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# Our Mission

*“To be the leading mutual fund in the industry, providing unitholders, in a truly SHARIAH COMPLIANT way, a safe and stable stream of Halal returns on a risk adjusted basis.”*

# Our Vision

*“To set standards of best practices and performance for the industry through efficient asset allocation & security selection on SHARIAH COMPLIANT basis.”*

# FUND INFORMATION

## MANAGEMENT COMPANY

Al Meezan Investment Management Limited  
Ground Floor, Block "B", Finance & Trade Centre,  
Shahrah-e-Faisal, Karachi 74400, Pakistan.  
Phone: (9221) 5630722-6, 111-MEEZAN  
Fax: (9221) 5676143, 5630808  
Web site: www.almeezangroup.com  
E-mail: info@almeezangroup.com

## BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Chairman
Mr. Najmul Hassan	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Mr. Muhammad Adrees	Director
Syed Owais Wasti	Director
Mr. Mohammad Shoab, CFA	Chief Executive

## CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

## AUDIT COMMITTEE

Mr. Ariful Islam	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member

## TRUSTEE

Central Depository Company of Pakistan Limited  
Suite # M 13-16, Mezzanine Floor, Progressive Plaza,  
Beaumont Road, Karachi.

## AUDITORS

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

## SHARIAH ADVISOR

Meezan Bank Limited

## BANKERS TO THE FUND

Al Baraka Islamic Bank B.S.C (E.C)  
Bank Alfalah Limited  
BankIslami Pakistan Limited  
Dubai Islamic Bank Pakistan Limited  
Habib Metropolitan Bank Limited  
MCB Bank Limited  
Meezan Bank Limited

## LEGAL ADVISOR

Bawaney & Partners  
404, 4<sup>th</sup> Floor, Beaumont Plaza, 6-CL-10  
Beaumont Road, Civil Lines  
Karachi - 75530  
Phone: (9221) 565 7658-59  
Fax: (9221) 565 7673  
E-mail: bawaney@cyber.net.pk

## TRANSFER AGENT

Meezan Bank Limited  
37-A, Lalazar Branch, Lalazar Area,  
Off: M.T. Khan Road, Karachi, Pakistan.  
Phone: (9221) 5610582, 5610417  
Fax: (9221) 5611427  
Web site: www.meezanbank.com

## DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited, the Management Company of Meezan Islamic Income Fund (the Fund) is pleased to present the audited financial statements of the Fund for the period 13 December 2006 to 30 June 2007.

### Market Review

Money market remained active during FY07. The State Bank kept its commitment of tight monetary policy in order to contain inflation. Tight regulatory grip kept interest rates from falling and liquidity under control. The year started with a 50bps increase in discount rate to 9.50% from 9% on 31 July 2007. PIB yields responded accordingly and climbed to new highs. However, towards the end of the year expectations of loosening of monetary policy resulted in slight decline in secondary market rates.

On the Islamic Bond market side a number of new Sukuks were issued during the year with several others in pipeline. The major issues include those of Sui Sothern Gas Company, Sitara Chemicals Limited, Sitara Energy Limited, Wateen Telecom etc. The other upcoming sukuk issues include those of Karachi Shipyard and Engineering Works, Pakistan International Airlines, Century Paper and Board, Engro Chemical and WAPDA Sukuk II. Thus with the passage of time Islamic Bond (Sukuk) market is expanding in Pakistan and the positive sign is that Blue-chip companies and Government Organizations seem motivated to convert their conventional debts to Shariah-compliant borrowing instruments.

### Operations Review

The Fund, during the period ended 30 June 2007 earned a total income of Rs. 92.68 million. The income for the period comprised of, mainly capital gains (net) on sale of investments of Rs. 44.05 million. The un-realised gain on investments at fair value for the period was Rs. 26.48 million. After accounting for expenses of Rs. 21.66 million and element of income and capital gains included in prices of units issued less those in units redeemed of Rs. 63.82 million, the net income for the period was Rs. 134.84 million, which translates into the earning of Rs. 2.23 per unit outstanding as at 30 June 2007. The net assets of the fund as at 30 June 2007 were Rs. 3,162 million. Before payout, the net asset value of the fund as at 30 June 2007 was Rs. 52.23 per unit, providing a total return of 4.46% for the period. The BoD of Management Company approved payout of stock dividend of 4.40% for the period to the unit holders.

During the period under review, units amounting to Rs. 4,018 million were issued and units amounting to Rs. 927 million were redeemed, resulting in net inflow of Rs. 3,091 million into the Fund.

### Investment Policy

MIIF is the first ever Shariah-compliant Income Fund in Pakistan. The purpose of launching an Islamic Income Fund is to provide investors with a safe and stable stream of halal income on their investments and to generate superior long term risk adjusted returns. The Fund also keeps an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalize on exceptional returns if available at any given point in time. The portfolio is geared towards maximizing annual income to the extent consistent with preservation of capital. The portfolio comprises of short-term, medium-term and long-term investments.

### Future Outlook

We remain hopeful of the future prospects of the money market in general and of Meezan Islamic Income Fund in particular. With new Sukuk issues coming up and the Government's commitment toward promoting the Islamic Banking products as well as Islamic Financial instruments we expect the coming years to see the development of a huge Islamic Sukuk market in Pakistan.

We take this opportunity to thank our valuable investors for reposing faith in us and making us the largest Shariah Compliant in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan, MIIF's trustee, Central Depository Company of Pakistan and the management of Karach Stock Exchange for all their support and guidance.

### 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 has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied except for changes in accounting policies as fully explained in note 4.3 of the financial statements, 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 BOD and employees of the Management Company have signed "Statement of Ethics and Business Practices".
- The sale and repurchase of units of the Fund carried out by the Directors, CEO, CFO and Company Secretary of the Management Company including their spouses and minor children are as under:

Trades by		No. of units invested	No. of units redeemed
Mr. Irfan Siddiqui	Ex-Chairman	78,349.29	-
Mr. Ariful Islam	Chairman	9,684.19	-
Mr. Mohammad Shoaib, CFA	Chief Executive	391,161.93	-
Mr. Najmul Hassan	Director	28,929.91	-
Mr. Tasnim ul Haq Farooqui	Director	3,833.78	-

- Pattern of holding of units is given on page 35 of the financial statements.
- Key financial data for the year ended 30 June 2007 is given in note 20 of the financial statements.

## Board Meetings

During the period 13 December 2006 to 30 June 2007, three board meetings of the management company of the fund were held. The details of the attendance by each director in the board meetings are as given below:

Name		Dates of BOD Meetings & Directors' presence therein		
		15 Feb 2007	22 Mar 2007	24 Apr 2007
Mr. Irfan Siddiqui	Ex-Chairman	✓	✓	✓
Mr. Ariful Islam	Chairman	✓	-	✓
Mr. Tasnim ul Haq Farooqui	Director	✓	✓	✓
Mr. Najmul Hassan	Director	-	✓	-
Mr. Shabbir Hamza Khandwala	Director	-	✓	✓
Mr. Mazhar Sharif	Director	-	✓	✓
Mr. Mohammad Shoaib, CFA	Chief Executive	✓	✓	✓

During financial year 2006-07, Mr. Irfan Siddiqui and Mr. Shabbir Hamza Khandwala resigned and in their place Syed Owais Wasti and Mr. Muhammad Adrees were appointed as Directors on 17 May 2007 to fill in casual vacancies.

Mr. Ariful Islam has been appointed as the Chairman of the company in place of Mr. Irfan Siddiqui. The board appreciates the valuable services rendered by the outgoing Directors and welcomes the new Directors on the board.

## Appointment of Auditors

The Audit Committee in its meeting held on 09 August 2007 recommended the appointment of M/s A.F.Ferguson & Co. Chartered Accountants, as auditors of the Fund for the Financial Year 2007-08. The Board has approved the appointment. The retiring auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants have been recommended for appointment as auditors of the management company to comply with the requirement of having the same auditor for the parent and the subsidiary company.

## 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.

For and on behalf of the Board

09 August 2007  
Karachi

Mohammad Shoaib, CFA  
Chief Executive

## **REPORT OF THE TRUSTEE TO THE UNIT HOLDERS**

### **Report of the Trustee pursuant to the Rule 76(h) of the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003.**

The Meezan Islamic Income Fund, an Open-ended Scheme established under a trust deed executed between Al Meezan Investment Management Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on 13 September 2006. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on 13 October 2006.

In our opinion, Al Meezan Investment Management Limited, the Asset Management Company of Meezan Islamic Income Fund has in all material respects managed Meezan Islamic Income Fund during the period from 13 December 2006 to 30 June 2007 in accordance with the provisions of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

**Mohammad Hanif Jakhura**

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: 31 August 2007

## REPORT OF THE SHARIAH ADVISOR - MEEZAN ISLAMIC INCOME FUND

Karachi  
September 14, 2007

**Alhamdulillah**, the period from December 13, 2007 to June 30, 2007 under review was the first year of operations of Meezan Islamic Income Fund (MIIF). We Meezan Bank Limited (MBL) are the Shariah Advisor of the fund and are issuing this report in accordance with clause 7.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah Compliance of the Fund's activities.

In the capacity of Shariah Advisor, we have prescribed criteria and procedures 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 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 MIIF in light of the shariah guidelines.
- ii. All the provisions of the Scheme and investments made on account of MIIF by AMIM are Shariah compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all operations of MIIF for the year ended June 30, 2007 have been in compliance with the 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.

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Dr. Muhammad Imran Ashraf Usmani  
For and on behalf of Meezan Bank Limited

## INDEPENDENT ASSURANCE PROVIDER'S REPORT ON SHARIAH COMPLIANCE TO THE UNIT HOLDERS

We have performed our independent assurance engagement of **Meezan Islamic Income Fund** (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor in accordance with clause 7.2 of the Trust Deed dated 13 September 2006 of the Meezan Islamic Income Fund during the period from 13 December 2006 to 30 June 2007.

### *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. This responsibility includes: designing, implementing and maintaining internal control to ensure compliance with the Shariah guidelines issued by the Shariah Advisor in accordance with clause 7.2 of the Trust Deed of the Fund dated 13 September 2006.

### *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 Engagements (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 the entity's internal control.

### *Conclusion*

In our opinion, the Fund was, in all material respects, in compliance with the Shariah guidelines issued by the Shariah Advisor, in accordance with clause 7.2 of the Trust Deed of the Fund dated 13 September 2006 during the period from 13 December 2006 to 30 June 2007.

09 August 2007  
Karachi

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KPMG Taseer Hadi & Co.  
Chartered Accountants

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM 13 DECEMBER 2006 TO 30 JUNE 2007

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 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 Al-Meezan Investment Management Limited, the management company, which is an unlisted public company, manages the affairs of Meezan Islamic Income Fund (the Fund). The Fund being a unit trust 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 as a security on the Karachi Stock Exchange, in the following manner:

1. The management company encourages representation of non-executive directors. All the directors except the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) 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 has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on 29 March 2007 on the board which were subject to the approval of the Securities and Exchange Commission of Pakistan were filled in the same meeting. The approval of the SECP was received vide their letter dated 17 May 2007.
5. The board has formulated a Statement of Ethics and Business Practices for the management company, 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. The investment policy of the Fund has been disclosed in the offering document, while other significant policies have also been formalised and have been adopted by the board.
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 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 orientation courses for the directors of the management company were arranged during the year on 15 August 2006 to apprise them of their duties and responsibilities and the requirements of the code of corporate governance. Public Offering of MIIF was made by the management company on 17 January 2007.

10. The Board has approved the appointment of the Chief Financial Officer (CFO) and the company secretary.
11. The directors' report relating to the Fund, for the year ended 30 June 2007 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 CEO and the CFO of the management company before approval by the Board.
13. The interest of the CEO, Directors and the Executives in the units of the Fund is disclosed in the pattern of unit holdings.
14. The management company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The board has formed an audit committee. It comprises of three non-executive directors of the management company as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and 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 outsourced the internal audit function of the Fund to a chartered accountant's firm.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme 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.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied with.

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**Syed Owais Wasti**  
**Chief Financial Officer**

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**Mohammad Shoaib, CFA**  
**Chief Executive**

**09 August 2007**  
**Karachi**

## **REVIEW REPORT TO THE UNIT HOLDERS OF MEEZAN ISLAMIC INCOME FUND ON THE 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 the Management Company of the Meezan Islamic Income Fund to comply with the Listing Regulations No. 37 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 Fund'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.

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 Fund'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 ended 30 June 2007.

**09 August 2007**  
**Karachi**

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**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Meezan Islamic Income Fund**, which comprise the statement of assets and liabilities as at 30 June 2007 and the income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period from 13 December 2006 to 30 June 2007, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and 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.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2007, and of its financial performance, cash flows and transactions for the period from 13 December 2006 to 30 June 2007 in accordance with 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 Trust Deed and NBFC Rules.

09 August 2007  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

## STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2007

	<i>Note</i>	30 June 2007 (Rupees in '000)
<b>Assets</b>		
Bank balances	5	2,277,690
Receivable against sale of investments		225,269
Investment in marketable securities - 'at fair value through profit or loss'	6	907,293
Gain on sales on deferred settlement basis	7	4,350
Advances, deposits, prepayments and other receivables	8	33,766
Preliminary expenses and floatation costs	9	2,000
<b>Total assets</b>		<b>3,450,368</b>
<b>Liabilities</b>		
Payable to Al Meezan Investment Management Limited - Management Company of the Fund	10	4,787
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund	11	293
Payable to Meezan Bank Limited - Shariah Advisor and holding company of the Management Company of the Fund	12	228
Payable to Securities and Exchange Commission of Pakistan	13	730
Payable on redemption of units		19,857
Payable against purchase of investments		231,331
Accrued expenses and other liabilities	14	294
Loss on sales on deferred settlement basis	7	30,720
<b>Total liabilities</b>		<b>288,240</b>
<b>Net assets</b>		<b>3,162,128</b>
<b>Commitments</b>	7	
<b>Unit holders' funds (as per statement attached)</b>		<b>3,162,128</b>
		<b>Number of units</b>
<b>Number of units in issue</b>	15	<b>60,545,714</b>
		<b>Rupees</b>
<b>Net asset value per unit</b>		<b>52.23</b>

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

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

**INCOME STATEMENT**  
**FOR THE PERIOD FROM 13 DECEMBER 2006 TO 30 JUNE 2007**

	<i>Note</i>	2007 (Rupees in '000)
<b>Income</b>		
Income on sale of securities on deferred settlement basis		44,052
Profit on deposit accounts with banks		41,259
Profit on Sukuk certificates		7,262
		92,573
Unrealised gain on investments - 'at fair value through profit or loss'		26,484
Gain / (loss) on sales on deferred settlement basis (net)		(26,370)
		114
<b>Total income</b>		92,687
<b>Expenses</b>		
Remuneration to Al Meezan Investment Management Limited - Management Company of the Fund	10.1	7,297
Remuneration to Central Depository Company of Pakistan Limited - Trustee of the Fund	11	1,324
Payable to Meezan Bank Limited - Shariah Advisor	12.1	150
Annual fee - Securities and Exchange Commission of Pakistan		730
Auditors' remuneration		192
Fees and subscription		101
Profit payment to Pre-IPO and core investors		5,891
Amortization of preliminary expenses and floatation costs	9	500
Brokerage		4,413
Bank and settlement charges		1,067
<b>Total expenses</b>		21,665
<b>Net income from operating activities</b>		71,022
Element of income and capital gains included in prices of units sold less those in units redeemed		63,821
<b>Net income</b>		134,843

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

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

**DISTRIBUTION STATEMENT**  
**FOR THE PERIOD FROM 13 DECEMBER 2006 TO 30 JUNE 2007**

	2007 (Rupees in '000)
Net income for the period	134,843
Undistributed income carried forward as at 30 June	<u>134,843</u>

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

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS**  
**FOR THE PERIOD FROM 13 DECEMBER 2006 TO 30 JUNE 2007**

	2007 (Rupees in '000)
Issue of 78,348,995 units	4,017,973
Redemption of 17,803,281 units	(926,867)
	<u>3,091,106</u>
Element of income and capital gains included in prices of units sold less those in units redeemed	(63,821)
Net income for the period	134,843
Net assets as at 30 June	<u><u>3,162,128</u></u>

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

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

**CASH FLOW STATEMENT**  
**FOR THE PERIOD FROM 13 DECEMBER 2006 TO 30 JUNE 2007**

	2007 (Rupees in '000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income for the period	134,843
<b>Adjustments for:</b>	
Profit on deposit accounts with banks	(41,259)
Profit on Sukuk certificates	(7,262)
Unrealised gain on investments - 'at fair value through profit or loss'	(26,484)
Loss on sales on deferred settlement basis	26,370
Amortization of preliminary expenses and floatation costs	500
Element of income and capital gains included in prices of units sold less those in units redeemed	<u>(63,821)</u>
	(111,956)
<b>(Increase) / decrease in assets</b>	
Receivable against sale of investments	(225,269)
Advances, deposits, prepayments and other receivables	(100)
Preliminary expenses and floatation costs	(2,500)
Investment in marketable securities - 'at fair value through profit or loss'	(880,809)
	(1,108,678)
<b>Increase / (decrease) in liabilities</b>	
Payable to Al Meezan Investment Management Limited - Management Company of the Fund	4,787
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund	293
Payable to Meezan Bank Limited - Shariah Advisor and holding company of the Management	228
Payable to Securities and Exchange Commission of Pakistan	730
Payable against purchase of investments	231,331
Payable on redemption of units	19,857
Accrued expenses and other liabilities	294
	257,520
Cash used in operations	(828,271)
Profit received on deposit accounts with banks	10,984
Profit received on Sukuk certificates	3,871
<b>Net cash outflow from operating activities</b>	(813,416)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Receipts from sale of units	4,017,973
Payments against redemption of units	(926,867)
<b>Net cash inflow from financing activities</b>	3,091,106
Net cash inflow during the period	2,277,690
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	2,277,690

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

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 13 DECEMBER 2006 TO 30 JUNE 2007**

### **1. LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1** Meezan Islamic Income Fund (the Fund) an open-ended fund was established under a Trust Deed executed between Al Meezan Investment Management Limited (AMIML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 13 September 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The registered office of the Management Company of the Fund, is situated at Finance & Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2** The Fund has been formed to provide the unit holders safe and stable stream of halal income on their investments and to generate superior long term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalize on exceptional returns if available at any given point in time. Under the Trust Deed all the conducts and acts of the Fund are based on Shariah. Meezan Bank Limited (MBL) acts as its Shariah Advisor to ensure that the activities of the Fund are in compliance with the principles of Shariah. The Management Company of the Fund is registered with SECP as a Non-Banking Finance Company under NBFC Rules.
- 1.3** The Fund is an open-ended fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4** These are the first financial statements of the Fund. Initial subscription was received by the Fund from 13 December 2006 to 15 December 2006. These financial statements have been prepared from 13 December 2006, being the date on which the 'deposited property' was first transferred to the Trustee.

### **2. BASIS OF PRESENTATION**

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**

These financial statements have been prepared in accordance with the requirements of approved accounting standards as applicable in Pakistan, the requirements of the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003, Trust Deed of the Fund and directives issued by the Securities and Exchange Commission of Pakistan. Approved accounting standards comprise of such International Accounting Standards and International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, the Non-Banking Companies (Establishment & Regulation) Rules, 2003 and the said directives differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003 and the said directives take precedence.

### 3.2 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 July 2007 and are not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures in certain cases:

- IAS 1 - Presentation of Financial Statements - Amendments relating to Capital Disclosures
- IAS 23 - Borrowing Costs- Amendments relating to mandatory capitalization of borrowing costs relating to qualifying assets
- IAS 41 - Agriculture
- IFRS 2 - Share-based Payments;
- IFRS 3 - Business Combinations;
- IFRS 5 - Non-current Assets Held for sale and Discontinued Operations;
- IFRS 6 - Exploration for and Evaluation of Mineral Resources;
- IFRS 10 - Interim Financial Reporting and Impairment;
- IFRS 11 - Group and Treasury Share Transactions;
- IFRS 12 - Service Concession Arrangements.
- IFRS 13 - Customer Loyalty Progmmes.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Basis of preparation

These financial statements have been prepared under the historical cost convention, except for investments and derivatives which are carried at fair value.

### 4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with 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 expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgement made by the Management Company in the application of approved accounting standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year is as follows:

#### *Fair values of financial instruments*

The fair value of investment in marketable securities is based on the closing market prices ruling at the day-end. The management is of the view that the fair market value of the financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short-term in nature.

## 4.3 Financial instruments

### (i) Classification

The Fund classifies its debt and equity investments and related derivatives in the following categories;

#### a) *Financial instruments at fair value through profit or loss*

A financial instrument 'at fair value through profit or loss' is a financial asset or financial liability that meets either of the following conditions.

#### i) *Financial instruments held for trading*

A financial asset or financial liability is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- a derivative.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

#### ii) *Financial instruments designated 'at fair value through profit or loss upon initial recognition'.*

A financial instrument may be designated when initially recognised as a financial asset or financial liability at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Financial instruments that do not fall under the aforementioned category are loans and receivables originated by the enterprise and available-for-sale financial assets which are as follows:

#### b) *Loans and receivables originated by the enterprise*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as 'at fair value through profit or loss';
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

c) *Available-for-sale*

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

**(ii) Recognition**

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

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

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

**(iii) Measurement**

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

Subsequent to initial recognition, financial instruments classified as '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 financial instruments classified as available-for-sale' are recognised in equity until derecognised or impaired when the accumulated fair value adjustments recognised in equity are included in the Income Statement. Financial instruments that is not quoted on stock exchange is measured at cost as per NBFC Rules.

Financial assets classified as loans and receivables are carried at amortized 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 amortized cost using the effective yield method.

**(iv) Fair value measurement principles**

The fair value of marketable securities and derivatives is based on their price quoted on the Karachi Stock Exchange at the balance sheet date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

**(v) 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.

If in a subsequent period, the amount of an impairment loss decreases, the reduction in impairment loss on financial asset other than equity securities classified as 'available-for-sale' are recognised in the Income Statement. However, the decrease in impairment loss on equity securities classified as 'available-for-sale' is recognised in equity.

**(vi) Derecognizing**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39 'Financial Instrument: Recognition and Measurement'.

The Fund uses the weighted average method to determine realised gains and losses on derecognition.

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

**4.4 Unit holders' fund**

Unit holders' fund representing the units issued by the Fund, are carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

**4.5 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 during business hours of the day when the application is received. The offer price represents the net assets value of the units as of the close of that business day plus the allowable sales load wherever applicable, 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 during business hours on that date. The redeemed price represents the net assets value per unit less back end load wherever applicable, any duties, taxes, charges on redemption.

**4.6 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed**

An equalization account called 'element of income / (loss) and capital gains / (losses) included 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.

**4.7 Provisions**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of that obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

**4.8 Preliminary expenses and floatation costs**

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortized over a period of five years commencing from 13 December 2006.

#### **4.9 Net assets value per Unit**

The net assets value (NAV) per unit is calculated by dividing the net assets of the Fund by the number of units in issue.

#### **4.10 Taxation**

##### *Current*

The income of the Fund is exempt from income tax under clause 99 of part I of the second schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

##### *Deferred*

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund intends to avail the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no current deferred tax has been recognised in these financial statements.

#### **4.11 Offsetting of financial instruments**

A financial asset and financial liability 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 asset and settle the liability simultaneously.

#### **4.12 Zakat**

Units held by resident Pakistani unit holders 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.

#### **4.13 Revenue recognition**

Gains / (losses) arising on sale of investments are included in the Income Statement on that date. At which the transaction takes place.

Unrealised gains / (losses) arising on revaluation of securities classified as at fair value through profit or loss are included in the Income Statement in the period in which they arise.

Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the Income Statement.

Profit on deposit accounts with banks and all investments in debt instruments (irrespective of classification) are recognised on an effective yield method.

Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

#### 4.14 Expenses

All expenses, including management fee and custodian fee, are recognised in the Income Statement on an accrual basis.

#### 4.15 Transactions with connected persons

Transactions between the Fund and its connected persons, as defined in the NBFC Rules, are carried out on an arm's length basis substantiated in a manner set out in note 17.

#### 4.16 Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments 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.

#### 4.17 Dividend and Bonus units

Dividends declared (including distribution in the form of bonus units) subsequent to the balance sheet date are considered as a non-adjusting event and are recognised in the period in which they are authorised or approved.

### 5. BANK BALANCES

30 June 2007  
(Rupees in '000)

In deposit accounts	2,277,678
In current accounts	12
	<u>2,277,690</u>

### 6. INVESTMENT IN MARKETABLE SECURITIES

-classified as Investments 'at fair value through profit or loss'

Held for trading	6.1	752,093
Investments 'at fair value through profit or loss upon initial recognition.'	6.2	<u>155,200</u>
		<u>907,293</u>

#### 6.1 Held for trading

Shares of listed companies	6.1.1	752,093
Sukuk Certificates	6.1.5	-
		<u>752,093</u>

## 6.1.1 Shares of listed companies

Name of the investee company	As at 13 December 2006	Purchases during the period	Bonus / rights issue	Sales during the period	As at 30 June 2007	Carrying value	Market value as at 30 June 2007	Percentage of net assets on the basis of market value (see note 6.1.3 below)
	Number of shares					Rupees in '000		
<b>Securities sold under deferred settlement basis</b>								
<b>Textile Composite</b>								
Nishat Mills Limited	-	475,000	-	275,000	200,000	25,600	26,090	0.83
<b>Cement</b>								
D G Khan Cement Company Limited	-	1,490,500	-	1,490,500	-	-	-	-
Pioneer Cement Limited	-	5,169,500	-	5,169,500	-	-	-	-
<b>Power generation and distribution</b>								
The Hub Power Company Limited	-	12,321,000	-	12,321,000	-	-	-	-
<b>Technology and communication</b>								
Pakistan Telecommunication Company Limited 'A'	-	17,117,500	-	13,117,500	4,000,000	217,400	228,000	7.21
<b>Oil and gas exploration companies</b>								
Pakistan Oilfields Limited	-	252,500	-	25,000	227,500	74,618	72,118	2.28
Oil and Gas Development Company Limited	-	7,206,500	-	6,167,500	1,039,000	125,071	124,472	3.94
Pakistan Petroleum Limited	-	2,252,600	-	1,963,800	288,800	76,413	75,796	2.40
<b>Oil and gas marketing companies</b>								
Pakistan State Oil Company Limited	-	713,500	-	663,500	50,000	19,700	19,572	0.62
<b>Fertilizer</b>								
Engro Chemical Pakistan Limited	-	1,284,000	-	1,267,000	17,000	4,248	4,301	0.14
Fauji Fertilizer Bin Qasim Company Limited	-	14,091,000	-	13,995,000	96,000	3,758	3,744	0.12
Fauji Fertilizer Company Limited	-	3,749,000	-	3,349,000	400,000	48,800	48,500	1.53
<b>Commercial banks</b>								
BankIslami Pakistan Limited	-	30,000,000	-	20,000,000	10,000,000	128,903	149,500	4.73
<b>Grand total</b>						<b>724,511</b>	<b>752,093</b>	

6.1.2 All shares have a nominal value of Rs. 10 each.

6.1.3 Net assets are as defined in Rule 2 (xxxiv) of NBFC Rules.

6.1.4 SECP through its letter no. NBFC-II/JE/AMIML/362 dated 08 June 2006 has increased the investment limits prescribed in Rule 71(3) of NBFC Rules to fifteen percent.

## 6.1.5 Sukuk Certificates

Name of the investee company	As at 13 December 2006	Purchases during the period	Sales during the period	Redemptions during the period	As at 30 June 2007	Carrying value	Market value as at 30 June 2007	Percentage of net assets on the basis of cost (see note 6.1.3 above)
	Number of certificates					Rupees in '000		
WAPDA First Sukuk Company	-	10,000	10,000	-	-	-	-	-

6.1.6 The nominal value of the Sukuk Certificates are Rs. 5,000 each.

## 6.2 Investments 'at fair value through profit or loss upon initial recognition'

### Sukuk Certificates

Name of the investee company	As at 13 December 2006	Purchases during the period	Sales during the period	Redemptions during the period	As at 30 June 2007	Carrying value	Market value as at 30 June 2007	Percentage of net assets on the basis of cost of cost (see note 6.1.3 above)
	----- Number of certificates -----					Rupees in '000		
Sitara Chemical Sukuk Certificate	-	11,040	-	-	11,040	55,200	55,200	1.75
Sui Southern Gas Sukuk Certificate	-	30,000	-	-	30,000	100,000	100,000	3.16
<b>Grand Total</b>						<u>155,200</u>	<u>155,200</u>	

6.2.1 The nominal value of the Sitara Sukuk Certificates and Sui Southern Sukuk Certificates is Rs. 5,000 and Rs. 3,333 each respectively.

6.2.2 These certificates carry a return at the rate of 11.90% and 11.53% respectively receivable on an annual basis with principal redeemable on maturity.

## 7. GAIN/ (LOSS) ON SALE ON DEFERRED SETTLEMENT BASIS

Type of contract	Settlement	Underlying	Notional amount	Note	30 June 2007 Fair Value (Rupees in '000)	
					(Assets)	(Liabilities)
Deferred Sales	01 Aug. 2007	Equity indices	601,173	7.1.1	<u>4,350</u>	<u>30,720</u>

7.1.1 Deferred sale transactions are commitments to sell a designated financial instrument at a specified future date for a specified price and settled in cash. Deferred sales are standardized exchange-traded and other contracts. Deferred sale contracts have little credit risk because the counter parties in most of the contracts are stock exchanges.

It results in exposure to market risk based on changes in market prices related to contracted amounts. Market risk arises due to the possibility of movement in indices and securities value underlying these instruments.

Nominal amounts are the underlying reference amounts to stock exchange indices, upon which the fair values of the deferred sale contracts, traded by the Fund are based. While notional amounts do not represent the current fair value and are not necessarily indicative of the future cash flows of the Fund's deferred sale contracts, the underlying price changes in relation to the variables specified by the notional amounts affect the fair value of these derivative financial instruments.

## 8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2007 (Rupees in '000)
Deposits	100
Profit receivable on deposit accounts with banks	30,275
Profit receivable on Sukuk certificates	<u>3,391</u>
	<u>33,766</u>

<b>9. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>	<b>30 June 2007</b>
	<b>(Rupees in '000)</b>
Preliminary expenses and floatation costs	2,500
Less: Amortisation during the period	500
	<u>2,000</u>

**10. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED – Management Company of the Fund**

Management fee	10.1	2,112
Sales load		174
Preliminary expenses and floatation costs		2,500
Certificate charges		1
		<u>4,787</u>

**10.1** Under the provisions of NBFC Rules, the Management Company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the Management Company has been charged at the rate of one percent per annum for the period ended 30 June 2007.

**11. 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, based on the daily net assets value of the Fund.

<b>12. PAYABLE TO MEEZAN BANK LIMITED - Shariah Advisor and holding company of the Management Company of the Fund</b>	<b>30 June 2007</b>	
	<b>(Rupees in '000)</b>	
Shariah advisory fee	12.1	150
Sales load		78
		<u>228</u>

**12.1** Payable to Meezan Bank Limited (MBL) for providing technical services relating to Shariah matters.

**13. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)**

This represents annual fee at the rate of one tenth of one percent of the average annual net assets of the Fund payable to SECP under Rule 79 of the NBFC Rules.

**14. ACCRUED EXPENSES AND OTHER LIABILITIES**

Auditors' remuneration	192
Fund rating Fee	83
Listing Fee	19
	<u>294</u>

## 15. CLASSES OF UNITS IN ISSUE

15.1 The Fund may issue following classes of units:

Class	Description
A (Restricted) – note 15.1.1	Units that shall be charged with no sales load.
A	Units that shall be charged with no sales load.
B	Units that shall be charged with front-end load.
C	Units that shall be charged with contingent back-end load.

15.1.1 Class A (Restricted) units were issued as initial subscription in the form of seed capital which was received by the Fund during the period 13 December 2006 to 15 December 2006 with the restriction that these units are not redeemable or transferable for a period of two years from the date of such subscription.

15.2 The units in issue as at 30 June 2007 and their par values were as follows:

Class	30 June 2007	
	Number of units in issue	(Rupees)
A	15,071,891	744,912,382
B	43,764,174	2,258,076,419
C	1,709,649	88,117,882
Total	<u>60,545,714</u>	<u>3,091,106,683</u>

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.

15.3 Number of units in issue	30 June 2007
Units issued during the period	78,348,995
Units redeemed during the period	(17,803,281)
Units at the end of the period	<u>60,545,714</u>

## 16. EARNINGS PER UNIT (Units outstanding at 30 June)

Net income for the period	<u>134,843</u>
	(Number of units)
Units outstanding as at 30 June	<u>60,545,714</u>
	(Rupees)
Earnings per unit (Units outstanding as at 30 June)	<u>2.23</u>

## 17. TRANSACTIONS WITH CONNECTED PERSONS

The connected persons include Al Meezan Investment Management Limited being the Management Company, Central Depository Company Limited being the Trustee, Meezan Bank Limited being the holding company of the Management Company, Pakistan Kuwait Investment Company (Private) Limited and Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund and Meezan Balanced Fund being the Funds under the common management of the Management Company.

Transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

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

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

	<u>13 December 2006 to 30 June</u> (Unit in '000) (Rupees in '000)	
<b><u>Units sold to:</u></b>		
<i>Management Company</i>		
Al Meezan Investment Management Limited	1,241	62,500
<b>Other related parties</b>		
- Directors and executives of the Management Company	468	24,420
<b><u>Units redeemed by:</u></b>		
<i>Management Company</i>		
Al Meezan Investment Management Limited	1,241	64,515
<b>Other related parties</b>		
- Directors and executives of the Management Company	-	-
<b><u>Units held by:</u></b>		
<i>Management Company</i>		
Al Meezan Investment Management Limited	-	-
<b>Other related parties</b>		
- Directors and executives of the Management Company	468	24,420
<b>TRANSACTIONS WITH CONNECTED PERSONS - UNSECURED</b>		
		<b>30 June 2007</b>
		<b>(Rupees in '000)</b>
<b>Al Meezan Investment Management Limited - Management Company</b>		
Remuneration for the period		8,881
Sales load for the period		448
Preliminary expenses and floatation costs		2,500
Certificate charges		1
		<u>11,830</u>
Payments made during the period		<u>(7,042)</u>
Balance at the end of the period		<u>4,787</u>
<b>Meezan Bank Limited</b>		
Remuneration as the Shariah Advisor		150
Sales load for the period		133
		<u>283</u>
Payments made during the period		<u>(55)</u>
Balance at the end of the period		<u>228</u>
Bank balance in deposit account		<u>33,562</u>
Profit on Deposit Accounts		<u>4,669</u>

30 June 2007  
(Rupees in '000)

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

Remuneration for the period	1,329
CDS Charges for the period	146
	<u>1,475</u>
Payments made during the period	(1,182)
Balance at the end of the period	<u>293</u>

**Pakistan Kuwait Investment Company (Private) Limited**

Issue of 600,000 units	<u>30,000</u>
------------------------	---------------

**Sitara Chemical Industries Limited**

Number of Sukuk certificates	<u>11,040</u>
Value of Sukuk certificates	<u>55,200</u>
Profit received during the period	<u>2,097</u>

**18. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION**

**18.1** The Fund's MROR sensitivity related to financial assets and financial liabilities as at 30 June 2007 can be determined from the following:

Effective Yield / Interest rate	Total	Exposed to Yield / Interest risk									Non-interest bearing financial instruments	
		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
----- Rupees in '000 -----												
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Bank balances in deposit accounts	5.0 to 12.57	2,277,690	738,708	338,970	400,000	800,000	-	-	-	-	-	12
Receivable against sale of investments		220,882	-	-	-	-	-	-	-	-	-	225,269
Investments in Marketable securities - 'at fair value through profit or loss'	11.53 to 11.90 *	907,293	-	-	-	-	-	-	155,200	-	-	752,093
Dividend Receivable		4,387	-	-	-	-	-	-	-	-	-	4,387
Gain on sales on deferred settlement basis		4,350	-	-	-	-	-	-	-	-	-	4,350
Advances, deposits, prepayments and other receivable		33,766	-	-	-	-	-	-	-	-	-	33,766
		<u>3,448,368</u>	<u>738,708</u>	<u>338,970</u>	<u>400,000</u>	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>155,200</u>	<u>-</u>	<u>-</u>	<u>1,019,877</u>
<b>Financial liabilities</b>												
Payable to Al Meezan Investment Management Limited - Management Company of the Fund		4,787	-	-	-	-	-	-	-	-	-	4,787
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund		293	-	-	-	-	-	-	-	-	-	293
Payable to Meezan Bank Limited - Shariah Advisor and holding company of the Management Company of the Fund.		228	-	-	-	-	-	-	-	-	-	228
Payable to Securities and Exchange Commission of Pakistan		730	-	-	-	-	-	-	-	-	-	730
Payable on redemption of Units		19,857	-	-	-	-	-	-	-	-	-	19,857
Payable against purchase of investments		231,331	-	-	-	-	-	-	-	-	-	231,331
Accrued Expenses and other Liabilities		294	-	-	-	-	-	-	-	-	-	294
Loss on sales on deferred settlement basis		30,720	-	-	-	-	-	-	-	-	-	30,720
<b>Total financial liabilities</b>		<u>288,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>288,240</u>
<b>On-balance sheet gap</b>		<u>3,160,128</u>	<u>738,708</u>	<u>338,970</u>	<u>400,000</u>	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>155,200</u>	<u>-</u>	<u>-</u>	<u>731,637</u>

\* This represents the effective rate of return on Sukuk certificates.

## 19. RISK MANAGEMENT

The fund primarily invests in Certificates of investments based on Shariah compliant structures, bank deposits with licensed Islamic Banks, spread transactions, secured and unsecured, listed or privately placed Shariah compliant debt securities including Sukuks certificates or any other Shariah compliant instrument as per the guidelines of the Fund's Shariah Advisor. These investments are subject to varying degrees of risks, which emanates from various factors that include, but are not limited to;

### 19.1 Performance Risk

Performance risk is the uncertainty relating to the performance of the Fund with respect to its ability to earn consistent income stream as outlined in its investment objective. The NAV of the Fund might go down.

### 19.2 Interest Rate Risk

Since MIIF is an income fund, changes in interest rate environment in the economy may affect its Net Asset value as prices of income securities including Shariah compliant income securities may increase as interest rates decline and vice versa.

### 19.3 Credit Risk

Comprises Default Risk and Credit Spread Risk. Each can have negative impact on the value of the Shariah compliant income and money market instruments including sukuks etc:

#### - *Default Risk*

The risk that the issuer of the security will not be able to pay the obligation, either on time or at all.

#### - *Credit Spread Risk*

The risk that there may be an increase in the difference between the return / markup rate of any issuer's security and the return / markup rate of a risk free security. The difference between this return / markup rates is called a "credit spread". Credit spreads are based on macroeconomic events in the domestic or global financial markets. An increase in credit spread will decrease the value of Shariah Compliant income securities and including money market instruments.

### 19.4 Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily creation and cancellation of units and its is therefore exposed to the liquidity risk of meeting unit holders' redemptions at any time. The Fund manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

### 19.5 Market rate of return (MROR) risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates.

**20. PERFORMANCE TABLE****2007**

Net assets (Rs. '000)	3,162,128
Net income (Rs. '000)	134,843
Net assets value (NAV) per unit as at 30 June (Rs.)	52.23
Highest offer price per unit (Rs.)	52.49
Lowest offer price per unit (Rs.)	50.28
Highest redemption price per unit (Rs.)	52.23
Lowest redemption price per unit (Rs.)	50.03

\* First period of operations from 13 December 2006 to 30 June 2007.

**21. NON ADJUSTING EVENTS**

The Board of Directors in its meeting held on 10 July 2007 has announced a bonus issue of 4.4% amounting to Rs. 133.20 million equivalent to 2,662,413 bonus units. The financial statements for the year ended 30 June 2007 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending 30 June 2008.

**2007**  
**Number of units**

The effect of issue of bonus units is as follows:

Number of units in issue before bonus units	<u>60,545,713</u>
Number of units in issue after bonus units	<u>63,208,127</u>

**Rupees**

Net assets value per unit before bonus issue	<u>52.23</u>
Net assets value per unit after bonus issue	<u>50.03</u>

**22. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on 09 August 2007 by the Board of Directors of the Management Company.

**23. GENERAL**

These are the first financial statements therefore comparative figures are not given.

Figures have been rounded off to the nearest thousand rupees unless stated otherwise.

**For Al Meezan Investment Management Limited**  
**(Management Company)**

**Chief Executive**

**Director**

## PATTERN OF HOLDINGS (UNITS) AS AT 30 JUNE 2007

Associated Companies	Units Held	%
- Meezan Bank Ltd.	5,400,000.00	8.92
- Pakistan Kuwait Investment Company (Private) Limited	600,000.00	0.99
<b>Directors and Chief Executive</b>		
<b>- Directors</b>		
- Mr. Irfan Siddiqui	78,349.28	0.13
- Mr. Ariful Islam	9,684.18	0.02
- Najam ul Hassan	28,929.90	0.05
- Tasneemul Haq Farooqui	3,833.77	0.01
<b>- Chief Executive</b>		
- Mr. Mohammad Shoaib, CFA	391,161.90	0.65
<b>Executives</b>	15,775.93	0.03
<b>Public Limited Companies</b>	5,725,019.70	9.46
<b>Banks and financial institutions</b>	17,099,582.14	28.24
<b>Individuals</b>	16,018,316.04	26.46
<b>Retirement funds</b>	3,630,016.29	6.00
<b>Other corporate sector entities</b>	11,245,044.44	18.57
<b>Non-Profit Organization</b>	300,000.00	0.50
<b>Total</b>	<b><u>60,545,714</u></b>	<b><u>100</u></b>