



## CONTENTS

Mission & Vision Statement	02
Fund Information	03
Report of the Directors of the Management Company	05
Report of the Fund Managers of the Management Company	08
Report of the Shariah Advisor	10
Report of the Trustee	11
Statement of Compliance with the Best Practices of the Code of Corporate Governance	12
Review Report to the Unitholders on the Statement of Compliance with the Best Practices of Code of Corporate Governance	14
Independent Auditors' Report to the Unitholders	15
Independent Assurance Provider's Report on Shariah Compliance to the Unit-Holders	16
Statement of Assets and Liabilities	17
Income Statement	18
Distribution Statement	19
Statement of Movement in Unit Holders' Fund	20
Cash Flow Statement	21
Notes to the Financial Statements	22



# 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  
1st Floor, Tower 'A', Finance & Trade Center,  
Shara-e-Faisal, Karachi -74400, Pakistan  
Phone: (9221) 5631020-24  
Fax: (9221) 5631025  
Web site: [www.pakomanfunds.com](http://www.pakomanfunds.com)  
E-mail: [info@pakomanfunds.com](mailto:info@pakomanfunds.com)

### **BOARD OF DIRECTOR OF THE MANAGEMENT COMPANY**

H.E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman
Mr. Javed Mahmood	Director
Mr. Humayun Murad	Director
Mr. Zafar Iqbal	Director
Mr. Agha Ahmed Shah	Director
Mr. Sulaiman Hamad Al Harthy	Director
Mr. Ali Said Ali	Director
Major General Imtiaz Ahmed	Director
Mr. Parveiz Usman	Director
Ms. Hina Ghazanfar	MD & CEO

### **AUDIT COMMITTEE**

H.E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman of the Committee
Mr. Humayun Murad	Member
Mr. Agha Ahmed Shah	Member
Mr. Parveiz Usman	Member

### **HEAD OF FINANCE, OPERATION & COMPANY SECRETARY**

Mr. Najm-ul- Hassan

### **TRUSTEE**

Central Depository Company of Pakistan Limited  
CDC House, 99-B Block-B Main Shahrah-e-Faisal.  
Karachi.



**AUDITORS**

A.F. Ferguson & Co.  
Chartered Accountants  
State Life Building No. 1-C  
Off I.I Chundrigar Road,  
Karachi - 4716, Pakistan

**BANKERS TO THE FUND**

Bank Al-Falah Ltd- Islamic Banking  
Dubai Islamic Bank  
Bank Islami Pakistan

**SHARIAH ADVISER**

Dr. Muhammad Imran Ashraf Usmani

**LEGAL ADVISER**

Bawaney & Partners  
404, 4th Floor  
Beaumont Plaza, 6-cl-10  
Beaumont Road, Civil Lines,  
Karachi - 75530

**TRANSFER AGENT**

Gangjees Registrar Services (Pvt.) Limited  
513, Clifton Centre, Khayaban-e-Roomi  
Block 5, Clifton,  
Karachi-75600

**RATING OF THE FUND**

A + (f)



## **REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY**

The Board of Directors of Pak Oman Asset Management Company Limited, the Management Company of Pak Oman Advantage Islamic Income Fund (the Fund) is pleased to present the audited financial statements of the Fund for the period ended June 30, 2009.

### **ECONOMIC REVIEW**

Overall, FY09 has been a year of missed targets for Pakistan's economy, particularly in the case of macroeconomic indicators. Provisional GDP growth came down to 2% at June end, from the initial forecast of 5.5%, and a revised 3.4%. The brunt of economic recession was borne by the manufacturing sector, with Large Scale Manufacturing (LSM) registering the steepest fall at -8.50%. As a whole, the manufacturing sector recorded a contraction of 3.3% due to multiple adverse factors including falling aggregate demand, soaring raw material costs, power outages, high cost of borrowing, low investments and PKR depreciation. Conversely, the agricultural and services sector provided some much needed support with growth rates of 4.7% and 3.6%, respectively.

Inflation remained a stressful indicator this year, with inflationary levels surpassing 25% YoY in October 2008. The economic fuelling was backed by international energy and commodity hike instead of excess money supply – a fundamental reason why monetary tightening had lost all traction over 2QFY09 and 3QFY09. The central bank, nevertheless, endeavored to bring down core inflation to acceptable levels by increasing 300bps over the year, taking the discount rate to 15% in November 2008. As a result of sliding commodity prices and high policy rate over 2HFY09, inflation receded from its October high to 13.1% in June 2009, in turn resulting in yearly inflation (12-mth average) to the tune of 20.77%. Core inflation, on the other hand, reflected a less significant retrenchment, falling by 300bps from 18.9% in November 2008 to 15.9% in June 2009.

The second quarter proved to be a critical testing ground for Pakistan, as the country neared forex insolvency with reserves having touched a dangerously low level of USD6.6bn. Subsequently, Pakistan entered into IMF's USD7.6bn stand-by arrangement in November 2008. Out of the total facility, the country received USD3.95bn over FY09. Thus far, Pakistan has achieved all essential IMF prescribed targets that serve as prerequisites for financial assistance tranches. Forex reserves ended the period at a sturdy USD12.27bn, boosted by an inflow of USD500mn from ADB on June 30, 2009 and recurring IMF tranches of USD848mn from the stand-by loan arrangement.

On a slightly positive note, fiscal deficit in FY09 amounted to 4.3% of GDP as against 7.4% in FY08, while the current account deficit dropped to USD8.86bn in FY09 from USD13.87bn in FY08 – a sharp decline of 36% YoY. The fall in current account deficit is attributed to heavy regulatory duties imposed on many import items, high interest rates and high prices of commodities due to high international oil prices. This collectively reduced the demand for imported goods and led to a 16.54% YoY decline in the trade deficit – down to USD12.49bn in FY09 as against USD14.97bn in FY08. Foreign workers' remittances rose by 21.10% YoY in FY09 to stand at USD7.80bn, with the highest inflow of USD739mn recorded in March 2009.

Following a steep decline in credit growth and falling economic activity, SBP reduced the benchmark discount rate by 100 bps to 14% in its monetary policy held on April 20, 2009. Till June 2009, SBP's cumulative lending to the government stood at PKR1,152bn against the targeted PKR1,181bn – within limit by PKR29bn. Moreover, Net Domestic Assets (NDA) were maintained at PKR1,232bn against the IMF prescribed limit of PKR1,412bn. Net Foreign Assets consolidated above the floor of USD2,782mn to stand at USD3,497mn. In light of meeting the prescribed targets, the third IMF tranche of USD848mn and additional financing of USD4bn requested by Pakistan will be considered for approval in August 2009.

Budget FY10 marked the end of the previous fiscal year, with ambitiously high fiscal targets and despondently low economic forecasts. The budget focused largely on social relief measures and tax net expansions rather than provisions to revive the economic engine through sectoral resuscitation. The total budget outlay for the next fiscal year stands at PKR2,482.3bn (up by 23% YoY) with a revenue collection target of PKR2,026.7bn, tax collection target of PKR1,513.1bn, current expenditure target of PKR1,699.1bn and a development expenditure target of PKR783.1bn. Conversely, a dismal GDP growth of 3.3% has been forecasted for FY10.

### **OPERATING PERFORMANCE**

The Fund during the period ended October 30, 2008 to June 30, 2009, earned a total income of PKR29.08mn. The income for the period comprises of mainly profit earned on sukus amounting to PKR9.35mn, profit earned on deposits with banks amounting to PKR15.20mn and income from sale of investments amounting to PKR2.94mn. The unrealized gain on investments at fair value through profit or loss and provision against non-performing debt security for the period were PKR4.02mn and PKR5.85million respectively. After accounting for expenses of PKR4.96mn, the net income for the period was PKR21.16mn as at June 30, 2009. The net assets of the fund as at June 30, 2009 were 221.94mn and PKR55.27 per unit. The Fund also declared a dividend of PKR 4.0531 /unit for the period from October 30, 2008 to June 30, 2009.



## **FUTURE OUTLOOK**

According to World Bank's global growth forecast, world economy is expected to shrink by 2.9% in CY09 and developing economies, including Pakistan, are to face the brunt of it in the form of declining investments and increasing poverty. SBP had cut the key policy rate by 100 bps in April 2009 and a further cut of 50 to 100 bps is expected in the upcoming monetary policy for 1QFY10. This anticipated reduction in the key policy rate stems from the receding CPI, which reached a 16-month low in June 2009 to settle at 13.13%, lower than the current discount rate of 14%. The anticipated reduction in interest rate in the upcoming monetary policy is expected to provide considerable momentum to private sector credit off-take, ultimately leading to respite to the troubled manufacturing sector. The recent instability observed in Pak Rupee, on the contrary, bodes ill for manufacturing concerns involved in imports; and the economy by extension. The local currency lost 1.12% of its value against the greenback over Apr-Jun 2009, and the transference of oil import financing to commercial banks instead of the central bank leads to a presumption that a further plunge worth 4-5% is in the offing.

T-Bill rates and KIBOR are expected to hold steady for 1QFY10 on the back of uncertainty associated with external financing. In an event where financing does not materialize, the market will price-up the borrowing rates in anticipation of higher future government borrowing. A glimpse of this was visible in the sudden rise in borrowing figures during the last week of June, where a cautionary PKR493bn was borrowed through the central bank. Inflationary average for FY10 is expected to consolidate around 12-14%, despite central bank's forecast to the tune of 8-9%. The anticipated disparity stems from high energy prices and subsidy phase-outs across the economy. Agricultural sector is forecasted to post a growth of 3.8% and LSM sector may also depict improved performance in FY10, owing to the low base effect. All the economic positives that are being anticipated are subject to the timely fulfillment of external fund pledges, effective corporate governance and the improvement in law and order situation within the country, for which the government seems to be making commendable efforts

## **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.

## **COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE**

The Management Company always strives to maintain the highest standards of corporate governance. In compliance with the code of corporate governance, the BOD declares that:

- These financial statements present fairly the state of affairs of the Fund, the result of its operations, cash flows and changes in equity.
- The Fund maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.
- The Board has formulated a Statement of Ethics and Business Practices which has been signed by existing directors and employees of the management company.
- The Directors, CEO, CFO and Company Secretary of the Management Company including their spouse and minor children do not hold any interest in the shares of the Company other than those disclosed in the financial statements.



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

- Pattern of units holding is given on note 19 of the financial statements.
- Key financial data for the year ended June 30, 2009 is given in note 25 of the financial statements.

### Board Meetings

During the period five board meetings were held. The details of the attendance by each director in the board meetings are given below:

Name	Designation	Dates of board of directors meetings and directors present therein				
		July 7, 2008	August 20, 2008	October 26, 2008	February 12, 2009	April 16, 2009
H. E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman	✓	✓	✓	✓	✓
Mr. Zafar Iqbal*	Director	✗	✓	✓	✓	✓
Mr. Javed Mahmood	Director	✓	✓	✓	✓	✓
Mr. Sulaiman Hammad Al Harty	Director	✓	✓	✗	✗	✓
Mr. Ali Said Ali	Director	✗	✓	✗	✓	✓
Mr. Humayun Murad*	Director	N/A	N/A	N/A	N/A	N/A
Mr. Agha Ahmed Shah*	Director	N/A	N/A	N/A	N/A	N/A
Maj. General Imtiaz Ahmed**	Director	N/A	N/A	N/A	N/A	N/A
Mr. Parveiz Usman**	Director	N/A	N/A	N/A	N/A	N/A
Mr. Akbar Habib*	Director	✗	✗	N/A	N/A	N/A
Mr. Zaigham Hasan Shah*	Director	✗	✗	N/A	N/A	N/A
Mr. Saeed-ur-Rahman**	Director	✓	✓	✗	N/A	N/A
Brig. Shahjahan Ali Khan, Esq.**	Director	✗	✗	N/A	N/A	N/A
Ms. Hina Ghazanfar	MD & CEO	✓	✓	✓	✓	✓

\*Mr. Humayun Murad and Mr. Agha Ahmed Shah were nominated on January 6, 2009 and March 12, 2009 respectively in place of Mr. Akbar Habib and Mr. Zafar Iqbal and were appointed as directors after SECP's approval on May 18, 2009. Further, Mr. Zafar Iqbal was nominated on April 7, 2009 in place of Mr. Zaigham Hasan Shah.

\*Mr. Parveiz Usman and Maj. General Imtiaz Ahmed were nominated on October 12, 2008 and August 22, 2008 respectively in place of Mr. Saeed-ur-Rahman and Brig. Shahjahan Ali Khan, Esq. and were appointed as directors after SECP's approval on May 29, 2009.

### RE-APPOINTMENT OF AUDITORS

The present auditors M/s A.F. Ferguson & Co. Chartered Accountants, retired and being eligible, offered themselves for re-appointment. The Audit Committee of the Management Company in its meeting held on August 18, 2009 recommended and the Board of Directors in their meeting held on August 18, 2009 approved their re-appointment as auditors for the year ending June 30, 2010.

### MUTUAL FUND RATING

The Fund's rating with PACRA is in process. However, JCR-VIS has maintained the Management Quality Rating of 'AM3+' to the Management Company that denotes the company's good management quality and strong capacity to manage the risks inherent in asset management and that the asset manager meets high investment management industry standards and benchmarks.

### 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 – Central Depository Company of Pakistan 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.

August 18, 2009  
Karachi, Pakistan

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



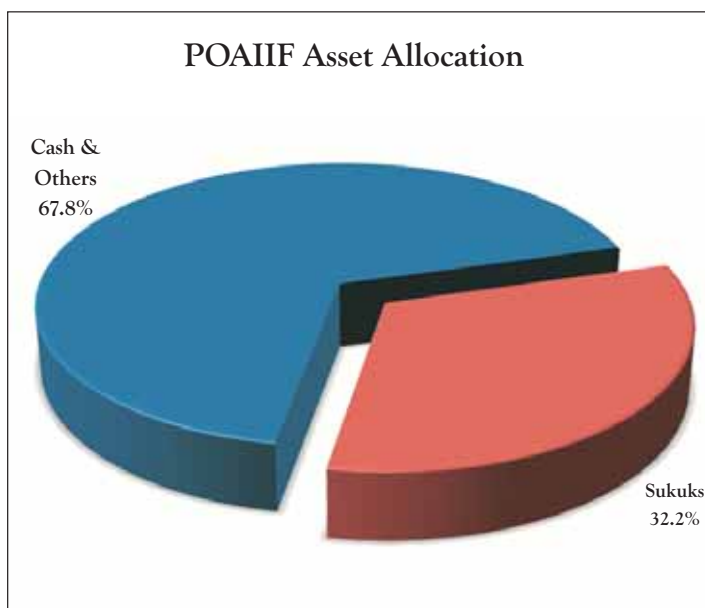
**REPORT OF THE FUND MANAGERS OF THE MANAGEMENT COMPANY**

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, 2009.

**Investment Objective**

The investment objective of POAIIIF is to provide investors with high 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 30 <sup>th</sup> , 2008
Face Value	PKR 50 per Unit
Fund Size	PKR221.99mn
NAV (Jun 30 <sup>th</sup> , 2009)	PKR 55.2683 per Unit
Benchmark	1-month average deposit rate of 4 Islamic Banks
Listing	KSE (Guaranteed) Limited
Trustee	CDC Pakistan Limited
Shariah Advisor	Dr. Mohammad Imran Ashraf Usmani
Shariah Collaborator	Meezan Bank Limited
Auditor	A. F. Fergusons & Co. Chartered Accountants
Legal Advisor	Bawaney & Partners
Transfer Agent	Gangjees Registrar Services (Pvt.) Limited
Management Fee	2.00% p.a.
AMC Rating	AM3+ by JCR – VIS
Fund Manager	Mr. Nabeel Malik



**POAIIIF Performance**

Yield since inception	16.24%
Year to date return (FY09)	16.24%
Risk free rate (3M T-Bill)*	12.78%
Sharpe Ratio	0.1751

\*Calculated through 'Morning Star'

\*\*Based on average FY09 3M T-Bill cutoff yield

**FUND REVIEW**

FY09 has been an eventful year for the global economies in general and the financial sector in particular. In addition to leaving its mark on the so-called developed world, the global recession and economic meltdown adversely affected Pakistan as well. The stock markets took a heavy bashing, the Discount rate and money market rates made new highs, rupee depreciated steeply against the dollar, the market strived for liquidity and the list goes on. It was a challenging year for the mutual fund industry with lingering redemption pressures, credit defaults, inactive markets and many other factors topping the list of anomalies. For many funds, survival became a question mark as the situation called for drastic measures. And bold measures we took as we successfully navigated our way through the storm.

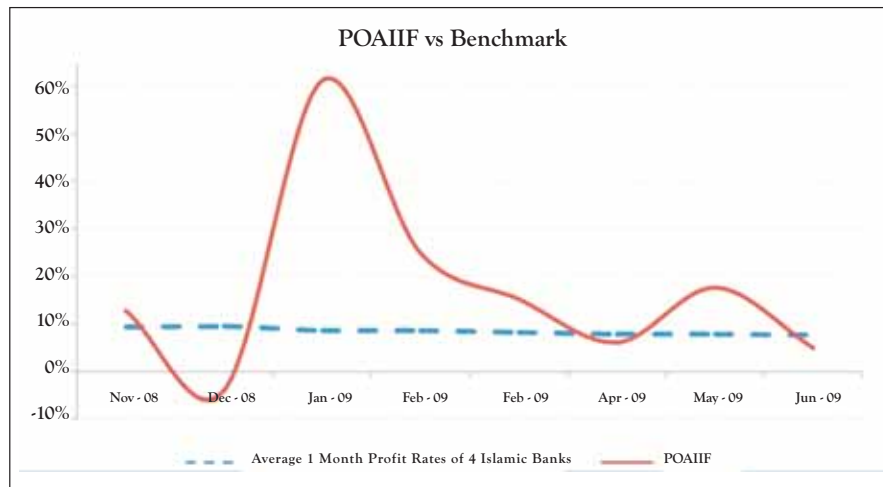
During the year under review, Pak Oman Advantage Islamic Income Fund generated a healthy return of 16.24%. The fund's return comfortably surpassed the risk free T-bill rate during the year by over 3%. The fund's investment strategies comprised of investments in SUKUKs (approximately 30% --45% of the fund size) and maintain the rest in cash or cash equivalent investments. This strategy paid off well yielding a stable return over the period. A dearth of SUKUKs and short-medium term investment avenues remained a challenge, as the Islamic investment instruments market is not yet fully developed. However, going forward it is intended to focus on capitalizing on any short-medium term Islamic investment avenue that is likely to be provided by the government.





## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

Unit Holding Pattern	
Units	# of Unit Holders
0 - 1,000	19
1,001 - 50,000	31
50,001 - 500,000	6
500,001 - 1,000,000	1
1000,001 - Above	1



We appreciate the trust you have placed in our expertise to manage your investments. Going forward, we believe that there is limited downside risk to the market and it will improve once the dust settles. The Fund, as always, will endeavor to outperform the competition and provide a stable stream of attractive returns. We look forward to your continued support and patronage.

July 22, 2009  
Karachi.

Nabeel Malik  
Head of Fixed Income



## **REPORT OF THE SHARIAH ADVISOR**

Karachi  
14 Shaba'an, 1430 A.H / August 5, 2009

**Alhamdulillah**, the period from October 30, 2008 to June 30, 2009 was the first year of operations of Pak oman Advantage Islamic Income Fund (POAIF). 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 Shari'ah Compliance of the Fund's activity.

In the capacity of Shari'ah advisor, we have prescribed criteria and procedure to be followed in ensuring Shariah Compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure the Shariah compliance with the Shariah 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.

In light of the above, we hereby certify that:

- (i) We have reviewed and approved the modes of investments of POAIF in light of Shari'ah guidelines.
- (ii) All the provision of the scheme and investment made on account of POAIF by Pak Oman Asset Management Limited are Shari'ah Compliant and in accordance with the criteria established.
- (iii) On the basis of information provided by the management, all the operation of POAIF for the period ended June 30, 2009 have been in compliance with Shariah 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.

**Dr. Muhammad Imran Ashraf Usmani**  
Shariah Advisor

**Ahmed Ali Siddiqui - EVP,**  
**Farhan-ul-Haq Usmani - AVP**  
For and on behalf of Meezan Bank Limited  
STS & SP



**TRUSTEE REPORT TO THE UNIT HOLDERS  
PAKOMAN ADVANTAGE ISLAMIC INCOME FUND**

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

The Pak Oman Advantage Islamic Income Fund (the Fund), an open end fund was established under a trust deed dated June 02 2008, executed between Pak Oman Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the period from October 30, 2008 to June 30, 2009 in accordance with the provisions of the following:

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

September 15, 2009  
Karachi.

**Muhammad Hanif**  
Chief Executive Office  
Central Depository Company of Pakistan Limited



## **STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2009**

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The board of directors (the Board) of Pak Oman Asset Management Company Limited, the management company, which is an unlisted public company, manages the affairs of Pak Oman Advantage Islamic Income Fund (the Fund). The Fund being an open end scheme does not have its own Board of Directors. The management company has applied the principles contained in the code to the Fund whose units are listed on the Karachi Stock Exchange, in the following manner:

1. The management company encourages representation of non-executive directors. All the directors except the MD & CEO are non-executive directors.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the management company.
3. All the existing resident directors of the management company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred during the year. However, nomination of five directors changed during the period.
5. The board has formulated a Statement of Ethics and Business Practices which has been signed by the existing directors and employees of the management company.
6. The board of the management company has developed a vision and mission statement, overall corporate strategy and significant policies of the Company. The investment policy of the Fund has been disclosed in the offering document while other significant policies & procedures manuals have also been approved by the Board and adopted by the management company.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the MD & CEO of the management company, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The management company, managing the Fund has arranged an orientation course for its directors in the current year to apprise them of their duties and responsibilities and the requirements of the code of corporate governance.
10. The Board has approved the appointment of the Head of Finance and Company Secretary, of the management company and his terms of employment.
11. The directors' report relating to the Fund, for the year ended June 30, 2009 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 MD & CEO and the CFO of the management company before approval by the Board.
13. There is no interest of MD & CEO and Directors in the units of the Fund.
14. The management company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The Board has an audit committee. It comprises of four non-executive directors of the management company as its members including chairman of the audit committee.



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

16. The meetings of the audit committee were held once in every quarter prior to the approval of final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the Board of the management company and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function and personnel involved are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
18. The related party transactions entered during the year ended June 30, 2009 have been placed before the audit committee and approved by the board of directors in their respective meetings held on February 12, 2009 and August 18, 2009 instead of each of their meetings held since January 19, 2009.
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 shares of the management company or units of the Fund and that the firm and all its partners are in compliance with the 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. We confirm that all other material principles contained in the Code have been complied with.

August 18, 2009  
Karachi, Pakistan

Hina Ghazanfar  
MD & CEO



## **REVIEW REPORT TO THE UNITHOLDERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pak Oman Asset Management Company Limited (the Management Company) of Pak Oman Advantage Islamic Income Fund (the Fund) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company 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 Management Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii a) of Listing Regulation 37 (now Listing Regulation 35) notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required to check the approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee which were done in their meetings held on February 12 and August 18, 2009. 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 status of the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period October 30, 2008 to June 30, 2009.

September 18, 2009  
Karachi.

A.F. Ferguson & Co.  
Chartered Accountants



## **INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS**

We have audited the accompanying financial statements of Pak Oman Advantage Islamic Income Fund, Which comprise the statement of assets and liabilities as at June 30, 2009, and the related income statements, distribution statement, statement of movement in unitholders' fund and cash flow statement for the period October 30, 2008 to June 30, 2009, 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 these financial statements in accordance with the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 June 30, 2009 and of its financial performance, cash flows and transactions for the period October 30, 2008 to June 30, 2009 in accordance with the requirements of the approved accounting standards as applicable in Pakistan.

### **Other Matters**

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

September 18, 2009  
Karachi.

A.F. Ferguson & Co.  
Chartered Accountants



## **INDEPENDENT ASSURANCE PROVIDER'S REPORT ON SHARIAH COMPLIANCE TO THE UNITHOLDERS**

We have performed our independent assurance engagement of Pak Oman Advantage Islamic Income Fund (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor of the Fund for the period October 30, 2008 to June 30, 2009.

### **Management Company's responsibility**

Management Company of the Fund is responsible for the appointment of Shariah Advisor of the Fund and for compliance with the Shariah guidelines prescribed by the Shariah Advisor. The responsibility includes: designing, implementing and maintaining internal control to ensure compliance with Shariah guidelines issued by the Shariah Advisor of the Fund.

### **Responsibility of independent assurance providers**

Our responsibility is to express our conclusion on the compliance based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagement (ISAE 3000) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the Fund has complied with the guidelines issued by the Shariah Advisor.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliances with the Shariah guidelines. In making those risk assessments, we have considered internal controls relevant to the entity's compliance with the guidelines in order to design our procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the guidelines. Our engagement was not for the purpose of expressing an opinion on the effectiveness of entity's internal control.

### **Conclusion**

In our opinion, the Fund was, in all material respect, in compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund for the period October 30, 2008 to June 30, 2009.

September 18, 2009  
Karachi.

A.F. Ferguson & Co.  
Chartered Accountants





**PAK OMAN ADVANTAGE ISLAMIC INCOME FUND**

**STATEMENT OF ASSETS AND LIABILITIES**

AS AT JUNE 30, 2009

	Note	2009 (Rupees in '000)
<b>Assets</b>		
Balances with banks	6	142,503
Investments	7	73,384
Profit receivable	8	2,984
Deposits and other receivables	9	5,100
Preliminary expenses and floatation cost	10	4,000
<b>Total assets</b>		<b>227,971</b>
<b>Liabilities</b>		
Payable to Pak Oman Asset Management Company Limited - Management Company of the Fund	11	5,410
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund	12	59
Payable to Securities and Exchange Commission of Pakistan	13	134
Accrued expenses and other liabilities	14	374
<b>Total liabilities</b>		<b>5,977</b>
<b>Net assets</b>		<b>221,994</b>
<b>Unitholders' fund (as per statement attached)</b>		<b>221,994</b>
		(Units)
<b>Number of units in issue</b>		<b>4,016,662</b>
		(Rupees)
<b>Net asset value per unit</b>		<b>55.2683</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

### INCOME STATEMENT

FOR THE PERIOD OCTOBER 30, 2008 TO JUNE 30, 2009

	Note	For the period October 30, 2008 to June 30, 2009 (Rupees in '000)
<b>Income</b>		
Profit on deposit accounts with banks		15,204
Profit on sukuk certificates		9,347
Income from sale of investments		2,935
Other income - contingent load		3,424
		<u>30,910</u>
Unrealised gain on investments 'at fair value through profit or loss' - upon initial recognition		4,024
Provision against non-performing debt security		(5,850)
		<u>(1,826)</u>
<b>Total income</b>		<u>29,084</u>
<b>Expenses</b>		
Remuneration to Pak Oman Asset Management Company Limited - Management Company of the Fund		2,773
Remuneration to Central Depository Company of Pakistan Limited - Trustee of the Fund		485
Securities and Exchange Commission of Pakistan - annual fee		134
Auditors' remuneration	16	446
Fees and subscription		30
Amortisation of preliminary expenses and floatation cost	10	1,000
Brokerage		26
Bank, settlement and other charges		67
<b>Total expenses</b>		<u>4,961</u>
Element of loss included in prices of units sold less those in units redeemed		(2,962)
<b>Net income</b>		<u><u>21,161</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



**PAK OMAN ADVANTAGE ISLAMIC INCOME FUND**

**DISTRIBUTION STATEMENT**  
FOR THE PERIOD OCTOBER 30, 2008 TO JUNE 30, 2009

	For the period October 30, 2008 to June 30, 2009 (Rupees in '000)
Net income for the period	21,161
Undistributed income carried forward	<u>21,161</u>
Undistributed income carried forward:	
- Realised income	22,987
- Unrealised loss	(1,826)
	<u>21,161</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



**PAK OMAN ADVANTAGE ISLAMIC INCOME FUND**

**STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND**  
FOR THE PERIOD OCTOBER 30, 2008 TO JUNE 30, 2009

	For the period October 30, 2008 to June 30, 2009 (Rupees in '000)
Issue of 12,229,066 units	616,917
Redemption of 8,212,404 units	(419,046)
	<hr/>
	197,871
Element of loss included in prices of units sold less those in units redeemed	2,962
Net income for the period	21,161
	<hr/>
Net assets at the end of the period	<u>221,994</u>
	(Rupees)
	<hr/>
Net asset value per unit	<u>55.2683</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



**CASH FLOW STATEMENT**  
FOR THE PERIOD OCTOBER 30, 2008 TO JUNE 30, 2009

For the period  
October 30, 2008  
to June 30, 2009

Note (Rupees in '000)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	21,161
<b>Adjustments for non-cash and other items</b>	
Profit on deposit accounts with banks	(15,204)
Profit on sukuk certificates	(9,347)
Income from sale of investments	(2,935)
Unrealised gain on investments 'at fair value through profit or loss' - upon initial recognition	(4,024)
Provision against non-performing debt security	5,850
Amortisation of preliminary expenses and floatation cost	1,000
Element of loss included in prices of units sold less those in units redeemed	2,962
	<u>(537)</u>
<b>Increase in assets</b>	
Investments (net)	(75,210)
Deposits and other receivables	(5,100)
Preliminary expenses and floatation cost	(5,000)
	<u>(85,310)</u>
<b>Increase in liabilities</b>	
Payable to Pak Oman Asset Management Company Limited	5,410
Payable to Central Depository Company of Pakistan Limited	59
Payable to Securities and Exchange Commission of Pakistan	134
Accrued expenses and other liabilities	374
	<u>5,977</u>
Profit received on deposit accounts with banks	14,152
Profit received (net) on sukuk certificates	7,415
Income received from sale of investments	2,935
Cash outflow from operating activities	<u>(55,368)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net of payments and receipts against issue and redemption of units	197,871
Net increase in cash and cash equivalents during the period and its balance at the end of the period	6 <u><u>142,503</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD OCTOBER 30, 2008 TO JUNE 30, 2009**

**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 and Central Depository Company of Pakistan Limited (CDC) as the trustee. The Trust Deed was executed on June 2, 2008 and was approved for execution by the Securities and Exchange Commission of Pakistan (the SECP) on May 27, 2008 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations 2007). On November 21, 2007, NBFC Regulations 2007 were notified which are now superceded by the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations 2008) issued through S.R.O. 1203(I)/2008 on November 21, 2008. The Management Company of the Fund is registered with the SECP as a Non-Banking Finance Company. The registered office of the Management Company is situated at First Floor, Tower A, Finance and Trade Centre, Sharah-e-Faisal, Karachi.
- 1.2 The Fund is a shariah compliant open-end fund listed on the Karachi Stock Exchange and was launched on October 30, 2008. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unitholders.
- 1.3 The Fund's investments comprise of shariah compliant income securities, so as to ensure a riba-free return on investments. All investments of the Funds are as per the guidelines of the shariah principles provided by the Shariah Advisor of the Fund, Dr. Imran Ashraf Usmani, and comprise the investments permissible as 'Authorised Investments' under the Trust Deed. The portfolio of the Fund as at June 30, 2009 consists primarily of investment in income securities which are subject to market fluctuations and risks inherent in all such investments.
- 1.4 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

**2. BASIS OF PRESENTATION AND ACCOUNTING CONVENTION**

These financial statements are presented in Pakistani Rupees which is the functional currency of the Fund and the figures have been rounded off to the nearest thousand Rupees. These financial statements have been prepared under the historical cost convention, except for certain investments classified as 'at fair value through profit or loss' upon initial recognition which are carried at fair value in accordance with the criteria laid down in the International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

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 earlier referred guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

**3. STATEMENT OF COMPLIANCE**

- 3.1 These are the first financial statements of the Fund, therefore, there are no corresponding figures.
- 3.2 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, the Trust Deed, the NBFC Rules, the NBFC Regulations and the directives issued by the SECP. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) as are notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations and the said directives take precedence.
- 3.3 Standard and interpretations effective from July 1, 2008:

IFRS 7, 'Financial instruments: Disclosures' introduces new disclosures (note 18) relating to financial instruments and does not have any impact on the classification and valuation of the Fund's financial instruments.



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

Certain interpretations to the approved accounting standards were mandatory for accounting periods beginning on or before July 1, 2008 but were considered not to be relevant or did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

### 3.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

Certain interpretations and other amendments to the approved accounting standards are mandatory for accounting periods beginning on or after July 1, 2008 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

## 4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of these financial statements in conformity with the approved accounting standards requires the Management Company to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense.

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.

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have significant effect on the amounts recognised in these financial statements are as follows:

- (a) Classification and valuation of financial instruments (notes 5.1 and 7)
- (b) Recognition of provision for current and deferred taxation (note 5.7)
- (c) Amortisation of preliminary expenses and floatation cost (note 5.8)

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

### 5.1 Financial instruments

#### 5.1.1 Classification

The Fund classifies its financial assets in the following categories:

- (a) Investments 'at fair value through profit or loss':

- Financial assets 'held-for-trading'

These include financial assets acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit taking exists.

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

Any financial asset within the scope of IAS 39 - 'Financial Instruments: Recognition and Measurement' (IAS 39) may be designated when initially recognised as a financial asset at fair value through profit or loss.



All purchases and sales of investments in this category are recognised using trade date accounting.

(b) Held to maturity

These are securities acquired by the Fund with the intention and ability to hold them up to maturity.

All purchases and sales of investments in this category are recognised using trade date accounting.

(c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as at fair value through profit or loss or available for sale.

All purchases and sales of investments in this category are recognised using trade date accounting.

(d) Available for sale

These financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

All purchases and sales of investments in this category are recognised using trade date accounting.

#### 5.1.2 Recognition

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

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

#### 5.1.3 Measurement

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

Subsequent to initial recognition, instruments classified as financial assets 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the income statement. Changes in the fair value of instruments classified as 'available for sale' are recognised in equity until derecognised or impaired, while the accumulated fair value adjustments in equity, upon sale of investments are included in the income statement.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective yield method, less impairment losses, if any.

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

#### 5.1.4 Fair value measurement principles

The fair value of debt securities and derivatives were determined as follows:

- Based on their prices quoted by Mutual Funds Association of Pakistan (MUFAP) during the period from July 1, 2008 upto November 4, 2008.
- The SECP through its circular No. 26/2008 dated November 5, 2008 has directed that for valuation of debt securities a fixed discount rate be applied on the face value of the securities based on the security / entity rating. Accordingly, subsequent to the





date of the circular No. 26/2008 upto January 9, 2009 valuation of debt securities was based on the discounted value.

- Effective January 10, 2009 the carrying value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in circular No. 1/2009 dated January 6, 2009 (the circular) issued by the SECP.

#### 5.1.5 Impairment

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective yield rate.

If in a subsequent period, the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the impairment is reversed through the income statement.

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

#### 5.1.6 Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flow from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

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

#### 5.2 Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivative financial instruments entered into by the Fund do not meet the hedging criteria as defined by IAS 39, consequently hedge accounting is not used by the Fund.

#### 5.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors before cut off time on the date when the application is received. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision of duties and charges and provision for transaction costs, if applicable. The sales load is payable to the distributors and the Management Company.

Units redeemed are recorded at the redemption price prevalent on the date on which the distributors receive redemption application before cut off time on that date. The redeemed price represents the net asset value per unit less any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

The net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period is taken to the income statement.

#### 5.5 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of that 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 is calculated by dividing the net assets of the Fund by the number of units in issue at period end.

#### 5.7 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unitholders. Accordingly, the Fund has not recorded a tax liability in respect of income relating to the current period as the Fund intends to avail this exemption.

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that these will be available for set off against future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least 90 percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised to its unitholders every year.

#### 5.8 Preliminary expenses and floatation cost

Preliminary expenses and floatation cost represent expenditure incurred prior to the commencement of the operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirement of the Trust Deed of the Fund.

#### 5.9 Distribution and appropriation

Distribution and appropriation to reserves are recognised in the Fund's financial statements in the period in which these are approved.

#### 5.10 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are set off and the net amount is reported in the statement of assets and liabilities if the Fund has a legal right to set off the transaction and also intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

#### 5.11 Zakat

Units held by resident Pakistani unitholders are subject to Zakat at 2.5% of the face value or redemption value, whichever is lower, of units under the Zakat and Ushr Ordinance, 1980 (XVII of 1980), except those exempted. Zakat is deducted at source from the dividend amount or from the redemption payment, if units are redeemed during the Zakat year before payment of dividend after it becomes leviable.

#### 5.12 Revenue recognition

- (i) Gains / (losses) arising on disposal of investments are included in the income statement currently and are recognised on the date when the transaction takes place.
- (ii) Income on debt instruments is recognised on an accrual basis using the effective interest rate method except for income on non-performing assets which is recognised on receipt basis.
- (iii) Profits on bank deposits are recorded on an accrual basis.
- (iv) Unrealised gains / (losses) arising on revaluation of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

### 5.13 Expenses

All expenses, including management fee and trustee fee, are recognised in the income statement on an accrual basis.

### 5.14 Cash and cash equivalents

Cash and cash equivalents comprise of deposits with banks and short-term highly liquid investments, with original maturity of three months or less, that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

	Note	2009 (Rupees in '000)
<b>6. BALANCES WITH BANKS</b>		
Balances with banks - Deposit accounts		<u>142,503</u>
<b>7. INVESTMENTS</b>		
'Financial assets at fair value through profit or loss' - upon initial recognition		
Sukuk certificates	7.1	<u>73,384</u>

#### 7.1 Sukuk certificates

Name of the investee company	Maturity	Profit rate	Purchases during the period	Sales / redemptions during the period	As at June 30, 2009	Amortised cost as at June 30, 2009	Fair value as at June 30, 2009 (see note 5.1.4)	Percentage of total investments
Kohat Cement Company Limited - secured (see note 7.2)	June 20, 2013	3 months KIBOR plus base rate of 1.80%	4,000	-	4,000	19,358	19,320*	18.36
Engro Chemical Pakistan Limited - secured	September 6, 2015	6 months KIBOR plus base rate of 1.50%	4,000	-	4,000	19,213	19,652	26.78
Sitara Chemical Limited - secured	January 2, 2013	3 months KIBOR plus base rate of 1.00%	6,000	2,500	3,500	16,728	17,496	23.84
Pak Elektron Limited - secured	September 28, 2012	3 months KIBOR plus base rate of 1.75%	5,000	-	5,000	19,911	22,766	31.02
Maple Leaf Cement Factory Limited - secured	December 3, 2013	6 months KIBOR plus base rate of 1.70%	6,000	6,000	-	-	-	-
Karachi Shipyard Engineering Works Limited - secured	February 4, 2016	6 months KIBOR plus base rate of 0.40%	6,000	6,000	-	-	-	-
						<u>75,210</u>	<u>79,234</u>	<u>100.00</u>
Less: provision against sukuk certificate of Kohat Cement Company Limited							<u>(5,850)</u>	
							<u>73,384</u>	

\* This represents cost of the sukuk certificate before making provision in accordance with the requirements of the circular.



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

7.2 On December 20, 2008, i.e. the scheduled redemption date, accrued profit aggregating Rs 1.455 million representing accrued profit from November 3 to December 19, 2008 aggregating Rs 0.374 million and accrued profit of Rs 1.081 million paid to previous investor at the time of purchase, alongwith the principal repayment of Rs 340 per certificate (aggregating Rs 1.360 million) was not received by the Fund. However, such accrued profit has been received subsequent thereto. In accordance with the requirements of the circular the accrual of profit has been suspended and the income has only been recognised to the extent of profit actually realised upto June 30, 2009.

During the period October 30, 2008 to June 30, 2009, the repayment terms of the sukuk were restructured through a supplemental trust deed dated May 11, 2009 through which the maturity date has been extended upto June 20, 2013 from June 20, 2012. Effective December 20, 2009 the repayment schedule has been revised from semi-annual payments to quarterly payments which will be based on a base rate of 3 months KIBOR.

Subsequent to June 30, 2009 the Fund has received coupon amounting to Rs 0.842 million being the installment receivable upto June 20, 2009 which has been recognised as income in the subsequent accounting period.

These sukuk certificates are secured against the present and future fixed assets of Kohat Cement Company Limited in accordance with the sukuk issue arrangement.

### 8. PROFIT RECEIVABLE

	Note	2009 (Rupees in '000)
On sukuk certificates		1,932
On deposit accounts with banks		1,052
		<u>2,984</u>

### 9. DEPOSITS AND OTHER RECEIVABLES

Security deposits with Central Depository Company of Pakistan Limited		100
Security deposits with National Clearing Company of Pakistan Limited		2,500
Other receivables		2,500
		<u>5,100</u>

### 10. PRELIMINARY EXPENSES AND FLOATATION COST

Preliminary expenses and floatation cost		5,000
Less: amortisation for the period		(1,000)
		<u>4,000</u>

### 11. PAYABLE TO PAK OMAN ASSET MANAGEMENT COMPANY LIMITED - MANAGEMENT COMPANY OF THE FUND

Remuneration	11.1	385
Preliminary expenses and floatation cost		5,000
Sales load		25
		<u>5,410</u>



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

11.1. The remuneration of the Management Company is being charged at a rate of 2% on average annual net assets of the Fund.

### 12. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED TRUSTEE OF THE FUND

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed in accordance with the tariff specified therein.

### 13. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents proportionate annual fee at a rate of 0.075% of the average annual net assets of the Fund payable to the SECP under regulation 62 of the NBFC Regulations 2008.

	2009 (Rupees in '000)
<b>14. ACCRUED EXPENSES AND OTHER LIABILITIES</b>	
Auditors' remuneration	325
Others	49
	<u>374</u>

### 15. CLASSES OF UNITS IN ISSUE

15.1 The Fund has issued the following classes of units:

Class	Description
-------	-------------

A	Units issued to the core investor (Pak Oman Investment Company Limited) with no sales load. These units cannot be redeemed for a period of two years from the date of closure of Initial Offer.
---	---

B	Units issued to Pre-IPO and IPO investors with no front-end load
---	--

C	Units issued after the IPO
---	----------------------------

15.2 As per the Trust Deed dated June 2, 2008, Management Company of the Fund may issue the following classes of units:

- Growth units which shall be entitled to bonus units in case of any distribution by the Fund. Bonus units issued to growth unitholders shall also be the growth units.
- Income units which shall be entitled to cash dividend in case of any distribution by the Fund.

15.3 The units in issue as at period end in each class and their par values were as follows:

Class	2009	
	Number of units in issue	(Rupees in '000)
<b>A</b>		
- Growth units	2,000,000	100,000
- Income units	-	-
<b>B</b>		
- Growth units	1,393,893	69,695
- Income units	-	-
<b>C</b>		
- Growth units	622,769	31,138
- Income units	-	-
<b>Total</b>	<u>4,016,662</u>	<u>200,833</u>



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

The par value of each unit is Rs 50. The Management Company of the Fund has set a minimum initial investment limit of Rs 5,000. All units carry equal rights and are entitled to dividends and payment of net asset value on liquidation.

For the period  
October 30, 2008  
to June 30, 2009  
(Rupees in '000)

### 16. AUDITORS' REMUNERATION

Annual audit fee	200
Half year review fee	100
Others	125
Out of pocket expenses	21
	446

### 17. TRANSACTIONS WITH CONNECTED PERSONS

The connected persons include Pak Oman Asset Management Company Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, Pak Oman Investment Company Limited being the Holding Company of Management Company (core investor), Bank Al-Falah Limited and The Bank of Punjab being unitholders of more than ten percent of the units of the Fund outstanding as on June 30, 2009, executives of the Management Company and other funds being managed by the Management Company.

Transactions with connected persons are entered into in the normal course of business, at contracted rates and terms determined in accordance with market rates. The remuneration to the Management Company and the Trustee is payable in accordance with the NBFC Regulations.

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

	(Units)	2009 (Rupees in '000)
<b>Units sold to:</b>		
Pak Oman Investment Company Limited	2,000,000	100,000
Pak Oman Investment Company Limited - Employees Provident Fund	14,868	808
The Bank of Punjab	500,000	25,000
Bank Al-Falah Limited	600,000	30,000
Executives	82,445	4,175
<b>Units redeemed by:</b>		
Executives	7,000	370
<b>Units outstanding as at June 30, 2009:</b>		
Pak Oman Investment Company Limited	2,000,000	110,537
Pak Oman Investment Company Limited - Employees Provident Fund	14,868	822
The Bank of Punjab	500,000	27,634
Bank Al-Falah Limited	600,000	33,161
Executives	75,445	4,170



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

2009

(Rupees in '000)

### Pak Oman Asset Management Company Limited - Management

#### Company of the Fund

Remuneration for the period	2,773
Preliminary expenses and floatation cost	5,000
	<u>7,773</u>

### Central Depository Company of Pakistan Limited

#### - Trustee of the Fund

Remuneration for the period	485
CDS charges	4

### Bank Al-Falah Limited Islamic Banking

Deposit with bank	142,498
Profit on bank deposit	12,368

### Dubai Islamic Bank

Deposit with bank	5
Profit on bank deposit	2,836

### POBOP Advantage Plus Fund - fund managed by the same management company

Purchase of sukuk certificates	21,096
--------------------------------	--------

### Pak Oman Advantage Fund - fund managed by the same management company

Purchase of sukuk certificates	47,156
--------------------------------	--------

The status of outstanding balances with connected persons as at June 30, 2009 is stated in 'Statement of assets and liabilities'.

## 18. RISK MANAGEMENT

The Fund primarily invests in a portfolio of investment grade shariah based debt securities, certificates of islamic investments, spread transactions as per shariah Advisor's approval and other income and debt based shariah compliant securities. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

### 18.1 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market prices of securities due to a change in credit rating of the issuer or the instrument, changes in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Management Company manages market risk exposure of the Fund 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 SECP.

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



18.1.1 Currency risk

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

18.1.2 Interest rate risk

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.

- Fair value sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing sukuk certificates that expose the Fund to cash flow interest rate risk. In case of 50 basis points increase / decrease in KIBOR on June 30, 2009, with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs 0.118 million.

The composition of the Fund's investment portfolio and KIBOR rates are expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

18.1.3 Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Fund is not exposed to other price risk, as investment made by the Fund is in debt securities only.

18.2 Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse repurchase transactions and receivable against continuous funding system or other arrangements, to fulfill their obligations. The risk is generally limited to principal amounts and accrued interest thereon, if any.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee and Shariah Advisor. In addition, the risk is managed through assignment of credit limits, obtaining adequate collaterals and by following strict credit evaluation criteria laid down by the management. The Fund does not expect to incur material credit losses on its financial assets.

The analysis below summarises the credit quality of the Fund's performing investment in sukuk certificates as at June 30, 2009:

<b>Debt securities by rating</b>	<b>Percentage of total debt investments</b>
AA	50.62
A	31.02

Moreover, the analysis of the credit quality of the balances with banks maintained by the Fund are as follows:

<b>Balances with banks by rating</b>	<b>Percentage of total balances with banks</b>
A - 1+	99.99
A - 2	0.01





## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

18.2.1 The maximum exposure to credit risk before any credit enhancements as at June 30, 2009 is the carrying amount of the financial assets as set out in note 18.6.

### 18.3 Concentration of credit risk

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

### 18.4 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund is exposed to daily cash redemptions, if any. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

The maximum amount of borrowing available to the Fund is restricted by the NBFC Regulations 2008 to fifteen percent of the net assets upto 90 days and should be secured by the assets of the Fund. The facility would bear interest at commercial rates.

The analysis below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts below represent the contractual undiscounted cash flows.

	2009 Total (upto three months) (Rupees in '000)
<b>Financial liabilities</b>	
Payable to Pak Oman Asset Management Company Limited - Management Company of the Fund	5,410
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund	59
Accrued expenses and other liabilities	374
	<u>5,843</u>

### 18.5 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximate to their fair value.

### 18.6 Financial instruments by category



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

	2009			Total
	Loans and receivables	Financial assets at fair value through profit or loss - upon initial recognition	Financial liabilities measured at amortised cost	
----- (Rupees in '000) -----				
<b>On balance sheet - financial assets</b>				
Balances with banks	142,503	-	-	142,503
Investments	-	73,384	-	73,384
Profit receivable	2,984	-	-	2,984
Deposits and other receivables	5,100	-	-	5,100
	<u>150,587</u>	<u>73,384</u>	<u>-</u>	<u>223,971</u>
<b>On balance sheet - financial liabilities</b>				
Payable to Pak Oman Asset Management Company Limited - Management Company of the Fund	-	-	5,410	5,410
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund	-	-	59	59
Accrued expenses and other liabilities	-	-	374	374
	<u>-</u>	<u>-</u>	<u>5,843</u>	<u>5,843</u>

### 19. UNIT HOLDING PATTERN OF THE FUND

Category	2009		Percentage of total investment
	No. of unitholders	Investment (Rupees in '000)	
Individuals	52	32,155	14.48
Associated companies / directors	3	171,332	77.18
Banks / DFIs	1	16,580	7.47
Retirement funds	2	1,927	0.87
Total	<u>58</u>	<u>221,994</u>	<u>100.00</u>



**20. LIST OF TOP BROKERS BY PERCENTAGE OF COMMISSION**

Al-Falah Securities (Private) Limited  
 First Capital Securities Corporation Limited  
 JS Global Capital Limited  
 Atlas Capital Markets (Private) Limited  
 KASB Securities Limited

**21. DETAILS OF MEMBERS OF BOARD INVESTMENT COMMITTEE**

Members	Qualification	Experience
Mr. Ali Said Ali (Chairman)	MBA and B.Sc. Mechanical	22 years
Mr. Zafar Iqbal	FCA	20 years
Mr. Sulaiman Hammad Al Harty	MBA	20 years
Mr. Agha Ahmed Shah	MBA	25 years

**22. DETAILS OF FUND MANAGER**

Name	Qualification	Funds managed
Mr. Nabeel Malik	MBA	POBOP Advantage Plus Fund Pak Oman Advantage Fund Pak Oman Advantage Islamic Income Fund

**23. DETAILS OF ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY**

Name	Designation	Dates of board of directors meetings and directors present therein	
		February 12, 2009	April 16, 2009
H. E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman	✓	✓
Mr. Zafar Iqbal*	Director	✓	✓
Mr. Javed Mahmood	Director	✓	✓
Mr. Sulaiman Hammad Al Harty	Director	x	✓
Mr. Ali Said Ali	Director	✓	✓
Mr. Humayun Murad*	Director	N/A	N/A
Mr. Agha Ahmed Shah*	Director	N/A	N/A
Maj. General Imtiaz Ahmed**	Director	N/A	N/A
Mr. Parveiz Usman**	Director	N/A	N/A
Mr. Akbar Habib*	Director	N/A	N/A
Mr. Zaigham Hasan Shah*	Director	N/A	N/A
Mr. Saeed-ur-Rahman**	Director	N/A	N/A
Brig. Shahjahan Ali Khan, Esq.**	Director	N/A	N/A
Ms. Hina Ghazanfar	MD & CEO	✓	✓



## PAK OMAN ADVANTAGE ISLAMIC INCOME FUND

\*Mr. Humayun Murad and Mr. Agha Ahmed Shah were nominated on January 6, 2009 and March 12, 2009 respectively in place of Mr. Akbar Habib and Mr. Zafar Iqbal and were appointed as directors after SECP's approval on May 18, 2009. Further, Mr. Zafar Iqbal was nominated on April 7, 2009 in place of Mr. Zaigham Hasan Shah.

\*\*Mr. Parveiz Usman and Maj. General Imtiaz Ahmed were nominated on October 12, 2008 and August 22, 2008 respectively in place of Mr. Saeed-ur-Rahman and Brig. Shahjahan Ali Khan, Esq. and were appointed as directors after SECP's approval on May 29, 2009.

### 24. RATING OF THE FUND AND THE MANAGEMENT COMPANY

The Fund's stability rating is in process.

JCR-VIS has assigned an AM3+ rating to the Management Company which is defined as good management quality.

### 25. PERFORMANCE TABLE

	2009
Details of total net assets and net asset value per unit	
Net assets as at period end (Rupees in '000)	221,994
Net asset value per unit as at period end (Rupees)	55.2683
Selling price per unit as at period end (Rupees)	55.8266
Repurchase price per unit as at period end (Rupees)	55.2683
Highest selling price per unit during the period (Rupees)	55.8297
Lowest selling price per unit during the period (Rupees)	49.7917
Highest repurchase price per unit during the period (Rupees)	55.2714
Lowest repurchase price per unit during the period (Rupees)	49.7917
Return of the fund annualised	15.76%
Growth distribution (Rupees in '000)	16,280
Distribution per unit (Rupees)	4.0531
Distribution date	July 6, 2009
	One year
Average annual return (%) as at period end	15.76%

#### Investment portfolio composition of the Fund

	2009	
	(Rupees in '000)	Percentage of total investment
<b>Sukuk certificates</b>		
- Cement	13,470	18.36
- Fertilizer	19,652	26.78
- Chemicals	17,496	23.84
- Others	22,766	31.02
	73,384	100.00



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

25.2 Weighted average portfolio duration of the Fund is 1.01 months.

**26. NON ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE**

The board of directors of the Management Company in their meeting held on July 6, 2009 has approved distribution of Rs 4.0531 per unit for the period ended June 30, 2009 aggregating to Rs 16.280 million.

**27. CAPITAL RISK MANAGEMENT**

The capital of the Fund is represented by the net assets attributable to the unitholders of the Fund. The amount of net assets attributable to the unitholders can change significantly on a daily basis as the Fund is subject to daily issuance and redemptions at the discretion of the unitholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund performs the following:

- (i) Monitors the level of daily issuance and redemptions relative to the liquid assets.
- (ii) Primarily invest in liquid assets easily convertible in cash to mitigate liquidity risk.

**28. DATE OF AUTHORISATION FOR ISSUE**

These financial statements have been authorised for issue on August 18, 2009 by the board of directors of the Management Company.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director