

CONTENTS

	Page
FUND INFORMATION	1
INVESTMENT OBJECTIVE, STRATEGY AND POLICY	1
MANAGER'S OVERVIEW	1
MANAGER'S REPORT	2 - 5
• Fund Performance Review	
• Asset Allocation	
• Strategies and Policies	
• Market Review	
• Market Outlook	
• Portfolio Structure	
• Performance of Fund and Benchmark	
• Breakdown of Unitholdings	
AUDITED FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS	6 - 33
• Statement of Financial Position	
• Statement of Comprehensive Income	
• Statement of Changes in Net Asset Value	
• Statement of Cash Flows	
• Notes to the Financial Statements	
REBATES AND SOFT COMMISSION	34
STATEMENT BY MANAGER	34
TRUSTEE'S REPORT	34
REPORT OF THE SHARIAH ADVISORS	35
INDEPENDENT AUDITORS' REPORT	36
CORPORATE INFORMATION	37

FUND INFORMATION

Period of Trust	: Subject to occurrence of any events as stated under Clause 11.37 of the Guidelines on Unit Trust Funds
Fund Category	: Bond (Shariah)
Fund Type	: Income
Relevant Benchmark	: Maybank's 12-Month General Investment Account Rate
Distribution Policy	: Income (if any) will be distributed during the financial year

INVESTMENT OBJECTIVE, STRATEGY AND POLICY

Investment Objective

- The objective of the Fund is to provide regular income to investors through investments in Islamic debt securities and bonds which are acceptable investments under the principles of Shariah.

Investment Strategy and Policy

- The prospectus states that the Fund will invest in sukuk and Islamic fixed income securities. Investments must carry a minimum long term credit rating of BBB and above or a minimum short term rating of P3 as assigned by Rating Agency of Malaysia Berhad ("RAM") or its equivalent. To contain credit risk, the Manager will ensure that the diversification of credit rating (and duration standing) in the bond portfolio mitigates the overall risk position of the portfolio.
- The strategy adopted by the Fund for the financial year under review is consistent with the strategy above.

MANAGER'S OVERVIEW

We are pleased to present to you the Annual Report of RHB Islamic Bond Fund ("the Fund") incorporating the Audited Financial Statements for the Financial Year Ended 30 September 2011.

Based on the Audited Financial Statements, the Net Asset Value ("NAV") per unit of the Fund decreased 3.42% from RM1.1857 per unit as at 30 September 2010 to RM1.1451 per unit on 30 September 2011. The number of units in circulation decreased from 46.78 million units as at 30 September 2010 to 45.70 million units as at 30 September 2011.

During the financial year under review, the Fund registered a gain of 8.14%* as compared to a return of 2.97%* in the Maybank's 12-Month General Investment Account Rate**. The total return of the Fund since inception was 94.62%*.

The Fund has declared gross distributions of 1.50 sen per unit on 29 October 2010 and 2.50 sen per unit on 30 September 2011 respectively to all registered unitholders. As a result of the distributions, the NAV per unit has dropped from RM1.1963 to RM1.1813 and from RM1.2659 to RM1.2409 respectively during the financial year under review.

For the financial year under review, the Fund has met its investment objective in line with the positive performance in the local sukuk market.

Source: * *Lipper Hindsight, 19 October 2011*

** *The Maybank's 12-Month General Investment Account Rate is only available in Lipper database after 25 November 2002.*

MANAGER'S REPORT

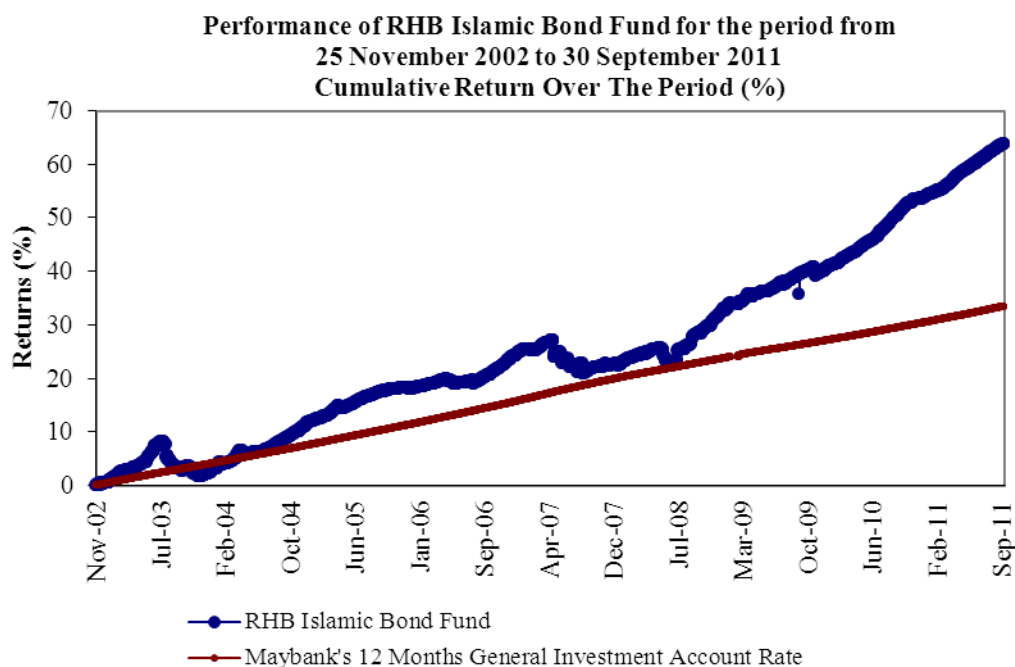
Fund Performance Review

During the financial year under review, the RHB Islamic Bond Fund (“the Fund”) registered a gain of 8.14%* as compared to the benchmark, which is the Maybank’s 12-Month General Investment Account Rate of 2.97%*. The Fund’s positive return was attributed to the Fund manager’s active management in strategising the portfolio duration and tactical asset allocation which was well invested during the financial year under review in line with the positive corporate bonds performance. As at 30 September 2011, the Fund’s investments have a weighted average credit risk of A2.

Asset Allocation

Asset Class	30 Sept 2010	30 Sept 2011
Unquoted Sukuk	80.59%	93.61%
Shariah-Compliant Collective Investment Scheme	0.95%	-
Liquid assets and other net current assets	18.46%	6.39%
Total	100.00%	100.00%

Source: * Lipper Hindsight, 19 October 2011



Source: Lipper Hindsight, 19 October 2011

The Maybank’s 12-Month General Investment Account Rate is only available in Lipper database after 25 November 2002.

The aforesaid information is for the period from 25 November 2002 to 30 September 2011 using NAV-NAV prices and assuming reinvestment of distributions (if any) for the Fund, gross investment based in RM.

Past earnings or the Fund’s distribution record is not a guarantee or reflection of the Fund’s future earnings/future distributions. Investors are advised that unit prices, distributions payable and investment returns may go down as well as up.

Strategies and Policies

For the financial year under review, the strategy adopted by the Fund is in line with the disclosure in the prospectus. The Fund employed an active management style and invested in debt securities to provide investors with above-average returns. As at 30 September 2011, the portfolio duration was approximately 3.55 years (2010: 3.52 years), denoting the weighted average tenure of bonds in the portfolio. The longer duration allowed the portfolio to position itself to take advantage of the positive bond market performance. The portfolio duration could vary during the period under review, reflecting the prevailing strategies in different market conditions. Separately, the assets of the fund were diversified across issues and sectors to mitigate credit risk.

Market Review

The Malaysian Government Securities (“MGS”) market traded in rangebound during the period under review. Profit taking on MGS was prominent during the first six months of 2011, leading the yields which moved up by 30basis points (“bps”) to 49bps across the curve. The sell-off of the MGS was triggered by the reversal of the ringgit gains, supply concerns on MGS/GII issuances for 2011 and higher inflationary pressure. Losses in MGS has subsequently pared by the safe haven trades during the 2nd half of 2011, as global equity markets nose-dived on risk aversion and caused MGS yields to fall by 19bps to 41bps across the benchmark papers. However, MGS prices are capped by the concerns over the Eurozone debt crisis, especially on the possibility of a Greece sovereign default, the rush back into longer-tenure United States (“US”) Treasuries by foreigners causing a strengthening of the US dollar (and a weakening Ringgit) and sell-off of the MGS which resulted in the decline in MGS prices. On a yearly basis, the 3- and 5-year MGS benchmarks surged 5bps and 17bps to 3.20% and 3.41%, whilst the 7- and 10-year benchmark closed higher by 8bps at 3.57% and 3.69%, respectively.

Similar to MGS, traders were seen buying up corporate bonds, leading to a bullish flattening yield curve which suggested demand was strong for longer tenure bonds. The Bond Pricing Agency of Malaysia’s mark-to-market yields indicated that the long-end yields declined the most i.e. up to 86bps YoY, while the short-end yields fell by up to 56bps YoY. High grade credits remained in demand as the supply remain scarce (including along the secondary segment due to investors’ buy-and-hold tendency) and most investors remained confident that yield levels may be contained, seeing most

economists expect the OPR to remain at 3.0% well into next year (Bloomberg survey: 6 out of 10 economists view the OPR at 3.0% till 2nd Quarter 2012).

Malaysia’s economy expanded 4.0% YoY in the 2nd Quarter 2011, at its slowest pace since 2009. The industrial production index unexpectedly fell into the red as it contracted by 0.6% YoY in July 2011 compared to +1.3% in the previous month, due mainly to a decrease in the mining index and slower growth posted by the manufacturing and electricity production. Malaysia’s Consumer Price Index (“CPI”) moderated to +3.3% YoY in August 2011, easing from +3.4% YoY in July 2011 and +3.5% in June 2011, due to moderation in food and non-alcoholic beverage prices. MoM, the inflation rate held stable at +0.2% in August 2011 compared to +0.3% in June and May 2011. Core inflation rate held stable at 2.7% YoY in August 2011, after surging to a high of +2.9% in June 2011, likely due to power tariff and industrial gas price hikes by the government which took effect on 1 June 2011.

Market Outlook

Global growth concerns, increasing worries of a widening European debt crisis, and the trigger of the Fed’s ‘Operation Twist’ saw investors adjusting their respective portfolio strategies which resulted in the sell-off in emerging Asia debt markets. Going forward, USD/MYR is expected to remain volatile. Risk aversion may stay for the near-term given the uncertainties globally. There are growing concerns that the European sovereign debt and fiscal deficit problems are expected to prolong and thus negatively affecting global trade, economies, business, consumer and investor confidence.

The local government bond market is expected to trade range bound in the near-term given the recent exodus of foreign flows and volatility in currencies (USD/MYR). The MGS market should continue to take cue from events over in the Eurozone as well as the USD/MYR movements. Looking ahead, market players await the coming 2012 Malaysian Budget to be tabled on 7 October 2011. The Budget is of interest for bond players as it will signal the government’s 2012 borrowing requirements.

We expect Private Debt Securities (“PDS”) flows to remain active with net buying activities anticipated along the high grade and more liquid names, whilst demand for longer duration bonds is expected to remain buoyant for yield enhancement. In light of the above, we maintain invested in PDS, targeting longer duration to benefit from the bullish outlook in the PDS market.

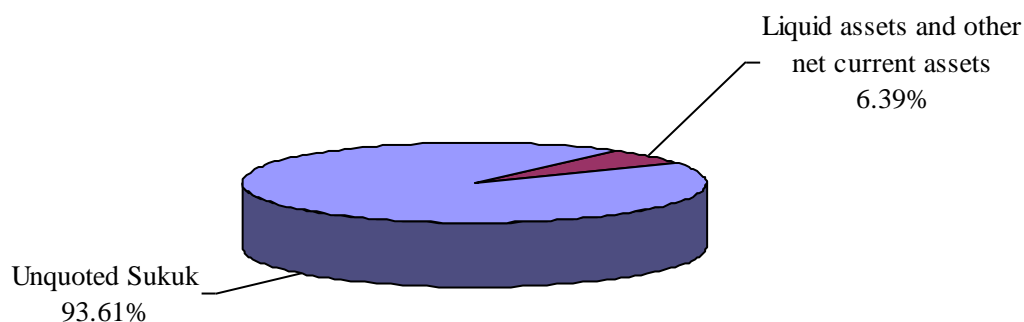
PORTFOLIO STRUCTURE

PORTFOLIO STRUCTURE AS AT 30 SEPTEMBER 2011

As at 30 September 2011, the Fund has invested 93.61% in Unquoted Sukuk and the balance of 6.39% in liquid assets and other net current assets.

As compared with 30 September 2010, the Fund invested 80.59% in Unquoted Sukuk, 0.95% in Shariah-compliant Collective Investment Scheme and the balance of 18.46% in liquid assets and other net current assets.

The Fund's detailed holdings in the various sectors are shown below:-



PERFORMANCE OF FUND AND BENCHMARK

	Annual Total Return					
	2011 %	2010 %	2009 %	2008 %	2007 %	Since Inception (25 August 2000) %
RHB Islamic Bond Fund	8.14	8.60	8.74	5.18	0.79	94.62
Maybank's 12-Month General Investment Account Rate*	2.97	2.71	2.78	3.15	3.88	N/A

	Average Total Return		
	One-Year %	Three-Year %	Five-Year %
RHB Islamic Bond Fund	8.14	9.23	7.08
Maybank's 12-Month General Investment Account Rate*	2.97	2.90	3.29

Source: Lipper Hindsight, 19 October 2011

* The Maybank's 12-Month General Investment Account Rate is only available in Lipper database after 25 November 2002.

The above Annual Total Return and Average Total Return are indicative returns based on daily Net Asset Value of a unit (as per Lipper database) since inception.

The calculation of the above returns is based on computation methods of Lipper.

Average Total Return is derived by this formulae:-

$$\frac{\text{Total Return}}{\text{Number of Years Under Review}}$$

Notes: Unit prices and returns may fluctuate, past performance figures shown are not necessarily indicative of future performance.

RHB Islamic Bond Fund

Other Performance Data

Performance Data	30 Sept 2009	30 Sept 2010	30 Sept 2011
<u>Portfolio Composition (%)</u>			
Unquoted Sukuk	79.03	80.59	93.61
Shariah-compliant Collective Investment Scheme	0.98	0.95	-
Others			
Liquid assets and other net current assets	19.99	18.46	6.39
Total Portfolio Holdings	100.00	100.00	100.00
Net Asset Value (RM) •	52,532,077	55,469,730	52,335,828
Units in Circulation•	48,768,000	46,784,000	45,704,000
Net Asset Value per unit (RM) •	1.0772	1.1857	1.1451
Net Asset Value per unit – Highest (RM) •	1.1207	1.1857	1.2659
Net Asset Value per unit – Lowest (RM) •	1.0551	1.0897	1.1813
Management Expense Ratio (%)	0.75	1.13	0.13♦
Portfolio Turnover Ratio (Times)	0.16	0.37	0.41#
Total Return (%)	8.74	8.60	8.14**
Return on Capital (%)	3.46	8.60	4.67**
Return on Income (%)	5.28	-	3.47**
Maybank's 12-Month General Investment Account Rate (%)	2.78	2.71	2.97**
<u>Distribution Per Unit (Sen)</u>			
Gross/Net	2.5000/2.5000	-	1.5000/1.5000
Date of distribution	30 Apr 2009	-	29 Oct 2010
Gross/Net	3.0000/3.0000	-	2.5000/2.5000
Date of distribution	30 Sept 2009	-	30 Sept 2011

♦ The decrease in the Management Expense Ratio was mainly due to zero management fee for the financial year ended 30 September 2011.

The Portfolio Turnover Ratio is higher for the financial year ended 30 September 2011. This is in line with the Manager's active tactical strategy to enhance the Fund's potential returns.

• Ex-distribution

** Source: Lipper Hindsight, 19 October 2011

BREAKDOWN OF UNITHOLDINGS AS AT 30 SEPTEMBER 2011				
Size of Holdings	Unitholders		Unitholdings	
	Number	%	('000) units	%
5,000 and below	172	50.00	307	0.67
5,001 to 10,000	55	15.99	421	0.92
10,001 to 50,000	90	26.16	1,956	4.28
50,001 to 500,000	17	4.94	1,837	4.02
500,001 and above	10	2.91	41,183	90.11
Total*	344	100.00	45,704	100.00

*Note: Including Manager's Stock.

**AUDITED FINANCIAL STATEMENTS AND
NOTES TO THE FINANCIAL STATEMENTS**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2011**

	<u>Note</u>	<u>2011</u> RM	<u>As restated</u> <u>2010</u> RM	<u>2009</u> RM
ASSETS				
Financial assets at fair value through profit or loss/investments	4	48,990,327	45,227,100	42,029,583
Shariah-based deposits with licensed financial institutions	5	4,400,350	9,955,737	11,696,185
Bank balance	5	6,273	21,161	12,673
Amount due from Manager		103,291	124,351	-
Profit receivable		-	704,403	643,710
Other receivable		-	130	127
TOTAL ASSETS		<u>53,500,241</u>	<u>56,032,882</u>	<u>54,382,278</u>
LIABILITIES				
Amount due to Manager		-	1,185	9,912
Accrued management fee		576,220	540,303	356,690
Amount due to Trustee		4,741	4,553	4,512
Income distribution payable		1,140,825	-	1,463,220
Other payables and accruals	6	18,847	17,111	15,867
TOTAL LIABILITIES		<u>1,164,413</u>	<u>563,152</u>	<u>1,850,201</u>
NET ASSET VALUE		<u>52,335,828</u>	<u>55,469,730</u>	<u>52,532,077</u>
UNITHOLDERS' FUNDS				
Unitholders' capital	7	49,869,154	51,025,119	53,250,501
Retained earnings		2,466,674	3,787,364	725,648
Fair value reserve		-	657,247	(1,444,072)
		<u>52,335,828</u>	<u>55,469,730</u>	<u>52,532,077</u>
UNITS IN CIRCULATION	7	<u>45,704,000</u>	<u>46,784,000</u>	<u>48,768,000</u>
NET ASSET VALUE PER UNIT (EX-DISTRIBUTION*)		<u>1.1451*</u>	<u>1.1857</u>	<u>1.0772*</u>

The notes on pages 10 to 33 form an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2011**

	<u>Note</u>	<u>2011</u> RM	<u>2010</u> RM
INVESTMENT INCOME			
Income distribution from Shariah-compliant collective investment scheme		9,734	9,647
Profit income from Shariah-based deposits with licensed financial institutions		169,907	178,289
Profit income from unquoted sukuk		2,796,447	3,122,555
Net (loss)/gain from investments:			
- financial assets at fair value through profit and loss ("FVTPL")	4	(3,165,327)	-
- net realised gain on sale of investments		-	198,723
Amortisation of premium, net of accretion of discount		-	(109,373)
Recovery of unquoted sukuk written off		52,231	271,545
Other income		1,090	-
		<u>(135,918)</u>	<u>3,671,386</u>
EXPENSES			
Management fee	8	-	(538,744)
Trustee's fee	9	(53,198)	(53,729)
Audit fee		(8,500)	(8,500)
Tax agent's fee		(5,000)	(3,200)
Other expenses		(5,081)	(5,497)
		<u>(71,779)</u>	<u>(609,670)</u>
(Loss)/profit before taxation		(207,697)	3,061,716
Taxation	10	-	-
(Loss)/profit after taxation and total comprehensive (loss)/income for the financial year		<u>(207,697)</u>	<u>3,061,716</u>
(Loss)/profit after taxation is made up as follows:			
Realised amount		3,841,466	3,133,715
Unrealised amount		(4,049,163)	(71,999)
		<u>(207,697)</u>	<u>3,061,716</u>
Distributions for the financial year:			
Net distributions	11	<u>1,770,240</u>	-
Gross/net distributions per unit (sen)	11	<u>4.0000</u>	-

The notes on pages 10 to 33 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2011**

	<u>Note</u>	<u>Unitholders' capital</u> RM	<u>Retained earnings</u> RM	<u>Fair value reserve</u> RM	<u>Total net asset value</u> RM
At 1 October 2009, as previously stated		-	-	-	-
Prior year adjustment for adoption of amendments to FRS 132	17	53,250,501	725,648	(1,444,072)	52,532,077
As at 1 October 2009, as restated after adoption of amendments to FRS 132		53,250,501	725,648	(1,444,072)	52,532,077
Movement in net asset value:					
Total comprehensive income for the financial year		-	3,061,716	-	3,061,716
Creation of units arising from distributions		632,563	-	-	632,563
Creation of units arising from application		1,719,755	-	-	1,719,755
Cancellation of units		(4,577,700)	-	-	(4,577,700)
Net change in fair value reserve		-	-	2,101,319	2,101,319
Balance at 30 September 2010		51,025,119	3,787,364	657,247	55,469,730
At 1 October 2010, as previously stated		-	-	-	-
Prior year adjustment for adoption of amendments to FRS 132	17	51,025,119	3,787,364	657,247	55,469,730
As at 1 October 2010, as restated after adoption of amendments to FRS 132		51,025,119	3,787,364	657,247	55,469,730
Adjustment for adoption of FRS 139	17	-	657,247	(657,247)	-
As at 1 October 2010, as restated after adoption of FRS 139		51,025,119	4,444,611	-	55,469,730
Movement in net asset value:					
Total comprehensive income for the financial year		-	(207,697)	-	(207,697)
Creation of units arising from distributions		284,640	-	-	284,640
Creation of units arising from application		7,607,854	-	-	7,607,854
Cancellation of units		(9,048,459)	-	-	(9,048,459)
Distributions	11	-	(1,770,240)	-	(1,770,240)
Balance at 30 September 2011		49,869,154	2,466,674	-	52,335,828

The notes on pages 10 to 33 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2011**

	<u>Note</u>	<u>2011</u> RM	<u>2010</u> RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of investments		18,758,645	12,349,725
Proceeds from redemption of unquoted sukuk		1,500,000	14,581,077
Purchase of investments		(26,139,142)	(27,937,650)
Income distribution received from Shariah-compliant collective investment scheme		9,734	9,647
Profit income received from Shariah-based deposits with licensed financial institutions		171,002	178,433
Profit income received from unquoted sukuk		2,451,698	3,061,718
Amount recovered from unquoted sukuk written off		52,231	271,545
Management fee paid		(539,083)	(355,134)
Trustee's fee paid		(53,010)	(53,688)
Payment for other fees and expenses		(16,845)	(15,953)
Net cash (used in)/generated from operating activities		<u>(3,804,770)</u>	<u>2,089,720</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		7,913,554	2,227,967
Payment for cancellation of units		(9,049,644)	(4,586,427)
Payment for income distribution		(629,415)	(1,463,220)
Net cash used in financing activities		<u>(1,765,505)</u>	<u>(3,821,680)</u>
Net decrease in cash and cash equivalents		(5,570,275)	(1,731,960)
Cash and cash equivalents at the beginning of the financial year		<u>9,976,898</u>	<u>11,708,858</u>
Cash and cash equivalents at the end of the financial year		<u><u>4,406,623</u></u>	<u><u>9,976,898</u></u>
Cash and cash equivalents comprise:			
Shariah-based deposits with licensed financial institutions	5	4,400,350	9,955,737
Bank balance	5	6,273	21,161
		<u><u>4,406,623</u></u>	<u><u>9,976,898</u></u>

The notes on pages 10 to 33 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 30 SEPTEMBER 2011

1 THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

The RHB Islamic Bond Fund (hereinafter referred to as “the Fund”) was constituted pursuant to the execution of a Deed dated 14 August 2000 and Supplemental Deeds dated 10 August 2001, 23 August 2007 and 25 January 2008, between RHB Investment Management Sdn Bhd (“the Manager”), CIMB Trustee Berhad (“the Trustee”) and the registered Unitholders of the Fund. The Fund is now governed by a Master Deed dated 12 June 2008 and subsequent Supplemental Master Deeds (collectively referred to as “the Deeds”), which shall hereafter supersede all existing deeds relating to the Fund.

The Fund was launched on 25 August 2000 and will continue its operations until terminated as provided under Clause 4 of the Master Deed.

The principal activity of the Fund is to invest in 'Permitted Investments' as defined under Item 15 of Schedule 2 of the Master Deed, which includes sukuk, all types of Shariah-compliant collective investment schemes, Islamic money market instruments and any other form of investments as may be approved by the relevant authorities from time to time and acceptable under the Shariah principles.

The Fund’s activities shall be conducted strictly in accordance with the requirement of the Shariah principles and shall be monitored by the Shariah Committee of the Fund.

All investments will be subject to the Securities Commission’s (“SC”) Guidelines on Unit Trust Funds, SC requirements, the Deeds, except where exemptions or variations have been approved by the SC, internal policies and procedures and objective of the Fund.

The main objective of the Fund is to provide regular income to investors through investments in Islamic debt securities and sukuk which are acceptable investments under the principles of Shariah.

The Manager, a company incorporated in Malaysia, is a wholly-owned subsidiary of RHB Investment Bank Berhad, effective 6 January 2003. Its principal activities include rendering of investment management services to institutions, trust funds, pension and retirement funds, insurance funds, private clients, management of unit trust funds and provision of investment advisory services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and in accordance with the Financial Reporting Standards (“FRS”) in Malaysia.

- (a) The new accounting standards that are effective for the Fund’s financial year beginning on or after 1 January 2010 are as follows:
- FRS 7 “Financial instruments: Disclosures” (effective 1 January 2010) provides information to users of financial statements about an entity’s exposure to risks and how the entity manages those risks. The improvement to FRS 7 clarifies that entities must not present total interest income and expense as a net amount within finance costs on the face of the statement of comprehensive income. This standard does not have any impact on the classification and valuation of the Fund’s financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation of the financial statements (continued)

(a) The new accounting standards that are effective for the Fund's financial year beginning on or after 1 January 2010 are as follows: *(continued)*

- The revised FRS 101 "Presentation of financial statements" (effective 1 January 2010) prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. 'Non-owner changes in equity' are to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

Where entities restate or reclassify comparative information, they will be required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present the statement of financial position at the end of the current period and comparative period.

- FRS 107 "Statement of cash flows" (effective 1 January 2010) clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities.
- FRS 110 "Events after the balance sheet date" (effective 1 January 2010) reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.
- FRS 118 "Revenue" (effective 1 January 2010) provides more guidance when determining whether an entity is acting as a 'principal' or as an 'agent'. This standard does not have any impact on the classification and valuation of the Fund's financial statements.
- Amendment FRS 132 "Financial Instruments: Presentation"

In the previous financial year, the Fund had classified its puttable instruments as liabilities in accordance with FRS 132, 'Financial instruments: Presentation'. However, the FRS 132 (amendment), 'Financial instruments: Presentation', and FRS 101 (amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2010) (the 'amendment') requires puttable financial instruments that meet the definition of a financial liability to be classified as equity where certain strict criteria are met.

Those criteria include: (i) the puttable instruments must entitle the holder to a pro-rata share of net assets; (ii) the puttable instruments must be the most subordinated class and that class's features must be identical; (iii) there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and (iv) the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer. As a result, the prior year financial statements are restated from amounts previously reported to conform with the amendment. The amendment has been applied retrospectively.

The effects as a result of adoption of the amendment on the statement of financial position for the prior periods are set out in Note 17(a).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation of the financial statements (continued)

(a) The new accounting standards that are effective for the Fund's financial year beginning on or after 1 January 2010 are as follows: *(continued)*

- FRS 139 "Financial Instruments: Recognition and Measurement" (effective 1 January 2010) establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted under strict circumstances. The amendments to FRS 139 provide further guidance on eligible hedged items. The amendment provides guidance for two situations. On the designation of a one-sided risk in a hedged item, the amendment concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. The improvement to FRS 139 clarifies that the scope exemption in FRS 139 only applies to forward contracts but not options for business combinations that are firmly committed to being completed within a reasonable timeframe.

The effects as a result of adoption of the new standard on the opening balances of the statement of financial position at the beginning of the financial year are set out in Note 17(b).

In respect of FRS 7 and FRS 139, the Fund has applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the standards on the financial statements of the Fund. Comparatives related to financial instruments have not been adjusted and therefore the corresponding balances are not comparable.

(b) The new standards, amendments and interpretations to published standards which are relevant to the Fund and have not been early adopted are as follows:

- Amendments to FRS 7 "Financial instruments: Disclosures" and FRS 1 "First-time adoption of financial reporting standards" (effective 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The Fund will apply this standard when effective.

The Fund has applied the transitional provision which exempts entities from disclosing the possible impact arising from the initial application of this amendment on the financial statements of the Fund.

2.2 Financial assets

Classification

Financial assets are designated as fair value through profit or loss when they are managed and their performance evaluated on a fair value basis.

The Fund designates its investments in unquoted sukuk as financial assets at fair value through profit or loss at inception.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been included in current assets. The Fund's loans and receivables comprise cash and cash equivalents and amount due from Manager which are all due within 12 months.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets (continued)

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Unrealised gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income in the financial period in which they arise.

Shariah-compliant collective investment schemes are valued based on the last published net asset value per unit or share of such Shariah-compliant collective investment schemes at the date of the statement of financial position.

Unquoted sukuk denominated in Ringgit Malaysia are revalued on a daily basis based on fair value prices quoted by a bond pricing agency ("BPA") registered with the SC as per the SC Guidelines on Unit Trust Funds. Where such quotations are not available or where the Manager is of the view that the price quoted by the BPA for a specific unquoted sukuk differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

- (i) Records its basis for using a non-BPA price;
- (ii) Obtains necessary internal approvals to use the non-BPA price; and
- (iii) Keeps an audit trail of all decisions and basis for adopting the market price.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

For assets carried at amortised cost, the Fund assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

The Fund's financial liabilities which include amount due to Trustee, income distribution payable and other payables and accruals are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised, and through the amortisation process.

2.4 Creation and cancellation of units

The Fund issues cancellable units, which are cancelled at the unitholder's option and are classified as equity. Cancellable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. The outstanding units are carried at the redemption amount that is payable at the date of the statement of financial position if the unitholder exercises the right to put the unit back to the Fund.

Units are created and cancelled at the unitholder's option at prices based on the Fund's net asset value per unit at the time of creation or cancellation. The Fund's net asset value per unit is calculated by dividing the total net asset value with the total number of outstanding units.

2.5 Proceeds and payments on creation and cancellation of units

The net asset value per unit is computed for each dealing day. The price at which units are created or cancelled is calculated by reference to the net asset value per unit as at the close of business on the relevant dealing day. Units in the Fund are classified as equity in the statement of financial position and are stated at fair value representing the price at which unit holders can redeem the units from the Fund.

2.6 Distribution

Distributions are at the discretion of the Fund. A distribution to the Fund's Unitholders is accounted for as a deduction from realised reserves. A proposed distribution is recognised as a liability in the period in which it is approved by the Board of Directors of the Manager.

2.7 Unitholders' capital

The unitholders' contributions to the Fund meet the definition of puttable instruments classified as equity instruments under the revised FRS 132. Consequently, the Unitholders' capital which was previously classified as financial liabilities, have been classified as equity instruments. Comparative figures have been restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Income recognition

Profit income from Shariah-based deposits with licensed financial institutions and unquoted sukuk are recognised on an accrual basis using the effective interest method.

Income distribution from Shariah-compliant collective investment scheme is recognised when the Fund's right to receive payment is established.

Realised gain and loss on sale of unquoted sukuk is measured by the difference between the net disposal proceeds and the carrying amounts of the investments (adjusted for accretion of discount or amortisation of premium).

2.9 Taxation

Current tax expense is determined according to Malaysian tax laws and includes all taxes based upon the taxable income earned during the financial year.

2.10 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise bank balances and deposits with a licensed financial institution that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.11 Presentation and functional currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Fund's presentation and functional currency.

2.12 Segmental information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The operating results are regularly reviewed by the Manager and the Investment Committee. The Investment Committee assumes the role of chief operating decision maker, for performance assessment purposes and to make decisions about resources allocated to the investment segment based on the recommendation by the Investment Strategic Sub-Committee.

2.13 Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the date of the statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Fair value of financial instruments (continued)

Financial instruments as at 30 September 2011 are as follows:

	Loans and receivables RM	Financial assets at fair value through profit or loss RM	Total RM
Financial assets at fair value through profit or loss	-	48,990,327	48,990,327
Cash and cash equivalents	4,406,623	-	4,406,623
Amount due from Manager	103,291	-	103,291
Total	<u>4,509,914</u>	<u>48,990,327</u>	<u>53,500,241</u>

All current liabilities are financial liabilities which are carried at amortised cost.

2.14 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with the FRS in Malaysia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported financial year. Although these estimates are based on the Manager's best knowledge of current events and actions, actual results may differ from those estimates.

Estimates and judgments are continually evaluated by the Manager and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Funds' results and financial position are tested for sensitivity to changes in the underlying parameters.

Estimate of fair value of unquoted sukuk

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the SC Guidelines on Unit Trust Funds.

Ringgit-denominated unquoted sukuk are valued using fair value prices quoted by a bond pricing agency ("BPA"). Where the Manager is of the view that the price quoted by BPA for a specific unquoted sukuk differs from the market price by more than 20 basis points, the Manager may use market price, provided that the Manager records its basis for using a non-BPA price, obtains necessary internal approvals to use the non-BPA price, and keeps an audit trail of all decisions and basis for adopting the use of non-BPA price. This is allowed for under the SC Guidelines on Unit Trust Funds.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund is exposed to a variety of risks, which include management risk, market risk (price risk and profit rate risk), credit/default risk, liquidity risk, issuer risk, non-compliance risk, Shariah specific risk and capital risk management.

Financial risk management is carried out through internal control processes adopted by the Manager and adherence to the investment restrictions as stipulated in the SC Guidelines on Unit Trust Funds.

Management risk

Poor management of the Fund may jeopardise the investment of each unitholder. Therefore, it is important for the Manager to set the investment policies and appropriate strategies to be in line with the investment objective before any investment activities can be considered. However, there can be no guarantee that these measures will produce the desired results.

Market risk

(a) Price risk

Price risk is the risk that the fair value of an investment in unquoted sukuk will fluctuate because of changes in market prices (other than those arising from profit rate risk).

The price risk is managed through diversification and selection of securities and other financial instruments within specified limits according to the Deeds. As at 30 September 2011, the Fund's overall exposure to price risk was as follows:

	2011
	RM
Financial assets at fair value through profit or loss	48,990,327*

* Includes profit receivable of RM706,159

The table below summarises the sensitivity of the Fund's net asset value to movements in prices of unquoted sukuk as at 30 September 2011. The analysis is based on the assumptions that the price of the unquoted sukuk fluctuates by 5% with all other variables held constant.

Change in price of unquoted sukuk %	Market value RM	Change in net asset value RM
-5%	46,576,119	(2,414,208)
0%	48,284,168	-
5%	51,404,535	2,414,208

(b) Profit rate risk

In general, when profit rates rise, unquoted sukuk prices will tend to fall and vice versa. Therefore, the NAV of the Fund may also tend to fall when profit rates rise or are expected to rise. However, investors should be aware that should the Fund hold an unquoted sukuk till maturity, such price fluctuations would dissipate as it approaches maturity, and thus the growth of the NAV shall not be affected at maturity. In order to mitigate profit rates exposure of the Fund, the Manager will manage the duration of the portfolio via shorter or longer tenured assets depending on the view of the future profit rate trend of the Manager, which is based on its continuous fundamental research and analysis.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(b) Profit rate risk (continued)

This risk is crucial since bond portfolio management depends on forecasting profit rate movements. Bonds with longer maturity and lower yield coupon rates are more susceptible to profit rate movements.

Investors should note that unquoted sukuk and money market instruments are subject to profit rate fluctuations. Such investments may be subject to unanticipated rise in profit rates which may impair the ability of the issuers to make payments of profit and principal, especially if the issuers are highly leveraged. An increase in profit rates may therefore increase the potential for default by an issuer.

The table below summarises the sensitivity of the Fund's net asset value to movements in prices of unquoted sukuk and profit income from deposits with licensed financial institutions held by the Fund as at 30 September 2011 as a result of movement in profit rate. The analysis is based on the assumptions that the profit rate increased and decreased by 1% with all other variables held constant.

Changes in price of financial assets at fair value through profit or loss	Market value of financial assets at fair value through profit or loss
%	RM
-1%	647,226
0%	-
1%	(750,079)

Credit/default risk

Credit/default risk refers to the ability of an issuer or a counter party to make timely payments of profit, principals and proceeds from realisation of investments. For investments in unquoted sukuk, risk is minimised by spreading its maturity profile. The risk arising from placements of deposits in licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions. The settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the SC Guidelines on Unit Trust Funds.

Credit/default risk can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer or counter party.

The following table sets out the credit risk concentration of the Fund:

<u>2011</u>	<u>Unquoted sukuk</u> RM	<u>Bank balance and Shariah-based deposits</u> RM	<u>Other assets</u> RM	<u>Total</u> RM
Finance	-	4,406,623	-	4,406,623
Unquoted sukuk				
- AAA	5,099,372	-	-	5,099,372
- A1	3,000,362	-	-	3,000,362
- AA3/AA-	33,015,262	-	-	33,015,262
- B-	7,875,331	-	-	7,875,331
Others	-	-	103,291	103,291
	48,990,327	4,406,623	103,291	53,500,241

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Fund maintains sufficient level of liquid assets, after consultation with the Trustee, to meet anticipated payments and cancellations of units by unit holders. Liquid assets comprise bank balance, Shariah-based deposits with licensed financial institutions and other financial assets which are capable of being converted into cash within 7 days.

The following table summarises the maturity profile of the Fund's financial assets and financial liabilities. Balances due within six months equal their carrying amounts, as the impact of discounting is insignificant. The table also analyses the maturity profile of the Fund's financial assets (undiscounted where appropriate) and equity in order to provide a complete view of the Fund's contractual commitments and liquidity.

<u>2011</u>	<u>Less than 1 month</u> RM	<u>Up to 1 year</u> RM	<u>1 year but not more than 5 years</u> RM	<u>More than 5 years</u> RM	<u>Total</u> RM
Financial assets:					
Financial assets held at FVTPL	-	7,875,331	15,388,751	25,726,245	48,990,327
Shariah-based deposits with licensed financial institutions	4,400,350	-	-	-	4,400,350
Other assets	109,564	-	-	-	109,564
Total undiscounted financial assets	<u>4,509,914</u>	<u>7,875,331</u>	<u>15,388,751</u>	<u>25,726,245</u>	<u>53,500,241</u>
Financial liabilities:					
Other liabilities	1,164,413	-	-	-	1,164,413
Total undiscounted financial liabilities	<u>1,164,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,164,413</u>
Unitholders' Funds	<u>52,335,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,335,828</u>
Liquidity gap	<u>(48,990,327)</u>	<u>7,875,331</u>	<u>15,388,751</u>	<u>25,726,245</u>	<u>-</u>

** Other assets comprise bank balance and amount due from Manager

^ Other liabilities comprise amount due to Trustee, income distribution payable and other payables and accruals

Notes:

(a) Financial assets

Analysis of financial assets at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date on which the assets will be realised.

(b) Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Fund can be required to pay.

(c) Unitholders' Funds

As unitholders can request for redemption on their units at anytime from the Manager, they have been categorised as having a maturity of "Less than 1 month". As a result, it appears that the Fund has a liquidity gap within "Less than 1 month". However, the Fund believes that it would be able to liquidate its investments should the need arise to satisfy all the redemption requirements of the Fund.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Issuer risk

The value of each unquoted sukuk that the Fund invests may decline for a number of reasons which is directly related to the issuer, such as, the management performance, financial leverage and reduced demand for the issuer's goods or services. Such risk can be reduced by using diversification that is expected to reduce the volatility as well as the risk for the Fund's portfolio.

Non-compliance risk

The operations and administration of the Fund by the Manager or its delegate are governed by the Fund's Deeds, all relevant laws and regulations or internal policies and procedures. Non-compliance risk may adversely affect the investment of the Fund especially if the Manager is forced to sell the investment of the Fund at a lower price to rectify the non-compliance.

Shariah specific risk

The risk that the investments do not conform to the principle of Shariah may result in those investments being not Shariah compliant. Although the probability of such occurrences is minute, should the situation arise, necessary steps shall be taken to dispose of such investments in accordance with the rules of divestment of non Shariah-compliant investments. If this occurs, the Fund could suffer losses from the disposal and thus, adversely affecting the value of the Fund.

Capital risk management

The capital of the Fund is represented by equity consisting of unitholders' capital and retained earnings. The amount of equity can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of shareholders. 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 shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/INVESTMENTS

	<u>2011</u> <u>Financial assets</u> <u>at FVTPL</u> <u>RM</u>	<u>2010</u> <u>Investments</u> <u>RM</u>
Shariah-compliant investments	48,990,327	45,227,100

Prior to 1 October 2010, the investments of the Fund, although carried at fair value, were classified as investments with changes in fair value recognised in fair value reserve.

Financial assets at FVTPL

	<u>2011</u> <u>RM</u>
Financial assets designated as FVTPL:	
- unquoted sukuk	48,990,327*

* Unquoted sukuk includes profit receivable of RM706,159.

	<u>2011</u> <u>RM</u>
Net gain on financial assets at FVTPL comprised:	
- net realised gain on sale of investments	883,836
- unrealised changes in fair values	(4,049,163)
	<u>(3,165,327)</u>

RHB Islamic Bond Fund

**4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/INVESTMENTS
(CONTINUED)**

Financial assets designated as FVTPL as at 30 September 2011 are as follows:

Nominal value RM	Name of Counter	Cost RM	Fair value as at 30.09.2011 RM	Fair value as at 30.09.2011 expressed as a percentage of value of the Fund %
UNQUOTED SUKUK				
2,500,000	4.05% Aman Sukuk Bhd 26/02/2016 AAA	2,509,154	2,540,154	4.85
3,000,000	4.40% AmIslamic Bank Bhd 30/09/2021 A1	3,000,362	3,000,362	5.73
8,000,000	9.30% Ample Zone Bhd 27/01/2012 B-	8,149,032	7,875,331	15.05
1,000,000	4.80% Besraya (M) Sdn Bhd 28/07/2021 AA3	1,008,387	1,027,187	1.96
2,534,000	5.75% Binariang GSM Sdn Bhd 28/12/2015 AA3	2,630,956	2,718,642	5.20
4,000,000	6.60% Binariang GSM Sdn Bhd 27/12/2019 AA3	4,388,573	4,585,112	8.76
2,500,000	5.05% IJN Capital Sdn Bhd 21/03/2013 AAA	2,526,302	2,559,218	4.89
2,500,000	8.85% Jimah Energy Ventures Sdn Bhd 11/05/2018 AA3	2,826,467	3,224,206	6.16
5,000,000	3.90% Kencana Petroleum Bhd 05/08/2016 AA3	4,858,009	4,858,219	9.28
4,000,000	6.10% Maju Expressway Sdn Bhd 15/06/2018 AA-	4,360,037	4,470,197	8.54
2,500,000	5.98% Malakoff Corporation Bhd 30/04/2015 AA3	2,578,067	2,712,518	5.18
3,000,000	6.18% Malakoff Corporation Bhd 28/04/2017 AA3	3,037,470	3,337,057	6.38
1,500,000	6.38% Malakoff Corporation Bhd 30/04/2019 AA3	1,630,239	1,707,903	3.27
3,750,000	7.80% Mukah Power Generation Sdn Bhd 27/06/2017 AA3	4,316,441	4,374,221	8.36
2,500,000	7.20% Tracoma Holdings Bhd 28/01/2013 D**	2,348,959	-	-
2,500,000	7.20% Tracoma Holdings Bhd 28/01/2014 D**	2,213,788	-	-
TOTAL FINANCIAL ASSETS AT FVTPL		52,382,243	48,990,327	93.61
EXCESS OF COST OVER FAIR VALUE		(3,391,916)		

RHB Islamic Bond Fund

**4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/INVESTMENTS
(CONTINUED)**

Investments as at 30 September 2010 are as follows:

Nominal value / quantity	Name of Counter	Cost RM	Fair value as at 30.09.2010 RM	Fair value as at 30.09.2010 expressed as a percentage of value of the Fund %
UNQUOTED SUKUK				
8,000,000	9.30% Ample Zone Bhd 27/01/2012 B+	8,074,167	6,911,200	12.46
2,534,000	5.75% Binariang GSM Sdn Bhd 28/12/2015 AA3	2,605,239	2,675,397	4.82
3,000,000	6.60% Binariang GSM Sdn Bhd 27/12/2019 AA3	3,236,898	3,321,000	5.99
2,500,000	5.05% IJN Capital Sdn Bhd 21/03/2013 AAA	2,537,450	2,579,000	4.65
7,500,000	8.85% Jimah Energy Ventures Sdn Bhd 11/05/2018 AA3	8,308,738	9,265,500	16.70
3,000,000	6.18% Malakoff Corporation Bhd 28/04/2017 AA3	2,952,775	3,153,600	5.69
2,500,000	5.98% Malakoff Corporation Bhd 30/04/2015 AA3	2,518,145	2,615,000	4.71
3,000,000	4.55% Malaysia Airports Capital Bhd 28/08/2020 AAA	3,000,000	3,060,000	5.52
1,500,000	0.00% Pasir Gudang Municipal Assets Bhd 28/02/2011 AAA	1,478,763	1,480,650	2.67
6,000,000	2.00% PLUS SPV Bhd 11/03/2016 AA1	5,193,364	5,328,000	9.60
2,500,000	7.20% Tracoma Holdings Bhd 28/01/2013 D**	2,137,165	2,227,865	4.02
2,500,000	7.20% Tracoma Holdings Bhd 28/01/2014 D**	2,001,995	2,084,735	3.76
	TOTAL UNQUOTED SUKUK	44,044,699	44,701,947	80.59
SHARIAH-COMPLIANT COLLECTIVE INVESTMENT SCHEME				
525,153	RHB Islamic Cash Management Fund*	525,154	525,153	0.95
	TOTAL INVESTMENTS	44,569,853	45,227,100	81.54
	FAIR VALUE RESERVE	657,247		

* This Shariah-compliant collective investment scheme is managed by the Manager of the Fund.

**4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/INVESTMENTS
(CONTINUED)**

**** Tracoma Holdings Bhd ("Tracoma") RM100 million Islamic Bai' Bithaman Ajil Debt Securities ("BaIDS")**

For financial year ended 30 September 2010

On 9 June 2010, the BaIDS holders appointed a Monitoring Accountant following Tracoma's failure to rectify a breach in the Finance Service Reserve Account requirement.

Tracoma applied for admission of its proposed debt restructuring scheme to Corporate Debt Restructuring Committee (CDRC) and its application was accepted vide CDRC's letter dated 11 August 2010. On 17 September 2010, Tracoma announced that they were granted a 3 months Restraining Order (RO) under S176 from the High Court (with effect from 9 September 2010 i.e. expiry 9 December 2010). The RO is to avoid any potential legal action against Tracoma that may jeopardise its restructuring scheme.

A meeting with Tracoma and their advisor in the presence of CDRC was held on 4 November 2010 for the presentation of Tracoma's restructuring proposal. The BaIDS holders were not agreeable to the proposal.

In the meantime, Tracoma sought an extension for its Restraining Order (RO) which will expire on 9 December 2010.

In the event the extension is granted, Tracoma is expected to refine the restructuring scheme which was rejected by the BaIDS holders. The length of the RO extension will be at the Judge's discretion.

In the event that Tracoma fails to obtain the extension, the BaIDS holders have decided to appoint a Receiver & Manager (R&M) to operate the company on a going concern basis, as opposed to liquidating the company, in order to obtain optimal recovery.

As at the date of the statement of financial position as at 30 September 2010, the valuation for the BaIDS remains at junk bond level as optimal recoverability can be obtained from either options ie the refinement of Tracoma's restructuring scheme or the appointment of R&M.

For financial year ended 30 September 2011

On 12 April 2011, Tracoma was granted an extension of the RO for another 6 months from 9 December 2010. This means that Tracoma has protection from any legal action up to the expiry of the RO i.e. 8 June 2011. Tracoma is expected to refine the restructuring scheme which was rejected by the BaIDS holders.

On 19 April 2011, Tracoma appointed KAF Investment Bank Bhd as the company's Principal Advisor for the proposed restructuring scheme.

On 9 May 2011, Tracoma was again granted an extension of the RO for a period of six (6) months effective from 9 June 2011 until 8 December 2011 to restrain further proceedings against Tracoma Group.

However, as a result of a calling of an Event of Default (EOD) by bondholders on 10 October 2011, the Manager has fair valued the BaIDS at zero value for the financial year ended 30 September 2011.

RHB Islamic Bond Fund

5 CASH AND CASH EQUIVALENTS

	<u>2011</u> <u>RM</u>	<u>2010</u> <u>RM</u>
Shariah-based deposits with licensed financial institutions	4,400,350	9,955,737
Bank balance	6,273	21,161
	<u>4,406,623</u>	<u>9,976,898</u>

Shariah-based deposits with licensed financial institutions include profit receivable of RM350 (2010: Nil).

	<u>2011</u> <u>%</u>	<u>2010</u> <u>%</u>
Weighted average rate of return	<u>2.90</u>	<u>2.66</u>
	<u>2011</u>	<u>2010</u>
Average maturity	<u>3 days</u>	<u>2 days</u>

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below is other significant related party balance:

	<u>2011</u> <u>RM</u>	<u>2010</u> <u>RM</u>
Shariah-based deposits with licensed financial institutions:		
- RHB Islamic Bank Bhd	<u>-</u>	<u>4,878,000</u>

6 OTHER PAYABLES AND ACCRUALS

	<u>2011</u> <u>RM</u>	<u>2010</u> <u>RM</u>
Audit fee payable	8,500	8,500
Tax agent's fee payable	6,300	5,000
Sundry payables and accruals	4,047	3,611
	<u>18,847</u>	<u>17,111</u>

7 NUMBER OF UNITS IN CIRCULATION AND UNITHOLDERS' CAPITAL

	2011		2010	
	Units	RM	Units	RM
At the beginning of the financial year	46,784,000	51,025,119	48,768,000	53,250,501
Creation of units during the financial year:				
Arising from distributions during the financial year	240,000	284,640	578,000	632,563
Arising from application during the financial year	6,213,000	7,607,854	1,505,000	1,719,755
Cancellation of units during the financial year	(7,533,000)	(9,048,459)	(4,067,000)	(4,577,700)
At the end of the financial year	45,704,000	49,869,154	46,784,000	51,025,119
Approved size of the Fund	500,000,000		500,000,000	

The maximum number of units that can be issued out for circulation is 500,000,000. As at 30 September 2011, the number of units yet to be issued is 454,296,000 (2010: 453,216,000).

8 MANAGEMENT FEE

Item 10 of Schedule 2 of the Master Deed provides that the Manager shall be entitled to a fee based on a profit sharing scheme between the Manager and the Fund at a ratio of 15:85 respectively based on the net investment income, which is the income of the Fund less the Trustee's fee and all permitted or allowable expenses under the Master Deed.

The management fee provided in the financial statements is based on a profit sharing scheme between the Manger and the Fund at a ratio of 15:85 (2010: 15:85) respectively based on the net investment income for the financial year. As the Fund invested in a Shariah-compliant collective investment scheme, the management fee charged by the Shariah-compliant collective investment scheme to the Fund was fully refunded in units. In accordance with the SC Guidelines on Unit Trust Funds, there was no double charging of management fee to the Fund.

9 TRUSTEE'S FEE

Item 11 of Schedule 2 of the Master Deed provides that the Trustee shall be entitled to a fee at a rate agreed between the Manager and the Trustee which the rate shall not exceed 0.1% per annum of the net asset value of the Fund, calculated on a daily basis; subject to a minimum fee of RM35,000 per annum.

The Trustee's fee provided in the financial statements is 0.1% (2010: 0.1%) per annum based on the net asset value of the Fund, calculated on a daily basis for the financial year.

RHB Islamic Bond Fund

10 TAXATION

(a) Tax charge for the financial year

	<u>2011</u> RM	<u>2010</u> RM
Current taxation	-	-

(b) Numerical reconciliation of income tax expense

The numerical reconciliation between the (loss)/profit before taxation multiplied by the Malaysian statutory income tax rate and the tax expense of the Fund is as follows:

	<u>2011</u> RM	<u>2010</u> RM
(Loss)/profit before taxation	(207,697)	3,061,716
Tax calculated at a tax rate of 25%	(51,924)	765,429
Tax effects of:		
- Income not subject to tax	(998,733)	(917,846)
- Losses not deductible for tax purposes	1,032,713	-
- Expenses not deductible for tax purposes	15,209	14,739
- Restriction on tax deductible expenses for unit trust funds	2,735	137,678
Tax expense	-	-

11 DISTRIBUTION

Distribution to unitholders is from the following sources:

	<u>2011</u> RM	<u>2010</u> RM
Prior financial years:		
Income distribution from Shariah-compliant collective investment scheme	8,977	-
Profit income from Shariah-based deposits with licensed financial institutions	186,154	-
Profit income from unquoted sukuk	1,766,121	-
Recovery of unquoted sukuk written off	235,339	-
Net realised gain on sale of investments	172,226	-
	2,368,817	-
Less:		
Expenses	(598,577)	-
	1,770,240	-

RHB Islamic Bond Fund

11 DISTRIBUTION (CONTINUED)

<u>Distribution on 29 October 2010</u>	<u>sen per unit</u>	<u>sen per unit</u>
Gross distribution per unit (sen)	1.5000	-
Net distribution per unit (sen)	<u>1.5000</u>	<u>-</u>
<u>Distribution on 30 September 2011</u>		
Gross distribution per unit (sen)	2.5000	-
Net distribution per unit (sen)	<u>2.5000</u>	<u>-</u>

As at 30 September 2011, there are unrealised losses on investments of RM3,391,916.

Included in distribution for the financial year ended 30 September 2011 was an amount of RM2,368,817 made from previous years' realised income.

Gross distribution is derived using total income less total expenses.

Gross distribution per unit is derived from gross realised income less expenses divided by the number of units in circulation, while net distribution per unit is derived from gross realised income less expenses and taxation divided by the number of units in circulation.

12 MANAGEMENT EXPENSE RATIO ("MER")

	<u>2011</u> %	<u>2010</u> %
MER	<u>0.13</u>	<u>1.13</u>

Management expense ratio includes management fee, Trustee's fee, audit fee, tax agent's fee and other administrative expenses which is calculated as follows:

$$\text{MER} = \frac{(A + B + C + D + E)}{F} \times 100$$

A = Management fee

B = Trustee's fee

C = Audit fee

D = Tax agent's fee

E = Other expenses

F = Average net asset value of the Fund for the financial year, calculated on a daily basis

The average net asset value of the Fund for the financial year, calculated on a daily basis is RM53,196,294 (2010: RM53,728,237).

13 PORTFOLIO TURNOVER RATIO

	<u>2011</u> <u>RM</u>	<u>2010</u> <u>RM</u>
The portfolio turnover ratio for the financial year (times)	0.41	0.37

The portfolio turnover ratio is derived from the following calculation:

$$\frac{(\text{Total acquisition for the financial year} + \text{total disposal for the financial year}) \div 2}{\text{Average net asset value of the Fund for the financial year calculated on a daily basis}}$$

where:

total acquisition for the financial year	=	RM26,139,142 (2010: RM27,937,650)
total disposal for the financial year	=	RM17,552,751 (2010: RM12,170,161)

14 UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER

The related parties and their relationship with the Fund are as follows:

<u>Related parties</u>	<u>Relationship</u>
RHB Investment Management Sdn Bhd	The Manager
RHB Investment Bank Bhd	Holding company of the Manager
RHB Capital Bhd	Ultimate holding company of the Manager
RHB Islamic Bank Bhd	Company related to the Manager

The number of units held by the Manager is as follows:

	<u>30.09.2011</u>		<u>30.09.2010</u>	
	<u>Units</u>	<u>RM</u>	<u>Units</u>	<u>RM</u>
The Manager	508	630	1,973	2,339

The units are held beneficially by the Manager for booking purposes and were transacted at the prevailing market price.

Other than the above, there were no units held by Directors or parties related to the Manager.

RHB Islamic Bond Fund

15 TRANSACTIONS BY THE FUND

Details of transactions with brokers and financial institutions by the Fund for the financial year ended 30 September 2011 are as follows:

<u>Broker/Financial institution</u>	<u>Value of trades</u> RM	<u>Percentage of total trades</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage fees</u> %
RHB Islamic Bank Bhd*	24,306,515	23.10	-	-
AmBank Bhd	17,006,183	16.16	-	-
Bank Muamalat Malaysia Bhd	16,274,973	15.47	-	-
Bank Islam Malaysia Bhd	9,153,006	8.70	-	-
OSK Investment Bank Bhd	6,370,891	6.05	-	-
Affin Bank Bhd	5,262,872	5.00	-	-
CIMB Islamic Bank Bhd	4,825,000	4.59	-	-
HSBC Bank Malaysia Bhd	4,736,387	4.50	-	-
Malayan Banking Bhd	4,358,625	4.14	-	-
KAF Investment Bank Bhd	4,317,737	4.11	-	-
Others	8,608,477	8.18	-	-
	<u>105,220,666</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Details of transactions with brokers and financial institutions by the Fund for the financial year ended 30 September 2010 are as follows:

<u>Broker/Financial institution</u>	<u>Value of trades</u> RM	<u>Percentage of total trades</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage fees</u> %
RHB Islamic Bank Bhd*	23,861,005	28.87	-	-
Bank Muamalat Malaysia Bhd	13,256,996	16.04	-	-
HSBC Bank (Malaysia) Bhd	13,166,802	15.93	-	-
Bank Islam Malaysia Bhd	9,569,314	11.58	-	-
Citibank Bhd	6,009,300	7.27	-	-
OSK Investment Bank Bhd	4,046,700	4.90	-	-
MIDF Amanah Investment Bank Bhd	3,247,596	3.93	-	-
Standard Chartered Bank Malaysia Bhd	2,951,100	3.57	-	-
Kuwait Finance House (Malaysia) Bhd	2,516,000	3.04	-	-
AmBank Bhd	2,504,000	3.03	-	-
Others	1,520,003	1.84	-	-
	<u>82,648,816</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

* Included in transactions by the Fund are trades conducted on normal terms in the stockbroking/finance industry with RHB Islamic Bank Bhd, a company related to the Manager.

16 SEGMENT INFORMATION

The Investment Strategic Sub-Committee of the Manager recommends strategic resource allocations of the Fund to the Investment Committee of the Manager (collectively referred to as "Committee"). The Investment Committee of the Manager will then endorse the strategic decision recommended by the Investment Strategic Sub-Committee for adoption on behalf of the Fund. The operating segments are determined based on the recommendation by the Investment Strategic Sub-Committee and reviewed by the Investment Committee.

The Committee considers the business as two sub-portfolios located in Malaysia. These sub-portfolios consist of quoted investments, including collective investment schemes and the second sub-portfolio consisting of unquoted sukuk.

The reportable operating segments derive their income by seeking investments to achieve targeted returns commensurate with an acceptable level of risk within each portfolio. These returns consist of interest and gains on the appreciation in the value of investments.

There were no changes in the reportable segments during the financial period.

The segment information provided to the Committee for the reportable segments is as follows:

For the financial year ended 30 September 2011:

	Shariah-compliant collective investment scheme RM	Unquoted sukuk RM	Total RM
Shariah-compliant collective investment scheme	9,734	-	9,734
Profit income received from unquoted sukuk	-	2,796,447	2,796,447
Net loss from investments:			
- financial assets at FVTPL	-	(3,165,327)	(3,165,327)
Recovery of unquoted sukuk written off	-	52,231	52,231
Other income	1,090	-	1,090
Total segment loss	10,824	(316,649)	(305,825)
Financial assets at FVTPL	-	48,990,327	48,990,327
Total segment assets	-	48,990,327	48,990,327

For the financial year ended 30 September 2010:

Income distribution from collective investment scheme	9,647	-	9,647
Profit income from unquoted sukuk	-	3,122,555	3,122,555
Net gain from investments:			
- net realised gain on sale of investments	-	198,723	198,723
Amortisation of premium, net of accretion of discount	-	(109,373)	(109,373)
Recovery of unquoted sukuk written off:			
- Memory Tech Sdn Bhd	-	58,778	58,778
- Ingress Sukuk Bhd	-	212,767	212,767
Total segment income	9,647	3,483,450	3,493,097
Financial assets at fair value	525,153	44,701,947	45,227,100
Total segment assets	525,153	44,701,947	45,227,100

16 SEGMENT INFORMATION (CONTINUED)

A reconciliation of total net segmental (loss)/income to operating (loss)/profit is provided as follows:

	<u>2011</u> <u>RM</u>	<u>2010</u> <u>RM</u>
Total net segment (loss)/income	(305,825)	3,493,097
Profit income from Shariah-based deposits with licensed financial institutions	169,907	178,289
Other fees and expenses	(71,779)	(609,670)
	<hr/>	<hr/>
(Loss)/profit before taxation	(207,697)	3,061,716
Taxation	-	-
	<hr/>	<hr/>
(Loss)/profit after taxation and total comprehensive (loss)/income for the financial year	<u>(207,697)</u>	<u>3,061,716</u>

Reportable segments' assets and liabilities are reconciled to total assets and total liabilities as follows:

	<u>2011</u> <u>RM</u>	<u>2010</u> <u>RM</u>
Total segment assets	48,990,327	45,227,100
Shariah-based deposits with licensed financial institutions	4,400,350	9,955,737
Bank balance	6,273	21,161
Amount due from Manager	103,291	124,351
Profit receivable	-	704,403
Other receivable	-	130
	<hr/>	<hr/>
Total assets	<u>53,500,241</u>	<u>56,032,882</u>
Total segment liabilities	-	-
Amount due to Manager	-	1,185
Accrued management fee	-	540,303
Amount due to Trustee	4,741	4,553
Income distribution payable	1,140,825	-
Other payables and accruals	18,847	17,111
	<hr/>	<hr/>
Total liabilities	<u>1,164,413</u>	<u>563,152</u>

The Fund's other receivables and other payables and accrued expenses are not considered to be segment assets and segment liabilities respectively and are managed by the administration function.

17 CHANGES IN ACCOUNTING POLICIES

(a) Amendment to FRS 132 “Financial instruments: Presentation”

In the previous financial year, the Fund had classified its puttable instruments as liabilities and distribution to unitholders of the puttable instruments as finance cost in accordance with FRS 132, 'Financial instruments: Presentation'. However, the FRS 132 (amendment), 'Financial instruments: Presentation', and FRS 101 (amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective 1 January 2010) (the 'amendment') requires puttable financial instruments that meet the definition of a financial liability to be classified as equity where certain strict criteria are met. As a result, distribution to unitholders of these puttable instruments shall be debited by the entity directly to equity.

Those criteria include: (i) the puttable instruments must entitle the holder to a pro-rata share of net assets; (ii) the puttable instruments must be the most subordinated class and that class's features must be identical; (iii) there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and (iv) the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer. As a result of the amendment, the prior year financial statements are restated from amounts previously reported to conform with the amendment. The amendment has been applied retrospectively.

The effects as a result of adoption of the amendment on the statement of financial position for the prior years are set out below:

	<u>As previously stated</u> RM	<u>Adjustment</u> RM	<u>As restated</u> RM
<u>1 October 2009</u>			
Financial liability	52,532,077	(52,532,077)	-
Unitholders' capital	-	53,250,501	53,250,501
Retained earnings	-	725,648	725,648
Fair value reserve	-	(1,444,072)	(1,444,072)
	-	52,532,077	52,532,077
<u>30 September 2010/1 October 2010</u>			
Financial liability	55,469,730	(55,469,730)	-
Unitholders' capital	-	51,025,119	51,025,119
Retained earnings	-	3,787,364	3,787,364
Fair value reserve	-	657,247	657,247
	-	55,469,730	55,469,730

Effect of changes in accounting policy on the statement of financial position as at 30 September 2011 and statement of changes in net asset value for the financial year ended 30 September 2011 are set out below:

	<u>Previous accounting policy</u> RM	<u>Change in accounting policy</u> RM	<u>Revised accounting policy</u> RM
Financial liability	52,335,828	(52,335,828)	-
Unitholders' capital	-	49,869,154	49,869,154
Retained earnings	-	2,466,674	2,466,674
	-	52,335,828	52,335,828

17 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) FRS 139 “Financial Instruments: Recognition and Measurement”

In the previous financial year, unrealised gains or losses from financial instrument are recognised in the fair value reserve included in the capital and reserves attributable to equity holders of the Fund.

However, the FRS 139 (new standard) ‘Financial Instruments: Recognition and Measurement’ (effective 1 January 2010) (the ‘standard’) requires the Fund to recognise all financial instruments in its balance sheet as either assets or liabilities and shall measure them at fair value (except for a financial instrument that is linked to and that must be settled by delivery of an unquoted equity instrument whose fair value cannot be measured reliably) at the beginning of the financial period in which this standard is initially applied. Because all financial instruments, other than those that are designated hedging instruments, are considered held for trading, the unrealised gains or losses transferred to the fair value reserve in the previous financial period shall be recognised as an adjustment of the balance of retained earnings at the beginning of the financial period in which this Standard is initially applied (other than for a financial instrument that is a designated hedging instrument).

The effects as a result of adoption of the new standard on the opening balances of the statement of financial position at the beginning of the financial year are set out below:

	<u>As restated</u> <u>(Note 17(a))</u> RM	<u>Adjustment</u> RM	<u>As restated</u> RM
<u>1 October 2010</u>			
Unitholders’ capital	51,025,119	-	51,025,119
Retained earnings	3,787,364	657,247	4,444,611
Fair value reserve	657,247	(657,247)	-
	55,469,730	-	55,469,730

Effect of changes in accounting policy on the statement of financial position as at 30 September 2011 and statement of changes in net asset value for the financial year ended 30 September 2011 are set out below:

	<u>Previous</u> <u>accounting</u> <u>policy</u> RM	<u>Change in</u> <u>accounting</u> <u>policy</u> RM	<u>Revised</u> <u>accounting</u> <u>policy</u> RM
Financial assets at FVTPL	-	48,990,327	48,990,327
Investments	48,990,327	(48,990,327)	-
Retained earnings	5,858,590	(3,391,916)	2,466,674
Fair value reserve	(3,391,916)	3,391,916	-

REBATES AND SOFT COMMISSION

Dealings on investments of the Fund through brokers or dealers will be on terms which are best available for the Fund. Any rebates from brokers or dealers will be directed to the account of the Fund.

The Fund Manager may only receive soft commission in the form of research and advisory services that assist in the decision-making process relating to the Fund's investments.

During the financial year under review, the soft commission received from the brokers had been retained by the Manager as the goods and services provided are of demonstrable benefit to the unitholders of the scheme as per the requirements of Clause 11.34 of the Securities Commission's Guidelines on Unit Trust Funds.

STATEMENT BY MANAGER

We, Patrick Chin Yoke Chung and Sharifatul Hanizah Said Ali, two of the Directors of RHB Investment Management Sdn Bhd, do hereby state that in the opinion of the Directors of the Manager, the accompanying financial statements set out on pages 6 to 33 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 30 September 2011 and of its results, changes in net asset value and cash flows of the Fund for the financial year ended on that date in accordance with the Financial Reporting Standards in Malaysia.

On behalf of the Manager

PATRICK CHIN YOKE CHUNG
DIRECTOR

Kuala Lumpur
23 November 2011

SHARIFATUL HANIZAH SAID ALI
DIRECTOR

Kuala Lumpur
23 November 2011

TRUSTEE'S REPORT

We have acted as Trustee of RHB Islamic Bond Fund for the financial year ended 30 September 2011. To the best of our knowledge, RHB Investment Management Sdn Bhd, the Manager, has managed RHB Islamic Bond Fund in the financial year under review:

1. in accordance with the limitations imposed on the investment powers of the Management Company and the Trustee under the Deeds, the Securities Commission's Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
2. the procedures and processes adopted by RHB Investment Management Sdn Bhd to value and/or price the units of RHB Islamic Bond Fund are adequate and that such valuation/pricing is carried out in accordance with the Deeds and other regulatory requirements;
3. the creation and cancellation of units are carried out in accordance with the Deeds and other regulatory requirements; and
4. the total distribution of 4.00 sen (gross) per unit to the unitholders of RHB Islamic Bond Fund during the financial year ended 30 September 2011 is tied to and reflects the objectives of the Fund.

For CIMB TRUSTEE BERHAD
(Company No: 167913M)

KHOO LENG KEE
CHIEF OPERATING OFFICER

Kuala Lumpur
23 November 2011

REPORT OF THE SHARIAH ADVISORS

We, the Shariah Advisors for RHB Islamic Bond Fund (“the Fund”), are pleased to confirm that:-

- a) The Fund has been managed and administered in accordance with the Guidelines set by the Securities Commission’s Shariah Advisory Council and / or the rulings established by Group Shariah Committee of RHB Islamic Bank Bhd;
- b) The investment portfolio of the Fund comprises securities which have been classified as Shariah compliant by the Shariah Advisory Council of the Securities Commission and / or the Group Shariah Committee of RHB Islamic Bank Bhd (after consultation with the Shariah Advisor); and
- c) The Fund has complied with applicable guidelines, rulings or decisions issued by the Shariah Advisory Council of Securities Commission and / or Group Shariah Committee of RHB Islamic Bank Bhd.

RHB ISLAMIC BANK BHD
(Company No: 680329-V)

23 November 2011

**INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
RHB ISLAMIC BOND FUND**

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Islamic Bond Fund on pages 6 to 33, which comprise the statement of financial position as at 30 September 2011 of the Fund, and the statement of comprehensive income, changes in net asset value and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Note 1 to 17.

Manager's Responsibility for the Financial Statements

The Manager of the Fund is responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards ("FRS") in Malaysia and for such internal controls as the Manager determine are necessary to enable the preparation of 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 approved standards on auditing in Malaysia. 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 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 of financial statements that give a true and fair view 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 Manager's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, 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 have been properly drawn up in accordance with Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Fund as of 30 September 2011 and of its financial performance and cash flows for the financial year then ended.

OTHER MATTERS

This report is made solely to the unitholders of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

Kuala Lumpur
23 November 2011

CORPORATE INFORMATION
(WITH EFFECT FROM 31 OCTOBER 2011)

MANAGER

RHB Investment Management Sdn Bhd

REGISTERED OFFICE

Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur

BUSINESS OFFICE AND OFFICE OF THE REGISTRAR

Level 7, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur

BOARD OF DIRECTORS

Patrick Chin Yoke Chung (*Independent Non-Executive Chairman*)
Haji Khairuddin bin Ahmad (*Senior Independent Non-Executive Director*)
Dato' Othman Jusoh (*Independent Non-Executive Director*)
Abdul Aziz Peru Mohamed (*Independent Non-Executive Director*)
Renzo Christopher Viegas (*Non-Independent Non-Executive Director*)
Sharifatul Hanizah Said Ali (*Managing Director*)

INVESTMENT COMMITTEE MEMBERS

Haji Khairuddin bin Ahmad (*Independent Chairman*)
Dato' Othman Jusoh (*Independent Member*)
Lim Chee Sing (*Non-Independent Member*)
Sharifatul Hanizah Said Ali (*Non-Independent Member*)

SHARIAH ADVISORS

RHB Islamic Bank Bhd

MANAGING DIRECTOR

Sharifatul Hanizah Said Ali

SECRETARY

Azman Shah bin Md Yaman (LS No. 006901)

BRANCHES

- **Northern Regional Office**
44, Level 4, Lebu Pantai
Georgetown, 10300 Penang
- **Sabah Regional Office**
Lot No. C-02-04, 2nd Floor, Block C
Warisan Square, Jalan Tun Fuad Stephens
88000 Kota Kinabalu, Sabah
- **Sarawak Regional Office**
Lot 7418, 1st Floor, Jalan Simpang Tiga
93300 Kuching, Sarawak

TRUSTEE

CIMB Trustee Berhad
7th Floor, Wisma Amanah Raya Berhad
Jalan Semantan
Damansara Height
50490 Kuala Lumpur

AUDITORS & REPORTING ACCOUNTANT

PricewaterhouseCoopers
10th Floor, 1 Sentral, Jalan Travers, KL Sentral
50706 Kuala Lumpur

TAX ADVISER

PricewaterhouseCoopers
Taxation Services Sdn Bhd
15th Floor, 1 Sentral, Jalan Travers, KL Sentral
50706 Kuala Lumpur

BANKERS

RHB Bank Berhad
KL Main Office, RHB Centre, Jalan Tun Razak
50400 Kuala Lumpur
Malayan Banking Berhad
KL Main Office, Menara Maybank,
100, Jalan Tun Perak, 50050 Kuala Lumpur

SOLICITOR

Soon Gan Dion & Partners
1st Floor, No. 73, Jalan SS21/1A, Damansara Utama
47400 Petaling Jaya, Selangor Darul Ehsan

INSTITUTIONAL UNIT TRUST ADVISERS

RHB Bank Berhad
HSBC Bank Malaysia Berhad
CIMB Bank Berhad
Standard Chartered Bank Malaysia Berhad
Philip Mutual Berhad
IFast Capital Sendirian Berhad

RHB Islamic Bond Fund