deposit with Trustee		**100**	100
	Receivable against issuance of units		**-**	1,125
	Prepaid expense		**38**	36
			138	1,261
11.	**REMUNERATION PAYABLE TO THE MANAGEMENT COMPANY**			
	Remuneration payable	*11.1*	**205**	414
			205	414

11.1 Under regulation 61 of the NBFC Regulations 2008, the Asset Management Company 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. The management company has charged its remuneration at the rate of 1.75% for the current year (2012: 1.75%). Sales tax and Federal Excise duty payable on the management's remuneration has been disclosed in note 14.2.

12. REMUNERATION PAYABLE TO THE TRUSTEE

MCB Financial Services Limited as Trustee is entitled to monthly remuneration at the rate of 0.12% (2013: 0.12%) for services rendered to the Fund under the provision of third supplemental Trust Deed in accordance with the tariff specified therein.

13. ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with Rule 62 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008. Currently, the Fund is required to pay annual fee to SECP at the rate of 0.075% of the average daily net assets of the Fund.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

		30 June 2014	30 June 2013
		(Rupees in '000)	
Auditors` remuneration		**321**	337
Payable against redemption of units		**-**	110
Payable to workers' welfare fund	*14.1*	**2,368**	2,266
Dividend payable to unit holders	*22.1*	**4,497**	-
FED payable on management remuneration	*14.2*	**67**	47
Sales tax payable on management remuneration	*14.2*	**8**	80
Others		**166**	850
		7,427	3,690

14.1 The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

During the year 2011, a single bench of the Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, had declared the said amendments as unlawful and unconstitutional and struck them down. However, in the month of March 2013, a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity and overruled a single-member LHC bench judgement issued in August 2011. However, the Honourable Peshawar High Court on 29 May 2014 on a petition filed by certain aggrieved parties (other than mutual funds) have adjudicated that the ammendments introduced in the Worker`s Welfare Fund Ordinance, 1971 through the Finance Act of 1996 and 2009 lacks the essential mandate to be introduced and passed through the money bill under the Constitution of Pakistan and hence have been declared as ultra vires the Constitution.

However, as per the advice of legal counsel of Mutual Fund Association of Pakistan (MUFAP), the stay granted to CIS (as mentioned in the first paragraph) remains intact and the constitution petitions filed by the CIS to challenge the Workers Welfare Fund contribution have not been affected by the SHC judgment.

As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of prudence and abundant caution, has decided to maintain the provision of entire liability of Rs. 2.368 million (2013: Rs. 2.266 million) in these financial statements. If the above recognition had not been made, the net asset value per unit of the Scheme would have been higher by Rs. 0.83 per unit (2013: 0.39 per unit).

14.2 During the current year, an amount of Rs. 0.701 million (2013: 0.815 million) was charged in the income statement on account of sales tax on Management fee levied through Sindh Sales Tax Services Act, 2011 effective from 01 July 2011. This amount is payable to the Management Company who then pays it to the Government of Sindh.

As per the requirement of the Finance Act, 2013, the Federal Excise Duty (FED) at the rate of 16%

The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which doesn't appear to be the spirit of the law. A stay order against the collection have been granted by the Honourable High Court of Sindh on a petition filed by the Mutual Funds Association of Pakistan (MUFAP).

In view of the pending decision, as a matter of abundant caution, the Management Company has charged Rs. 0.612 million (2013: 0.047 million) to the Fund during the year on account of FED.

15. AUDITORS' REMUNERATION

		30 June 2014	30 June 2013
		(Rupees in '000)	
Audit fee		**200**	200
Half-yearly review fee		**150**	100
Fee for review of code of corporate governance		**75**	75
Other certification		**50**	50
Out of pocket expenses		**77**	51
		552	476

16. BANK, SETTLEMENT AND OTHER CHARGES

Printing charges		**98**	115
Sindh Sales Tax on management remuneration	*14.2*	**701**	815
Central Depository System charges		**26**	6
Bank charges		**1**	5
Brokerage		**51**	78
FED on management remuneration	*14.2*	**612**	47
Others		**141**	-
		1,630	1,066

17. NUMBER OF UNITS IN ISSUE

	30 June 2014	30 June 2013
	(Number of Units)	
Total units in issue at beginning of the year	**5,741,653**	5,297,651
Issued during the year	**2,320,874**	8,665,622
Bonus units issued	**32,973**	199,212
Redemptions during the year	**(5,248,571)**	(8,420,832)
Total units in issue at the end of the year	**2,846,929**	5,741,653

Face value of the unit is Rs. 50 each.

18. 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 unrealised capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements. Refer note 22 for the details of distribution.

19. TRANSACTIONS WITH THE RELATED PARTIES / CONNECTED PERSONS

Connected persons / related parties include Pak Oman Asset Management Company Limited being the Management Company, MCB Financial Services Limited being the trustee, Pak Oman Investment Company Limited which is the holding company of the Management Company, other funds managed by the Management Company, associated companies (if any) of the management company, holding company of the management company, entities in which the above parties or their connected persons have a material interest, Key Management Personnel and includes entities holding 10% or more units of the Fund as at 30 June 2014 or during the period. It also includes the staff retirement funds of the above related parties / connected person. However, during the period no transactions took place with the the key management personnel during the period.

Remuneration to the Management Company and the Trustee is determined in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and Trust Deed respectively. Purchase and redemptions of the Fund's units by related parties / connected persons are done at applicable net asset value per unit. Other transactions are in accordance with the agreed terms.

Transactions and balances with related parties are as follows:

19.1 Transactions during the year

	30 June 2014	30 June 2013
	(Rupees in '000)	
Pak Oman Asset Management Company Limited - Management Company of the Fund		
Remuneration of the Management Company	**3,825**	5,012
Bonus units issued - nil (2013: 1,482)	-	76
Units issued -nil (2013: 1,551,993)	-	80,292
Units redeemed - nil (2013: 1,660,429)	-	86,181
Gain on redemption earned by the investor	-	312
MCB Financial Services Limited - Trustee of the Fund		
Remuneration of the Trustee	**262**	343
Pak Oman Investment Company Limited - holding company of the Management Company		
Dividend paid	**827**	6,531
Related parties of the Management Company		
Pak Oman Asset Management Company Limited - Employees Provident Fund		
Bonus units issued - nil (2013: 275)	-	14
Units redeemed - nil (2013: 20,088)	-	1,049
Gain on redemption earned by the investor	-	16

Other connected persons - due to holding of more than 10% units	30 June 2014	30 June 2013
	(Rupees in '000)	
Hamdard Laboratories (WAQF) Pakistan		
Bonus units issued - 6,576 (2013: 48,441)	339	2,507
Units issued - nil (2013: 482,811)	-	25,000
Units redeemed - 828,484 (2013: nil)	42,871	-
Gain on redemption earned by the investor	463	-
Fecto Cement Limited - Provident Fund Trust		
Bonus units issued - 5,483 (2013: 26,223)	283	1,355
Units issued - 1,424,871 (2013: 3,030,343)	73,478	175,877
Units redeemed - 2,110,216 (2013: 2,711,082)	110,575	141,588
Gain on redemption earned by the investor	1,185	1,206
Bank Al-Falah Limited		
Profit on bank deposit	13,608	6,024
Dividend.paid	248	2,170
Bank charges	1	4
Dividend payable	1,036	793

19.2 Balance as at year end

	30 June 2014	30 June 2013
	(Rupees in '000)	
Pak Oman Asset Management Company Limited - Management Company of the Fund		
Remuneration payable to the Management Company	205	414
Pak Oman Investment Company Limited - holding company of the Management Company		
Units outstanding - 2,003,976 - 70% (June 2013: 2,003,976 - 35%)	103,478	104,222
Dividend payable	3,461	-
MCB Financial Services Limited - Trustee of the Fund		
Remuneration payable to the Trustee	13	56
Other connected persons - due to holding more than 10% units		
Hamdard Laboratories (WAQF) Pakistan		
Units outstanding - nil (June 2013: 821,908)	-	42,746
Fecto Cement Limited - Provident Fund Trust		
Units outstanding - nil (June 2013: 685,345)	-	35,643
Bank Alfalah Limited		
Bank balance	2,775	94,032
Units outstanding - 600,000 (June 2013: 600,000)	30,984	31,205

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20. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Fund has exposure to following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This disclosure presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Risk management framework

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up based on limits established by the Management Company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund.

The management of these risks is carried out by the Investment Committee (IC) under the policies and procedures approved by the Board. IC is constituted by the Board of Directors of the management company. IC is responsible to devise the investment strategy and manage the investment portfolio of the Fund in accordance with the limits prescribed and restrictions imposed in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, Rules, and Constitutive Documents of the Fund in addition to the Fund's internal risk management policies.

The Fund invests primarily in a portfolio of shariah compliant income securities as per Shariah Advisor's approval. Such investments are subject to varying degrees of risk.

20.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. At the year-end it arises principally from bank balances, profit / mark-up receivable and other receivables etc.

Management of credit risk

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee & Shariah Advisor, its Trust Deed, the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

Credit risk is managed and controlled by the Management Company of the Fund in the following

- Where the investment committee makes an investment decision, with in the approval of shariah Compliance the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.

- Analyzing credit ratings and obtaining adequate collaterals wherever appropriate / relevant.

- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of the credit ratings and financial statements on a regular basis.

- Cash is held only with reputable banks with high quality external credit enhancements.

- Investment transactions are carried out with a large number of brokers, whose credit worthiness is taken into account so as to minimise the risk of default and transactions are settled or paid for only upon delivery.

Exposure to credit risk

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk at 30 June was as follows:

	2014		2013	
	Statement of assets and liabilities	**Maximum exposure**	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)		(Rupees in '000)	
Bank balances (including profit receivable)	**153,537**	**153,537**	94,508	94.508
Investments - GoP Ijara Sukuk (including profit receivable)	**-**	**-**	205,716	-
Deposits and other receivables	**100**	**100**	1,225	1,225
	153,637	**153,637**	301,449	95,733

Past due / impaired assets

None of the financial assets of the Fund were past due or impaired as at 30 June 2014.

Credit ratings and Collaterals

Details of the credit ratings of the bank balances and profit due are as follows:

	Bank balances (including profit due)	
	30 June 2014	30 June 2013
Ratings	**(% of balance)**	
AA	**1.82**	100.00
A	**98.18**	-
Total	**100.00**	100.00

Above rates are on the basis of available ratings assigned by PACRA as of 30 June 2014.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure.

Details of Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	30 June 2014		30 June 2013	
	Rs ('000)	**(%)**	Rs ('000)	(%)
Bank Balances (including profit receivable)	**153,537**	**99.93**	94,508	98.72
Others (Central Depository Company Limited)	**100**	**0.07**	1,225	1.28
	153,637	**100.00**	95,733	100.00

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed on sale.

For the vast majority of transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

20.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

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 net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

Management of liquidity risk

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed.

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

In order to manage the Fund's overall liquidity, the Fund also has the option to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. However, during the year no such option was exercised or considered necessary.

Maturity analysis for financial liabilities

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

	Carrying amount	Less than 1 month	Within 3 months	Total
30 June 2014	----------(Rupee in 000)	----------		
Non-derivative liabilities (at amortised cost)				
Remuneration payable to the Management Company	**205**	**205**	-	**205**
Remuneration payable to the Trustee	**13**	**13**	-	**13**
Annual fee payable to Securities and Exchange Commission of Pakistan	**164**	-	**164**	**164**
Accrued expenses and other liabilities (excluding WWF)	**5,059**	**5,059**	-	**5,059**
	5,441	**5,277**	**164**	**5,441**
Unit holders' fund	**146,866**	**146,866**	-	**146,866**
30 June 2013				
Non-derivative liabilities (at amortised cost)				
Remuneration payable to the Management Company	414	414	-	414
Remuneration payable to the Trustee	56	56	-	56
Annual fee payable to Securities and Exchange Commission of Pakistan	215	-	215	215
Accrued expenses and other liabilities (excluding WWF)	1,314	1,314	-	1,314
Payable against redemption of units	110	110	-	110
	2,109	1,894	215	2,109
Unit holders' fund	298,610	298,610	-	298,610

Above financial liabilities do not carry any mark-up.

20.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will effect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan. The maximum risk resulting from financial instruments equals their fair values.

20.3.1 *Interest rate risk*

20.3.1.1 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As the Fund has no significant interest-bearing assets, the Fund's income and operating cash flows are substantially independent of changes in market interest rates. The management company through investment committee monitors the Fund's overall interest

20.3.1.2 At 30 June 2014, details of the interest rate profile of the Fund's interest bearing financial assets were as follows:

	2014	2013
Variable rate instruments	**(Rupees in '000)**	
Bank balances - in profit and loss sharing accounts	**152,425**	94,032
GoP Ijarah Sukuk certificates	-	202,438
	152,425	296,470

None of the Fund's liability is subject to interest rate risk.

Cash flow Sensitivity analysis for variable rate instruments

A change of 50 basis points in interest rates at the year end, unit holder fund would have increased / (decreased) by Rs. 0.763 (2013: 1.482) million. The analysis assumes that all other variables remain constant.

20.3.1.3 A summary of the Fund's interest rate gap position, categorised by the earlier of contractual re-pricing or maturity date is as follows:

	30 June 2014			
	Mark-up/ profit rate (%)	**Less than one month**	**Three months to one year**	**Total**
		(Rupees in '000)		
Assets				
Bank balances	4.99 to 9.25	152,425	-	152,425
Total assets		152,425	-	152,425

	30 June 2013			
	Mark-up/ profit rate (%)	Less than one month	Three months to one year	Total
		(Rupees in '000)		
Assets				
Bank balances	6 to 10.8	94,032	-	94,032
Investments	9.28 to 9.41	-	202,438	202,438
Total assets		94,032	202,438	296,470

None of the financial liabilities of the Fund are interest bearing.

20.4 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation while achieving its investment objective of generating returns for investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities.
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

20.5 **Unit holder's fund risk management**

Management's objective when managing unit holders' funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The capital structure depends on the issuance and redemption of units and with effect from 1 July 2012 the Fund is subject to maintain minimum fund size of 100 million at all times as per the requirement of NBFC regulation.

20.6 **Fair value of financial instruments**

The Fund's accounting policy on fair value measurements is discussed in note 5.1.

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: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

	Level 3	**Total**
30 June 2014	**(Rupees in '000)**	
Ijarah Sukuk Certificates	-	-
30 June 2013		
Ijarah Sukuk Certificates	202,438	202,438
	202,438	202,438

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	2014	2013
	(Rupees in '000)	
Opening balance	**202,438**	249,116
Purchase during the year	**92,690**	277,863
Sale during the year	**(295,128)**	(323,304)
Amortization of premium for the year	-	(1,237)
Closing balance	-	202,438

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21. SUPPLEMENTARY INFORMATION

The information regarding unit holding pattern, top brokers, members of the Investment Committee, Fund manager, meetings of the Board of Directors of the management company and rating of the Fund and the management company are as follows:

21.1 List of brokers by percentage of commission

	Commission expense		Commission paid	
	2014	2013	**2014**	2013
	(Rupees in '000)		(Percentage %)	
Invest Capital Market Limited	**38**	62	**74.51**	79.67
JS Global Capital Limited	**13**	16	**25.49**	20.33
	51	78	**100.00**	100.00

21.2 Performance table

	2014	2013	2012	2011	2010
Total net assets value - Rupees in '000	**146,866**	298,610	276,218	431,557	244,515
Net assets value per unit - Rupees	**51.59**	52.01	52.14	52.27	52.94
Net income for the year - Rupees in '000	**4,879**	19,276	31,452	31,773	9,095
Income distribution - Rupees in '000	**4,903**	15,942	25,447	29,957	13,349
Distribution per unit - Rupees	**1.73**	3.32	4.36	4.36	2.90
Selling price as at 30 June - Rupees	**52.16**	52.73	52.67	58.80	58.83
Repurchase price as at 30 June - Rupees	**51.64**	52.20	52.14	52.27	55.27
Highest selling price during the year - Rupees	**52.18**	53.45	52.94	54.86	55.83
Lowest repurchase price during the year - Rupees	**51.43**	51.35	50.94	49.42	49.79

	Last five years	**Last four years**	**Last three years**	**Last two years**	**Last one year**
Average annual return of the Fund	4.68%	6.01%	7.96%	8.70%	8.51%

The income distribution have been shown against the year to which they relate although these were declared and distributed subsequently to the year end.

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

The portfolio composition of the Fund has been disclosed in note 7 to the financial statements.

21.3 Unit holding pattern of the Fund

Category	No. of Unit Holders	Units held	Investment amount (Rupees in '000)	% of total
30 June 2014				
Individuals	93	**238,810**	**12,320**	**8.39**
Banks / DFIs	2	**2,603,976**	**134,332**	**91.47**
Others	5	**4,143**	**214**	**0.15**
	100	**2,846,929**	**146,866**	**100.00**
30 June 2013				
Individuals	183	1,532,045	79,110	26.68
Banks / DFIs	2	2,603,976	134,462	45.35
Retirement funds	3	779,748	40,264	13.58
Others	5	825,884	42,646	14.38
	193	5,741,653	296,482	100.00

21.4 Particulars of the Fund manager and Investment Committee

Following is the details of the fund manager:

Name of fund manager	Qualification	Other Funds managed
Mr. Imran Rahim Khan	MBA & MA Economics	Pak Oman Advantage Fund Pak Oman Advantage Islamic Income Fund

Following are the members of the investment committee of the Management Company:

Name of members	Designation	Qualification	Years of experience
Ms. Hina Ghazanfar	Chief Executive Officer	MBA	13
Mr. Ahmed Nabeel	Chief Investment Advisor	MBA	23
Mr. Imran Rahim Khan	Fund Manager	MBA & MA Eco.	15

21.5 Details of attendance at meetings of Board of Directors of the Management Company

Name of Directors	Designation	Meeting Attended	04 July 2013	21 October 2013	22 October 2013	14 November 2013	12 December 2013	25 February 2014	06 March 2014	31 March 2014	28 April 2014	26 June 2014
H. E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman	8	×	✓	✓	✓	✓	✓	✓	✓	✓	×
Agha Ahmed Shah, Esq.	Director	8	✓	×	×	✓	✓	✓	✓	✓	✓	✓
Mr. Humayun Murad	Director	8	✓	✓	✓	✓	✓	×	✓	✓	×	✓
Mr. Parveiz Usman	Director	3	✓	×	×	×	×	×	✓	✓	×	×
Mr. Sulaiman Hammad Al Harty	Director	5	×	×	×	✓	✓	✓	✓	✓	×	×
Mr. Ali Said Ali	Director	7	✓	✓	✓	×	✓	×	✓	×	✓	✓
Mr. Saif Said Salim Al Yazidi	Director	5	✓	✓	✓	×	×	✓	×	✓	×	×
Ms. Hina Ghazanfar	MD and CEO	10	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
			6	5	5	5	6	5	7	7	4	4

The above directors were re elected in the Annual General meeting held on 14 November 2013 for a term of 3 years commencing from the date the meeting was held.

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22. DISTRIBUTIONS BY THE FUND

22.1 Distributions during the year

30 June 2014		Distribution per unit	Bonus Units	Bonus Amount	Cash	Total
				-------- (Rupees in '000)	--------	
Date of distributions						
27 June 2014	22.2	1.7270	7,869	406	4,497	4,903
				406	**4,497**	**4,903**

30 June 2013	Distribution per unit	Bonus Units	Bonus Amount	Cash	Total
			-------- (Rupees in '000)	--------	
Date of distributions					
15 October 2012	0.9002	46,713	2,420	2,344	4,764
5 February 2013	1.0465	61,970	3,215	2,725	5,940
27 April 2013	0.9565	53,193	2,747	2,491	5,238
			8,382	7,560	15,942

All the distributions made by the Fund is recommended and approved by the Board of Directors of the Management Company.

22.2 The Board of Directors of the Management Company has approved distribution of Rs. 1.7270 per unit (on 27 June 2014) for the year ended 30 June 2014 amounting to Rs. 4.903 (2013: Rs. 2.37) million in total. These financial statements includes the effect of the above interim distribution and also the final distribution for the year end 2013 which was approved and paid (as applicable) during the year.

23. GENERAL

These financial statements were authorised for issue on 30 SEP 2014 by the board of directors of the Management Company.

For Pak Oman Asset Management Company Limited
(Management Company)

Chief Executive Officer **Director**