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Our Vision

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

Our Mission

“ To be the leading mutual fund in the industry, providing unitholders, in a truly SHARIAH COMPLIANT way, a safe stable stream of Halal returns on risk adjusted 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) 3563 0722-6, 111-MEEZAN
Fax: (9221) 3567 6143, 3563 0808
Web site: www.almeezangroup.com
E-mail: info@almeezangroup.com

BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

| | |
|-------------------------|-----------------|
| Mr. Ariful Islam | Chairman |
| Mr. Aliuddin Ansari | Director |
| Mr. P. Ahmed | Director |
| Mr. Rana Ahmed Humayun | Director |
| Mr. Rizwan Ata | Director |
| Mr. Mazhar Sharif | Director |
| Mr. Mohammad Shoab, CFA | Chief Executive |

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

| | |
|---------------------|----------|
| Mr. Ariful Islam | Chairman |
| Mr. Aliuddin Ansari | Member |
| Mr. Mazhar Sharif | Member |

TRUSTEE

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block B, S.M.C.H.S., Main Sharah-e-Faisal, Karachi-74400.

AUDITORS

A.F. Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C,
I.I. Chundrigar Road, P.O. Box 4716,
Karachi-74000, Pakistan.

SHARIAH ADVISOR

Meezan Bank Limited

BANKERS TO THE FUND

Al Baraka Islamic Bank B.S.C (E.C)
Allied Bank Limited - Islamic Banking
Askari Bank Limited - Islamic Banking
Bank Alfalah Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking
Bank Islami Pakistan Limited
Dubai Islamic Bank Pakistan Limited
Habib Bank Limited - Islamic Banking
Habib Metropolitan Bank Limited - Islamic Banking
MCB Bank Limited - Islamic Banking
Meezan Bank Limited
Royal Bank of Scotland - Islamic Banking
Soneri Bank Limited - Islamic Banking
Standard Chartered Bank (Pakistan) Limited - Islamic Banking
UBL Ameen Islamic Banking

LEGAL ADVISER

Bawaney & Partners
404, 4th Floor, Beaumont Plaza, 6-CL-10
Beaumont Road, Civil Lines
Karachi - 75530
Phone: (9221) 3565 7658-59
Fax: (9221) 3565 7673
E-mail: bawaney@cyber.net.pk

TRANSFER AGENT

Meezan Bank Limited
SITE Branch
Plot # B/9-C, Estate Avenue,
SITE, Karachi.
Phone: (9221) 3206 2891
Fax: (9221) 3255 2771
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 (MIIF) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2010.

Economic and Money Market Review

Pakistan economy remained in consolidation phase during fiscal year 2010 with a gradual and steady improvement on the macroeconomic front. GDP grew by 4.10% in fiscal year 2010 driven by 4.9% growth in the manufacturing sector (as compared to 8% decline in fiscal year 2009) and 4.6% expansion in services. However, growth in agriculture was rather disappointing at 2% against a target of 3.8% and in comparison to 4% in fiscal year 2009.

A major macroeconomic achievement of this year has been the sharp reduction of 62% in current account deficit - from US\$ 9.3 billion (5.6% of GDP) in fiscal year 2009 to US\$ 3.5 billion (2.0% of GDP) this year. Release of funds from international donor agencies namely IMF and improved balance of trade figures provided a strong support to the external account of the country. Moreover, remittance inflows made new records, with the annual figure totaling to US\$ 8.91 billion. As a result, foreign exchange reserves reached an all-time high of US\$ 16.6 billion. On domestic front, the provisional tax collection for the year was approximately Rs. 1,328 billion, representing an impressive 15.7% growth year on year.

On the monetary front, with the start of new financial year, as inflation started easing off, State Bank continued with its expansionary monetary policy by reducing the discount rates by another 150 basis points to 12.5% in first half of fiscal year 2010. However, later on the policy rate remained unchanged owing to resurgence and persistence in inflation and weak fiscal position of the government. Average yearly inflation stood at 11.7% in fiscal year 2010 as compared to 20.8% in the preceding year. Moreover, to meet IMF requirements and to stabilize interest rates, the State Bank introduced an interest rate corridor, providing a reverse repo facility at 300 basis points below the repo rate.

Outlook

Pakistan's economy has seen a steady turnaround in the year 2010 and most major economic indicators are pointing to greater stability ahead. The improvement in economic and industrial activity will lead to improvement in corporate profitability and hence would reduce the corporate risk. The S&P rating upgrade has accelerated a pickup in foreign investment in Pakistan's equity market. Since June 2009, when Pakistan market entered the MSCI Frontier Index, nearly US\$ 570 million has flowed into the stock market, as compared to a net outflow of US\$ 445 million in the previous year. The significant build up of foreign exchange reserves has also improved confidence in country's ability in meeting its financial commitments.

Moreover, as inflation is expected to remain in double digits, interest rates will likely remain firm in the short term. MIIF fixed income portion is well placed to benefit from the upturn in the economy and stable interest rates. As economy gradually improves, we expect interest rates to decline marginally in the long term.

Fund Rating

We are pleased to inform our investors that JCR-VIS, the leading rating agency in Pakistan, has assigned an A+ (f) stability rating to MIIF, signaling moderate degree of stability in Net Asset Value. Risk factors may vary with possible changes in the economy.

Compliance with Code of Corporate Governance

Al Meezan Investment Management Limited always strives to maintain the highest standards of corporate governance. In compliance with the Code of Corporate Governance, the Board of Directors declares that:

- These financial statements, prepared by the management company of the Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in unit holder's fund.
- The Fund has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes in accounting policies stated in note 3.4 to the financial statements, and accounting estimates are based on reasonable and prudent judgement.
- International Accounting Standards and International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.
- The Board of Directors 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 their minor children are as under:

| Trades by | | No. of units Invested | No. of units redeemed |
|--------------------------|-------------------------|-----------------------|-----------------------|
| Mr. Mohammad Shoaib, CFA | Chief Executive Officer | - | 520,625 |
| Mr. Aliuddin Ansari | Director | - | 28,916 |
| Mr. Mazhar Sharif | Director | 3,909 | 1,087 |
| Mr. Rizwan Ata | Director | 29,445 | 44,326 |
| Mr. Rana Ahmed Humayun | Director | - | 68,221 |

- Pattern of holding of units is given on page no. 07 of the financial statements.
- Financial highlights since inception are given in note no. 23 of the financial statements.

Board Meetings

Please refer to note no. 27 provided in the financial statements.



Acknowledgement

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments and making it the largest Shariah Compliant asset management company. We also thank the regulator, Securities and Exchange Commission of Pakistan, Central Depository Company of Pakistan and management of Karachi Stock Exchange for all their support and guidance. We also take this opportunity to thank the members of the Shariah Supervisory Board of Meezan Bank for their continued guidance and support on shariah aspects of fund management.

For and on behalf of the Board

Date: September 28, 2010
Karachi.

Mohammad Shoaib, CFA
Chief Executive

PATTERN OF HOLDING (UNITS) AS PER THE REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2010

| Held by | Units Held | % |
|--|-------------------|---------------|
| Associated Companies | | |
| - Al Meezan Investment Management Limited | 4,739,846 | 7.24 |
| - Meezan Bank Limited | 17,642,001 | 26.96 |
| - Pakistan Kuwait Investment Company (Private) Limited | - | - |
| Directors | | |
| - Mr. Aliuddin Ansari | 281,754 | 0.43 |
| - Mr. Mazhar Sharif | 11,200 | 0.02 |
| - Mr. Rizwan Ata | 6,927 | 0.01 |
| Chief Executive | | |
| - Mr. Mohammad Shoaib, CFA | 286,074 | 0.44 |
| Executives | 25,048 | 0.04 |
| Public Limited Companies | 112,807 | 0.17 |
| Banks and financial institutions | 11,268,601 | 17.22 |
| Individuals | 20,631,774 | 31.53 |
| Retirement funds | 6,809,571 | 10.41 |
| Other corporate sector entities | 3,053,459 | 4.67 |
| Non-Profit Organization | 563,337 | 0.86 |
| Total | 65,432,399 | 100.00 |



REPORT OF THE FUND MANAGER

Meezan Islamic Income Fund (MIIF) is Pakistan's first Shariah Compliant open end mutual fund which falls under the category of Income Funds.

The Fund's primary objective is to provide investors with a high and stable rate of current income consistent with long term preservation of capital in a Shariah compliant way. A secondary objective is to take advantage of opportunities to realize capital appreciation. The Fund shall seek to provide the investors with a rate of total return consistent with a broadly diversified portfolio of long, medium and short term high quality Islamic income instruments.

Strategy and Investment Policy

During the year, the focus was on proactive and continuous re-allocation between high yield instruments so as to optimize fund yield while maintaining a balance within the risk management constraints. In this connection, funds matured from Corporate Sukuks are deployed in Government Ijarah Sukuks. To manage interest rate risk and meet liquidity objectives, the fund manager over the period has kept the duration below six months.

The instruments in which MIIF invests are Sukuk (Islamic Bonds), Musharaka and Murabaha instruments; Shariah compliant spread transactions, Certificate of Islamic Investments, Islamic bank deposits, and other Islamic income products.

Economic Review

Pakistan economy remained in consolidation phase during fiscal year 2010 with a gradual and steady improvement on the macroeconomic front. GDP grew by 4.10% in fiscal year 2010 driven by 4.9% growth in the manufacturing sector (as compared to 8% decline in fiscal year 2009) and 4.6% expansion in services. However, growth in agriculture was rather disappointing at 2% against a target of 3.8% and in comparison to 4% in fiscal year 2009.

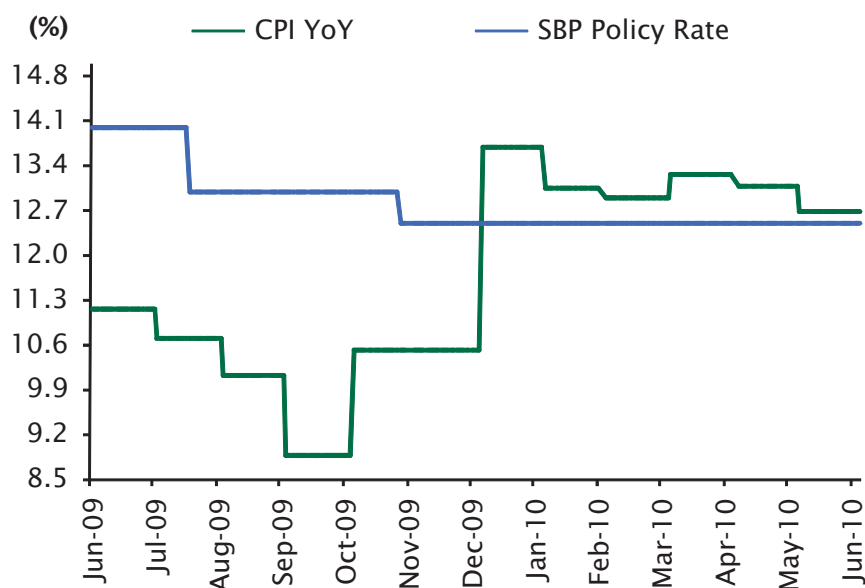
A major macroeconomic achievement of this year has been the sharp reduction of 62% in current account deficit - from US\$ 9.3 billion (5.6% of GDP) in fiscal year 2009 to US\$ 3.5 billion (2.0% of GDP) this year. Release of funds from international donor agencies namely IMF and improved balance of trade figures provided a strong support to the external account of the country. Moreover, remittance inflows made new records, with the annual figure totaling to US\$ 8.91 billion. As a result, foreign exchange reserves reached an all-time high of US\$ 16.6 billion which is equivalent to almost 6 months of imports.

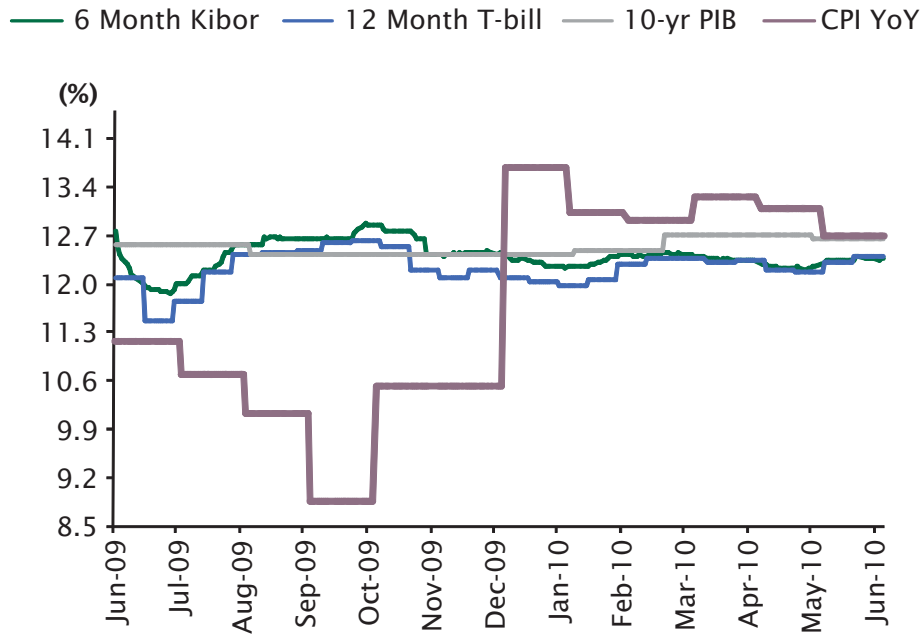
On domestic front, the provisional tax collection for the year was approximately Rs. 1,328 billion. Although this is less than the targeted amount of Rs. 1,380 billion, it represents an impressive 15.7% growth from the previous year's figures. However, government's fiscal deficit and its financing via borrowing from the central bank remained a key source of concern for monetary authorities and for donor agencies during fiscal year 2010. Fiscal deficit stood at 5.8% of GDP in fiscal year 2010, against an original target of 4.9% and revised target of 5.2% agreed with the IMF. Consequently, government was also unable to achieve the target of net zero borrowing from the central bank during the year, overshooting it by Rs. 41.9 billion.

Monetary Review

With the beginning of new financial year, as inflation started easing off, State Bank continued with its expansionary monetary policy by reducing the discount rates by another 150 basis points to 12.5% in first half of fiscal year 2010. However, later on the policy rate remained unchanged owing to (1) resurgence and persistence in inflation (2) risk to external account from rising international commodity prices and (3) weak fiscal position of the government. Average yearly inflation stood at 11.7% in fiscal year 2010 as compared to 20.8% in the preceding year. Moreover, to meet IMF requirements and to stabilize interest rates, the State Bank introduced an interest rate corridor, providing a reverse repo facility at 300 basis points below the repo rate.

The soft monetary stance resulted in six month KIBOR to decline by 39 basis points to close the year at 12.37%. However, six month T-bill cut off rate increased by 29 basis points to close at 12.3%. Moreover, the introduction of interest rate corridor stabilized the overnight call and repo rates within a narrow band of 11.5% to 12.5%. In the twenty-five T-bill auctions conducted by the State Bank during the current fiscal year, a sum of Rs. 1,416 billion was mopped up from the market, while T-bills worth Rs. 1,083 billion matured in the same period, thus causing a liquidity drain of Rs. 333 billion during the period. Moreover, State Bank conducted fourth Ijarah Sukuk auction in September 2009 and accepted Rs. 14.4 billion at the cut off rate of six month T-bill minus 5 basis points (current coupon of 12.25%). With this auction, the total size of Ijarah Sukuks issued increased to Rs. 42 billion. The following graphs show the trend in interest rates during the period under review:





Performance Review

Meezan Islamic Income Fund (MIIF) gave its investors a reasonable return of 7.3% in the fiscal year 2010. Nonetheless, MIIF was one of the best performers in the Islamic Income segment of the market last year. The Fund earned a gross income of Rs. 421 million, which was primarily due to profits on sukuk certificates worth Rs. 321 million. Cash in savings accounts and placements at various Islamic banks yielded Rs. 129 million and Rs. 67 million respectively. Likewise, diminishing musharakah certificates contributed Rs. 23 million in all while realized gain on sukuks totaled to Rs. 17 million. On the negative side, the Fund incurred unrealized losses worth Rs. 90 million in addition to a provision created against profits on sukuks of Rs. 17 million. The Fund also incurred expenses totaling to Rs. 98 million, which brought the net income figure to Rs. 289 million after adjusting for Element of loss and capital losses included in prices of units sold less those in units redeemed of Rs. 34 million.

The net assets of the fund stood at Rs. 3,394 million at the end of fiscal year 2010 as compared to Rs. 4,874 million the year before. The net asset value (NAV) per certificate appreciated to Rs. 51.87 during fiscal year 2010, thus provided a net return of 7.3% to its investors.

The Board has already approved provisioning policy according to which the provisioning has been done in the sukuks of Arzoo Textile Mills. The restructuring process of Security Leasing sukuk has been completed and now the company is making timely payment as per the new agreed schedule. Moreover, the restructuring of Maple Leaf sukuk has also been completed and the sukuk will become performing after payment of two timely installments. Eden Housing delayed on its principal and profit payment due on March 30, 2010. Subsequently, it has paid the due amounts and it is also moving towards restructuring.



| | MIIF | Islamic Bank Deposits |
|-------------------------------------|-------|-----------------------|
| Value as on June 30, 2009 (Rs.) | 51.91 | |
| Value as on June 30, 2010 (Rs.) | 51.87 | |
| Annualised Return during the Period | 7.31% | 5.80% |
| Outperformance | 1.51% | |

Distributions:

During fiscal year 2010, MIIF paid a total dividend of Rs. 3.135 per unit to unit holders.

| | |
|-----------------|--------------------|
| September 2009: | Rs. 1.25 per unit |
| December 2009: | Rs. 0.5 per unit |
| February 2010: | Rs. 0.135 per unit |
| June 2010: | Rs. 1.25 per unit |

Outlook

Pakistan's economy has seen a steady turnaround in the year 2010 and most major economic indicators are pointing to greater stability ahead. The improvement in economic and industrial activity will lead to improvement in corporate profitability and hence would reduce the corporate risk. The S&P rating upgrade has accelerated a pickup in foreign investment in Pakistan's equity market. Since June 2009, when Pakistan market entered the MSCI Frontier Index, nearly US\$ 570 million has flowed into the stock market, as compared to a net outflow of US\$ 445 million in the previous year. The significant build up of foreign exchange reserves has also improved confidence in country's ability in meeting its financial commitments.

However, the recent floods along with law & order situation and energy crisis have derailed the macro economic stability of the country, with estimated losses being quoted in billions of dollars. As a result, GDP growth forecast has been revised down by 1-2% from earlier target of 4.5%. The exact losses and the materialization of foreign pledges in this regard will take time to firm up. Moreover, it is expected that inflation will remain on the higher side because of supply side shortage and hence State Bank may likely go for monetary tightening in this fiscal year which will positively impact the return of MIIF.

Breakdown of unit holdings by size

(As on June 30, 2010)

| Range of units | Number of unitholders |
|----------------------------|-----------------------|
| Upto 10,000 | 4,558 |
| Between 10,001 to 50,000 | 376 |
| Between 50,001 to 100,000 | 54 |
| Between 100,001 to 500,000 | 45 |
| Between 500,001 and above | 14 |
| Total | 5,047 |



Meezan Bank
The Premier Islamic Bank

Report of the Shar'iah Advisor – Meezan Islamic Income Fund

Karachi
August 11, 2010

Alhamdulillah, the period from July 01, 2009 to June 30, 2010 was the fourth year of operations of Meezan Islamic Income Fund (MIIF) under management of Al Meezan Investment Management Limited (Al Meezan). We Meezan Bank Limited are the *Shar'iah Advisor* of the Fund and are issuing the 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 shari'ah Compliance of the Fund's activity.

In the capacity of *Shar'iah Advisor*, we have prescribed criteria and procedure to be followed in ensuring Shar'iah 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 Shar'iah compliance with the Shar'iah 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 Shar'iah guidelines.
- ii. All the provisions of the scheme and investments made on account of MIIF by Al Meezan are Shar'iah Compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MIIF for the year ended June 30, 2010 have been in compliance with Shar'iah principles.

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

Dr. Muhammad Imran Ashraf Usmani
Shar'iah Advisor

Meezan Bank Ltd

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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 of the Fund for the year ended June 30, 2010.

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 of the Fund.

Responsibility of independent assurance providers

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

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

Conclusion

In our opinion, the Fund was, in all material respect, in compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund for the year ended June 30, 2010.


Chartered Accountants
Karachi, October 8, 2010



**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahra-e-Faisal
Karachi - 74400, Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com

TRUSTEE REPORT TO THE UNIT HOLDERS

MEEZAN ISLAMIC INCOME FUND

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

Meezan Islamic Income Fund (the Fund), an open-end scheme was established under a trust deed dated September 13, 2006, executed between Al Meezan Investment Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2010 in accordance with the provisions of the following:

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

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

Karachi, October 07, 2010



STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The board of directors (the Board) of 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 independent non-executive directors. At present the board consists of seven directors, including two independent directors, all other directors except the Chief Executive Officer (CEO) are non-executive directors. The management company of the Fund is not listed at any stock exchange and therefore, does not have any minority interest.
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 NBFI. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. During the year two casual vacancies occurred on the BoD. Mr. P. Ahmed was appointed as independent director in place of Syed Owais Wasti in the board meeting held on September 01, 2009 and Mr. Rana Ahmed Humayun was appointed in place of retiring director Mr. Tasnimul Haq Farooqui in the board meeting held on February 15, 2010 for the remaining term of the board.
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 formalized 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, except for the emergent meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of the board are aware of their responsibilities, an orientation course was held during previous years. The new Directors as and when appointed are provided with all the relevant statutory laws, rules and regulations to keep themselves acquainted.
10. The Board of Directors of the Management Company had, in earlier years, approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary and has approved the appointment of the Head of Internal Audit during the current year including their remuneration and terms and conditions of employment, as determined by the CEO.



11. The directors' report relating to the Fund, for the year ended June 30, 2010 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 set up an effective internal audit function headed by the Head of Internal Audit & Compliance. The staff of the Fund is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function of the Fund on a full time basis.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the management company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
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. The related party transactions entered during the year ended June 30, 2010 have been placed before the audit committee and approved by the board in its subsequent meetings.
21. We confirm that all other material principles contained in the Code have been complied with.

Syed Owais Wasti
Chief Financial Officer

Mohammad Shoaib, CFA
Chief Executive

Karachi.
September 28, 2010

A.F. FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

A.F. Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2010 prepared by the Board of Directors of Al Meezan Investment Management Limited (the management company) of Meezan Islamic Income Fund (the Fund) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the management company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the management company 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 personnel and review of various documents prepared by the management company to comply with the Code.

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

Further, Sub-Regulation (xiii a) of Listing Regulation 35 of the Karachi Stock Exchange (Guarantee) Limited requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the subject requirement to the extent of approval of the related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the management company compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2010.

A.F. Ferguson & Co.
Chartered Accountants
Karachi, October 8, 2010



A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

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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 June 30, 2010, and the related income statement, distribution statement, statement of movement in unit holder's fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The management company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 June 30, 2010 and of its financial performance, cash flows and transactions for the year then ended in accordance with the requirements of the approved accounting standards as applicable in Pakistan.

Other matters

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


Chartered Accountants
Karachi, October 8, 2010

Audit Engagement Partner: Saad Kaliya

Lahore Office: 23-C Aziz Avenue, Canal Bank, Gulberg V, P. O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2010

| | Note | 2010 (Rupees in '000) | 2009 |
|--|------|--------------------------|-------------------|
| Assets | | | |
| Balances with banks | 5 | 1,132,702 | 1,301,480 |
| Placements | | - | 1,335,500 |
| Investments | 6 | 2,204,674 | 2,143,085 |
| Deposits and other receivables | 7 | 92,576 | 168,776 |
| Preliminary expenses and floatation costs | 8 | 500 | 1,000 |
| Total assets | | 3,430,452 | 4,949,841 |
| Liabilities | | | |
| Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund | 9 | 5,561 | 5,924 |
| Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund | 10 | 359 | 491 |
| Payable to Securities and Exchange Commission of Pakistan (SECP) | 11 | 3,439 | 4,259 |
| Payable to Meezan Bank Limited (MBL) | 12 | 46 | 601 |
| Payable on redemption of units | | 9,709 | 65,169 |
| Accrued expenses and other liabilities | 13 | 17,304 | 789 |
| Total liabilities | | 36,418 | 77,233 |
| Net assets | | 3,394,034 | 4,872,608 |
| Contingencies | 18 | | |
| Unit holders' funds (as per statement attached) | | 3,394,034 | 4,872,608 |
| Number of units | | | |
| Number of units in issue | 15 | 65,432,399 | 93,860,629 |
| Rupees | | | |
| Net asset value per unit | | 51.87 | 51.91 |

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

| | Note | 2010 (Rupees in '000) | 2009 |
|---|------|--------------------------|------------------|
| Income | | | |
| Profit on savings accounts with banks | | 128,794 | 134,791 |
| Profit on placements | | 67,016 | 206,438 |
| Profit on sukuk certificates | | 320,789 | 285,917 |
| Profit on diminishing musharaka certificates | | 23,017 | 27,763 |
| Realised income on sale of securities on deferred settlement basis | | - | 8,344 |
| Realised gain / (loss) on sale of sukuk certificates | | <u>16,656</u> | <u>(19,130)</u> |
| | | <u>556,272</u> | <u>644,123</u> |
| Unrealised loss on re-measurement of investments at fair value through profit or loss (net) | | (89,794) | (102,304) |
| Loss on re-measurement of financial instruments sold on deferred settlement basis (net) | | - | (2,863) |
| Provision against sukuk certificates | | (27,893) | - |
| Provision for accrued profit on investment | | <u>(17,440)</u> | <u>-</u> |
| | | <u>(135,127)</u> | <u>(105,167)</u> |
| Total income | | <u>421,145</u> | <u>538,956</u> |
| Expenses | | | |
| Remuneration to Al Meezan - management company of the Fund | 9 | 68,779 | 49,917 |
| Remuneration to CDC - trustee of the Fund | 10 | 5,585 | 5,992 |
| Annual fee to SECP | 11 | 3,439 | 4,259 |
| Remuneration to MBL | 12 | - | 220 |
| Auditors' remuneration | 14 | 540 | 475 |
| Fees and subscription | | 220 | 225 |
| Legal and professional charges | | 2,027 | - |
| Amortisation of preliminary expenses and floatation costs | 8 | 500 | 500 |
| Brokerage | | 176 | 243 |
| Bank and settlement charges | | 139 | 163 |
| Workers' welfare fund - current | 13.1 | 5,978 | - |
| - prior | | 9,671 | - |
| Printing expense | | <u>568</u> | <u>315</u> |
| Total expenses | | <u>97,622</u> | <u>62,309</u> |
| Net income from operating activities | | <u>323,523</u> | <u>476,647</u> |
| Element of (loss) / income and capital (losses) / gains included in prices of units sold less those in units redeemed (net) | | <u>(34,314)</u> | <u>16,570</u> |
| Net income for the year | | <u>289,209</u> | <u>493,217</u> |
| Other comprehensive income / (loss) for the year | | | |
| Unrealised gain / (loss) on 'available for sale' investment | | 9,790 | (9,898) |
| Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed pertaining to available for sale investment (net) | | 515 | (179) |
| Total comprehensive income for the year | | <u>299,514</u> | <u>483,140</u> |

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

| | 2010 | | | 2009 | | |
|---|------------------------------|-----------|-----------|------------------|-----------|-----------|
| | Unrealised | Realised | Total | Unrealised | Realised | Total |
| | Gains / (Losses) | | | Gains / (Losses) | | |
| | ----- (Rupees in '000) ----- | | | | | |
| Undistributed income brought forward | (89,120) | 278,594 | 189,474 | 12,676 | 139,761 | 152,437 |
| Net income for the year | (135,127) | 424,336 | 289,209 | (102,304) | 595,521 | 493,217 |
| Less: Final distribution for the year ended June 30, 2009 on July 6, 2009 | | | | | | |
| - bonus units @ 3.5% (June 30, 2008: 2.7%) | - | (106,440) | (106,440) | - | (115,970) | (115,970) |
| - cash dividend @ 3.5% (June 30, 2008: 2.7%) | - | (57,816) | (57,816) | - | (34,814) | (34,814) |
| Less: Interim distribution on October 3, 2009 | | | | | | |
| - bonus units @ 2.5% (September 30, 2008: 2.54%) | - | (99,966) | (99,966) | - | (83,468) | (83,468) |
| - cash dividend @ 2.5% (September 30, 2008: 2.54%) | - | (41,300) | (41,300) | - | (47,658) | (47,658) |
| Less: Interim distribution on January 4, 2010 | | | | | | |
| - bonus units @ 1% (December 31, 2008: nil) | - | (24,043) | (24,043) | - | - | - |
| - cash dividend @ 1% (December 31, 2008: nil) | - | (16,477) | (16,477) | - | - | - |
| Less: Interim distribution on February 26, 2010 | | | | | | |
| - bonus units @ 0.27% (February 23, 2009: 1.5%) | - | (6,186) | (6,186) | - | (44,428) | (44,428) |
| - cash dividend @ 0.27% (February 23, 2009: 1.5%) | - | (4,449) | (4,449) | - | (25,020) | (25,020) |
| Less: Interim distribution | | | | | | |
| - bonus units (April 15, 2009: 2%) | - | - | - | - | (71,595) | (71,595) |
| - cash dividend (April 15, 2009: 2%) | - | - | - | - | (33,048) | (33,048) |
| Element of income/ (loss) and capital gains/ (losses) included in the prices of units sold less those in units redeemed (net) | - | 515 | 515 | - | (179) | (179) |
| Gains / (losses) realised | | | | | | |
| - on disposal | 15,331 | (15,331) | - | 3,503 | (3,503) | - |
| - on settlement of derivative financial instrument | - | - | - | (2,863) | 2,863 | - |
| - on principal repayment | (38) | 38 | - | (132) | 132 | - |
| | 15,293 | (15,293) | - | 508 | (508) | - |
| Undistributed income carried forward | (208,954) | 331,475 | 122,521 | (89,120) | 278,594 | 189,474 |

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director



STATEMENT OF MOVEMENT IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED JUNE 30, 2010

| | 2010 (Rupees in '000) | 2009 |
|---|----------------------------|----------------------------|
| Net assets at the beginning of the year | 4,872,608 | 5,737,038 |
| Issue of 72,155,237 units (June 30, 2009: 162,859,309 units) | 3,667,645 | 8,242,628 |
| Redemption of 105,295,437 units (June 30, 2009: 186,971,213 units) | (5,359,490) (1,691,845) | (9,433,267) (1,190,639) |
| Element of loss / (income) and capital losses / (gains) included in prices of units sold less those in units redeemed (net) | | |
| - transferred to income statement | 34,314 | (16,570) |
| - transferred directly to distribution statement | (515) 33,799 | 179 (16,391) |
| Total comprehensive income for the year less distribution | (57,163) | 27,139 |
| Issue of 2,122,018 bonus units for the year ended June 30, 2009 | 106,440 | 115,970 |
| Issue of 1,989,361 bonus units for the quarter ended September 30, 2009 | 99,966 | 83,468 |
| Issue of 477,705 bonus units for the half year ended December 31, 2009 | 24,043 | 44,428 |
| Issue of 122,886 bonus units for the period ended February 28, 2010 | 6,186 | - |
| Issue of bonus units for the quarter ended March 31, 2009 | - | 71,595 |
| Net assets at the end of the year | <u>3,394,034</u> | <u>4,872,608</u> |
| Net asset value per unit as at the beginning of the year | <u>51.91</u> | <u>51.36</u> |
| Net asset value per unit as at the end of the year | <u>51.87</u> | <u>51.91</u> |

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

| | Note | 2010 (Rupees in '000) | 2009 |
|---|------|--------------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income for the year | | 289,209 | 493,217 |
| Adjustments for non-cash items | | | |
| Profit on savings accounts with banks | | (128,794) | (134,791) |
| Profit on placements | | (67,016) | (206,438) |
| Profit on sukuk certificates | | (320,789) | (285,917) |
| Profit on diminishing musharaka certificates | | (23,017) | (27,763) |
| Unrealised loss on re-measurement of investments at fair value through profit or loss (net) | | 89,794 | 102,304 |
| Provision against sukuk certificates | | 27,893 | - |
| Provision for accrued profit on investment | | 17,440 | - |
| Loss on re-measurement of financial instruments sold on deferred settlement basis (net) | | - | 2,863 |
| Amortisation of preliminary expenses and floatation costs | | 500 | 500 |
| Element of loss / (income) and capital losses / (gains) included in prices of units sold less those in units redeemed (net) | | 34,314 | (16,570) |
| | | (369,675) | (565,812) |
| Decrease / (increase) in assets | | | |
| Placements | | 100,000 | 2,496,250 |
| Investments | | (169,486) | (330,645) |
| | | (69,486) | 2,165,605 |
| Increase / (decrease) in liabilities | | | |
| Payable to Al Meezan - management company of the Fund | | (363) | (793) |
| Payable to CDC - trustee of the Fund | | (132) | (49) |
| Payable to SECP | | (820) | (1,525) |
| Payable to MBL | | (555) | 273 |
| Payable against purchase of investments | | - | (87,067) |
| Accrued expenses and other liabilities | | 16,515 | 95 |
| | | 14,645 | (89,066) |
| Profit received on savings accounts with banks | | 162,108 | 91,939 |
| Profit received on placements | | 98,908 | 316,771 |
| Profit received on diminishing musharaka | | 27,115 | 26,587 |
| Profit received on sukuk certificates | | 310,245 | 264,405 |
| Net cash inflow from operating activities | | 463,069 | 2,703,646 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Receipts from sale of units | | 3,667,645 | 8,242,628 |
| Payments against redemption of units | | (5,414,950) | (9,424,252) |
| Dividend paid | | (120,042) | (140,540) |
| Net cash outflow from financing activities | | (1,867,347) | (1,322,164) |
| Net cash (outflow) / inflow during the year | | (1,404,278) | 1,381,482 |
| Cash and cash equivalents at the beginning of the year | | 2,536,980 | 1,155,498 |
| Cash and cash equivalents at the end of the year | 16 | 1,132,702 | 2,536,980 |

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Mohammad Shoab, CFA
Chief Executive

Mazhar Sharif
Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Islamic Income Fund (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee. The trust deed was executed on September 13, 2006 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations) notified through S.R.O 1203(I) /2008 on November 21, 2008. The registered office of the management company of the Fund, is situated at Finance and 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 capitalise on exceptional returns if available at any given point of time. Under the trust deed all conducts and acts of the Fund are based on shariah. MBL acts as its shariah adviser 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 the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end 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. The management company of the Fund has been given quality rating of AM2 by JCR - VIS.
- 1.4 Title to the assets of the Fund are in the name of CDC as a trustee of the Fund.

2. BASIS OF MEASUREMENT

The transactions undertaken by the Fund in accordance with the process prescribed under the shariah guidelines issued by the shariah adviser are accounted for on substance rather than the form prescribed by the aforementioned guidelines. This practice is being followed to comply with the requirements of the approved accounting standards as applicable in Pakistan.

3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations and the directives issued by the SECP.

Wherever the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations or the said directives differ with the requirements of IFRSs, the requirements of the Trust Deed, NBFC Rules, NBFC Regulations, and the said directives take precedence.

- 3.2 Standards, amendments to published approved accounting standards and interpretations becoming effective in the year ended June 30, 2010:

The following standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after July 1, 2009:

- (a) IAS 1 (Revised), 'Presentation of Financial Statements' (effective January 1, 2009)

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are 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 the statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present one statement (the income statement) as more fully explained in note 3.4.1 below.

- (b) IAS 39 (amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have an impact on the Fund's financial statements.
- (c) IFRS 7 'Financial instruments - Disclosures' (amendment) (effective from 1 January 2009). The amendment 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 amendment has only resulted in additional disclosures in the Fund's financial statements and does not have any impact on the classification and measurement of the Fund's financial statements.

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2009 but are considered not to be relevant or have any significant effect on the fund's operations and are, therefore, not disclosed in these financial statements.

3.3 Standards, amendments to published approved accounting standards and interpretations as adopted in Pakistan, that are not yet effective:

The following standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after July 1, 2010 or later periods:

- (i) IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. This amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Fund will apply IAS 1 (amendment) from July 1, 2010. It is not expected to have a material impact on the Fund's financial statements.



There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or do not have any significant effect on Fund's operations and are therefore not mentioned in these financial statements.

3.4 Changes in accounting policies

3.4.1 The Fund has applied IAS 1 (Revised) from July 1, 2009, and has elected to present one performance statement (the income statement). The change in accounting policy has not affected the assets and liabilities of the Fund for either the current or prior periods and hence restated statement of assets and liabilities has not been presented.

3.4.2 The Fund has applied IFRS 7 'Financial instruments - Disclosures' from July 1, 2009. The amendment 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 amendment has only resulted in additional disclosures in the Fund's financial statements and does not have any impact on the classification and measurement of the Fund's financial statements. The change in accounting policy has not affected the assets and liabilities of the Fund for either the current or prior periods and hence restated statement of assets and liabilities has not been presented.

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 Accounting convention

These financial statements have been prepared under the historical cost convention except for investments which are carried at fair value in accordance with the criteria laid down in the International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of critical accounting estimates. It also requires the management company to exercise its judgement in the process of applying its accounting policies. The main areas where assumption and estimates are significant to the financial statements are as follows:

- (a) classification and valuation of financial instruments (notes 4.3, 4.4, 4.5 and 6)
- (b) impairment of financial instruments (note 4.3.5)
- (c) recognition of provision for current and deferred taxation (note 4.12)

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

4.3 Financial instruments

4.3.1 The Fund classifies its financial instruments in the following categories:

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

- Financial instruments 'held-for-trading'

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

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

These include investments that are designated as investments at 'fair value through profit or loss upon initial recognition'.

(b) Held to maturity

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

(c) Loans and receivables

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

(d) Available for sale

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

4.3.2 Recognition

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

The Fund follows trade date accounting for purchase and sale of investments. Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

4.3.3 Measurement

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



Subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the income statement. Effective July 1, 2009 the fund has changed its policy and now changes in the fair value of instruments classified as 'available for sale' are recognised in other comprehensive income until derecognised or impaired when the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement. Previously these changes were recognised in equity.

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

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

4.3.4 Fair value measurement principles

The fair value of debt securities were determined as follows:

- Effective January 10, 2009 the carrying value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in circular No. 1/2009 dated January 6, 2009 issued by the SECP.
- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further, the reversal of provision is also made in accordance with the said circulars and subsequent clarifications.

The fair value of shares of listed companies / units of fund, derivatives and financial instruments sold on deferred settlement basis 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 value.

4.3.5 Impairment

Impairment loss on investment other than 'available for sale' is recognised in the income statement whenever the carrying amount of investment exceeds its recoverable amount. If in a subsequent period, the amount of an impairment loss recognised decreases the impairment is reversed through the income statement.

In case of investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is recognised in equity.

4.3.6 Derecognition

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

The Fund uses 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 Transactions involving outright purchase of security in the ready market and sale of that security on deferred settlement basis

The Fund enters into certain transactions involving purchase of security in the ready market and sale of the same security on deferred settlement basis. Securities purchased by the Fund in the ready market are carried on the balance sheet, till eventual disposal, in accordance with the accounting policy specified in note 4.3 above, and sale of those securities in the futures market is accounted for separately as financial instruments sold on deferred settlement basis.

4.5 Financial instruments sold on deferred settlement basis

Financial instruments sold on deferred settlement basis are initially recognised at fair value on the date on which a deferred sale contract is entered into and are subsequently remeasured at their fair value. All financial instruments sold on deferred settlement basis are carried as assets when fair value is positive and as liabilities when fair value is negative.

4.6 Unit holders' fund

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

4.7 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, 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 redemption price represents the net assets value per unit less any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

An equalisation account called 'element of income / (loss) and capital gains / (losses)' included in prices of units issued 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.



4.9 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.

4.10 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 amortised over a period of five years commencing from December 13, 2007 as per the Trust Deed of the Fund.

4.11 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 at year end.

4.12 Taxation

Current

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

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV to the Second Schedule of the Income Tax Ordinance, 2001.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit.

The deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on enacted tax rates. However, the Fund has distributed and intends to continue availing 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 deferred tax has been recognised in these financial statements.

4.13 Revenue recognition

- (i) Gains / (losses) arising on sale of investments are included in income currently and are recognised when the transaction takes place.

- (ii) Unrealised gains / (losses) arising on revaluation of securities classified as financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.
- (iii) Unrealised gains / (losses) arising on revaluation of securities classified as 'available for sale' are included in the statement of other comprehensive income in the period in which they arise.
- (iv) Dividend income is recognised when the Fund's right to receive dividend is established.
- (v) Profit on savings accounts with banks, placements and investments in debt instruments are recorded on accrual basis.

4.14 Expenses

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

4.15 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.

4.16 Zakat

Units held by resident Pakistani unit holders except those exempted are subject to zakat at 2.5% of the face value or redemption value of the units, whichever is lower, under the Zakat and Ushr Ordinance, 1980 (XVII of 1980). 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.

4.17 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities at cost. Cash comprises current and savings accounts 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.

4.18 Dividend and bonus units

Dividend declared (including distribution in the form of bonus units) is recognised in the period in which it is authorised or approved.

| | Note | 2010 (Rupees in '000) | 2009 |
|-------------------------------|------|--------------------------|------------------|
| 5. BALANCES WITH BANKS | | | |
| In savings accounts | 5.1 | 1,130,100 | 1,298,976 |
| In current accounts | | 2,602 | 2,504 |
| | | <u>1,132,702</u> | <u>1,301,480</u> |



- 5.1 The balance in savings accounts bears expected profit which ranges from 5% to 11.45% per annum (2009: 4.97% to 16% per annum).

Note **2010** **2009**
(Rupees in '000)

6. INVESTMENTS

| | | | |
|--|-----|-------------------------|------------------|
| Investments at 'fair value through profit or loss' | 6.1 | 2,128,219 | 1,952,983 |
| Investments - 'available for sale' | 6.2 | 76,455 | 190,102 |
| | | <u>2,204,674</u> | <u>2,143,085</u> |

6.1 Investments at 'fair value through profit or loss'

| | | | |
|---|-------|-------------------------|------------------|
| - Held for trading | 6.1.1 | 722,527 | 300,000 |
| - Investments at 'fair value through profit or loss upon initial recognition' | 6.1.4 | 1,405,692 | 1,652,983 |
| | | <u>2,128,219</u> | <u>1,952,983</u> |

6.1.1 Held for trading - Sukuk certificates

| Name of the investee company | Maturity date | Profit rate | As at July 1, 2009 | Purchases during the year | Sales / redemptions during the year | As at June 30, 2010 | Carrying value as at June 30, 2010 | Market value as at June 30, 2010 | Unrealised gain | Percentage of market value of investment |
|------------------------------|---------------|-------------|------------------------------------|---------------------------|-------------------------------------|------------------------|------------------------------------|----------------------------------|-----------------|--|
| | | | ----- Number of certificates ----- | | | -- (Rupees in '000) -- | | | | |

Secured

| | | | | | | | | | | |
|--|--------------------|--|-------|-------|-------|-------|---------|---------|--------|-------|
| Century Paper & Board Mills Limited (note 6.1.3) | September 25, 2014 | 6 months Kibor plus base rate of 1.35% | - | 4,320 | - | 4,320 | 20,520 | 20,689 | 169 | 0.94 |
| GOP Ijarah Sukuk Certificates - III (note 6.1.2) | March 11, 2012 | 12.96% | 3,000 | - | 1,000 | 2,000 | 200,000 | 203,880 | 3,880 | 9.25 |
| GOP Ijarah Sukuk Certificates - IV (note 6.1.2) | September 17, 2012 | 12.25% | - | 9,270 | 4,400 | 4,870 | 487,197 | 497,958 | 10,761 | 22.59 |

Grand Total

707,717 **722,527** **14,810**

Total cost of investments

707,976

- 6.1.2 The nominal value of the sukuk certificates is Rs 100,000 each.

- 6.1.3 The nominal value of these sukuk certificates is Rs 5,000 each.

6.1.4 Investments at fair value through profit or loss upon initial recognition - Sukuk Certificates

| Name of the investee company | Maturity date | Profit rate | As at July 1, 2009 | Purchases during the year | Sales / redemptions during the year | As at June 30, 2010 | Carrying value as at June 30, 2010 | Provision as at June 30, 2010 | Market value as at June 30, 2010 | Unrealised gain / (loss) | Percentage of market value of investment |
|------------------------------|---------------|-------------|------------------------------------|---------------------------|-------------------------------------|------------------------|------------------------------------|-------------------------------|----------------------------------|--------------------------|--|
| | | | ----- Number of certificates ----- | | | -- (Rupees in '000) -- | | | | | |

Secured

| | | | | | | | | | | | |
|---|--------------------|--|--------|-------|-------|--------|---------|--------|---------|----------|-------|
| Arzoo Textile Mills Limited (note 6.1.3 & 6.1.6) | April 15, 2014 | 6 months Kibor plus base rate of 2% | 14,000 | - | - | 14,000 | 52,500 | 20,300 | 32,200 | - | 1.46 |
| Century Paper & Board Mills Limited (note 6.1.3) | September 25, 2014 | 6 months Kibor plus base rate of 1.35% | 18,940 | - | 1,894 | 17,046 | 83,142 | - | 81,635 | (1,507) | 3.70 |
| Eden Builders Limited (note 6.1.3) | March 8, 2014 | 3 months Kibor plus base rate of 2.3% | 9,600 | 5,200 | 5,800 | 9,000 | 44,928 | - | 43,036 | (1,892) | 1.95 |
| Eden Housing Limited (note 6.1.3 & 6.1.8) | April 2, 2013 | 6 months Kibor plus base rate of 2.5% | 59,400 | - | - | 59,400 | 224,924 | - | 176,808 | (48,116) | 8.01 |
| Engro Chemical Pakistan Limited (note 6.1.3) | September 1, 2015 | 6 months Kibor plus base rate of 1.5% | 60,500 | - | - | 60,500 | 297,237 | - | 296,450 | (787) | 13.45 |
| Karachi Shipyard & Engineering Works (note 6.1.3) | November 2, 2015 | 6 months Kibor plus base rate of 0.4% | 12,000 | - | - | 12,000 | 59,330 | - | 58,160 | (1,170) | 2.64 |
| Karachi Shipyard & Engineering Works II (note 6.1.3) | February 4, 2016 | ----do---- | 53,400 | - | - | 53,400 | 261,798 | - | 258,335 | (3,463) | 11.72 |
| Maple Leaf Cement Factory Limited (note 6.1.3 & 6.1.7) | December 3, 2018 | 3 months Kibor plus base rate of 1% | 64,000 | - | 27 | 63,973 | 282,284 | 7,593 | 232,305 | (42,386) | 10.54 |
| Security Leasing Corporation Limited II (note 6.1.3) | March 19, 2014 | 3% on cash basis and 3% on accrual basis | 8,750 | - | 1,719 | 7,031 | 31,612 | - | 26,367 | (5,245) | 1.20 |
| Shahmurad Sugar Mills Limited (note 6.1.5) | September 30, 2012 | 6 months Kibor plus base rate of 2.25% | 73 | - | 12 | 61 | 56,291 | - | 57,972 | 1,681 | 2.62 |
| Sitara Chemical Industries Limited II (note 6.1.3) | December 17, 2011 | 3 months Kibor plus base rate of 1.7% | 6,900 | - | 2,760 | 4,140 | 20,424 | - | 20,624 | 200 | 0.94 |
| Sitara Chemical Industries Limited III (note 6.1.3) | December 31, 2012 | 3 months Kibor plus base rate of 1% | 27,000 | - | 2,250 | 24,750 | 123,719 | - | 121,800 | (1,919) | 5.52 |

Grand Total

1,538,189 27,893 1,405,692 (104,604)

Total cost of investments

1,384,288



- 6.1.5 The nominal value of the sukuk certificates is Rs. 1,000,000 each.
- 6.1.6 On October 13, 2009 i.e. the scheduled redemption date, principal repayment alongwith the accrued profit aggregating Rs 7 million and Rs 5.440 million respectively was not received by the Fund from Arzoo Textile Mills Limited. In accordance with the requirements of the Circular No.1, the sukuk certificates had been classified as 'non performing assets' and no further profit has been accrued thereafter. On April 13, 2010 i.e. the second schedule redemption date, principal repayment alongwith the accrued profit aggregating Rs 7 million and Rs 5.113 million was not received by the Fund. Accordingly, both principal redemptions have been completely provided for. Further, in accordance with the provisioning policy of the Fund, an amount of Rs 6.3 million has also been provided against the outstanding principal as at June 30, 2010.
- 6.1.7 On December 3, 2009 i.e. the scheduled redemption date, accrued profit aggregating Rs 24.772 million was not received by the Fund. In accordance with the requirements of the Circular No.1, the sukuk certificates had been classified as 'non performing assets' and no further profit has been accrued thereafter. However, on March 30, 2010 first addendum (the first addendum) was signed between Maple Leaf Cement Factory Limited and the investment agent of the sukuk certificates whereby certain terms included in the original trust deed dated December 12, 2007 were amended, including the repayment period which was extended from December 3, 2013 to December 3, 2018. At the time of signing of the first addendum the Fund received an amount of Rs 12.772 million representing approximately 50% of the profit due upto March 3, 2010. The repayment of the balance profit is to be settled against the issue of additional sukuk. Further, in accordance with the provisioning policy of the Fund, an amount of Rs 7.593 million has been further provided against the outstanding principal as at June 30, 2010.
- 6.1.8 On March 30, 2010 i.e. the scheduled redemption date, principal repayment aggregating Rs 37.125 million was not received by the Fund from Eden Housing Limited. In accordance with the requirements of the Circular No.1, the sukuk certificates had been classified as 'non performing assets' and no further profit has been accrued thereafter. On June 17, 2010 the Fund has received 65% of the principal payment amounting to Rs 24.131 million. Subsequent to the year end, the Fund has received the remaining 35% of principal redemption amounting to Rs 12.994 million.

6.2 Investments - available for sale

| Name of the investee company | Maturity date | Profit rate | As at July 1, 2009 | Purchases during the year | Sales / redemptions during the year | As at June 30, 2010 | Carrying value as at June 30, 2010 | Market value as at June 30, 2010 | Unrealised loss | Percentage of market value of investment |
|--|----------------|---------------------------------------|------------------------------------|---------------------------|-------------------------------------|------------------------|------------------------------------|----------------------------------|-----------------|--|
| | | | ----- Number of certificates ----- | | | -- (Rupees in '000) -- | | | | |
| GOP Ijarah Sukuk Certificates - III (note 6.1.2) | March 11, 2012 | 12.96% | - | 750 | - | 750 | 76,563 | 76,455 | (108) | 3.47 |
| D.G Khan Cement Company Limited (note 6.1.2) | May 8, 2010 | 6 months Kibor plus base rate of 0.5% | 2,000 | - | 2,000 | - | - | - | - | - |
| Grand Total | | | | | | | 76,563 | 76,455 | (108) | |
| Total cost of investments | | | | | | | 76,563 | | | |

6.3 Following investments of the Fund are in the sukuk which are below 'investment grade' securities:

| Name of the investee company | Type of investments | Value of investment before provision | Provision held as at June 30, 2010 | Value of investment after provision | Percentage of net assets | Percentage of total assets |
|---|-------------------------------|--------------------------------------|------------------------------------|-------------------------------------|--------------------------|----------------------------|
| | | Rs '000 | | | % | |
| Arzoo Textile Mills Limited | Non-traded sukuk certificates | 52,500 | 20,300 | 32,200 | 0.95 | 0.94 |
| Eden Housing Limited | Non-traded sukuk certificates | 176,808 | - | 176,808 | 5.21 | 5.15 |
| Maple Leaf Cement Factory Limited | Non-traded sukuk certificates | 239,898 | 7,593 | 232,305 | 6.84 | 6.77 |
| Security Leasing Corporation Limited II | Non-traded sukuk certificates | 26,367 | - | 26,367 | 0.78 | 0.77 |
| | | 495,573 | 27,893 | 467,680 | 13.78 | 13.63 |

6.4 As at June 30, 2010, the Funds investments in non-traded sukuk certificates represent 33.29% of the net assets of the Fund.

| | Note | 2010 (Rupees in '000) | 2009 (Rupees in '000) |
|---|------|--------------------------|--------------------------|
| 7. DEPOSITS AND OTHER RECEIVABLES | | | |
| Deposits | | 2,600 | 2,600 |
| Profit receivable on savings accounts with banks | | 22,658 | 55,972 |
| Profit receivable on placements | | - | 31,892 |
| Profit receivable on sukuk certificates | | 67,318 | 74,214 |
| Profit receivable on diminishing musharaka | | - | 4,098 |
| | | <u>92,576</u> | <u>168,776</u> |
| 8. PRELIMINARY EXPENSES AND FLOATATION COSTS | | | |
| Preliminary expenses and floatation costs | | 1,000 | 1,500 |
| Less: Amortisation during the year | | <u>500</u> | <u>500</u> |
| | | <u>500</u> | <u>1,000</u> |
| 9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) – management company of the Fund | | | |
| Management fee | 9.1 | 4,148 | 4,089 |
| Sales load | | 412 | 334 |
| Preliminary expenses and floatation costs | | 1,000 | 1,500 |
| Certificate charges | | <u>1</u> | <u>1</u> |
| | | <u>5,561</u> | <u>5,924</u> |



- 9.1 Under the provisions of NBFC Regulations, 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 year 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 1.5 percent per annum of the average annual net assets of the Fund for the year ended June 30, 2010 (2009: 1%).

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED (CDC) - 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.

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

This represents annual fee payable to the SECP. Fee at the rate of 0.075 percent of the average annual net assets of the fund is payable to SECP under regulation 62 read with Schedule II of the NBFC Regulations, 2008.

| | Note | 2010 (Rupees in '000) | 2009 |
|--|------|--------------------------|------------|
| 12. PAYABLE TO MEEZAN BANK LIMITED (MBL) | | | |
| Shariah advisory fee | 12.1 | - | 520 |
| Sales load | | <u>46</u> | <u>81</u> |
| | | <u>46</u> | <u>601</u> |
| | | | |
| 12.1 This represents an amount payable to MBL for providing technical services relating to Shariah matters. During the year ended June 30, 2009, the SECP through its circular 11 of 2009 dated March 26, 2009 required that the shariah advisory fee shall not be charged to the collective investment scheme. Accordingly, the management has ceased to charge such fee to the Fund from March 26, 2009. | | | |
| | | | |
| 13. ACCRUED EXPENSES AND OTHER LIABILITIES | | | |
| Auditors' remuneration | | 375 | 345 |
| Zakat payable | | 690 | 88 |
| Printing expenses payable | | 200 | - |
| Workers' Welfare Fund (WWF) payable | 13.1 | 15,649 | - |
| Performance rating fee | | 190 | - |
| Brokerage payable | | 4 | - |
| Withholding tax payable | | 33 | 32 |
| Other payable | | <u>163</u> | <u>324</u> |
| | | <u>17,304</u> | <u>789</u> |

- 13.1 The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes (CIS) whose income exceeds Rs 0.5 million in a tax year have been brought within the purview and scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. Accordingly, the management company has recognised WWF charge in the books of the Fund.

| 14. AUDITORS' REMUNERATION | 2010 | 2009 |
|-----------------------------------|------------------|------|
| | (Rupees in '000) | |
| Audit fee | 250 | 220 |
| Half yearly review | 110 | 75 |
| Other certifications and services | 125 | 125 |
| Out of pocket expenses | 55 | 55 |
| | 540 | 475 |

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 December 13, 2006 to December 15, 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 According to the supplemental offering document dated March 17, 2008, the management company of the Fund may issue the following classes of units:

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

- 15.3 The units in issue as at June 30, 2010 and 2009 in each class and their par values were as follows:

| | 2010 | | 2009 | |
|----------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Number of units in issue | Rupees in '000 | Number of units in issue | Rupees in '000 |
| A | | | | |
| - Growth units | 1,110,746 | 55,537 | 1,924,936 | 96,247 |
| B | | | | |
| - Growth units | 41,693,934 | 2,084,697 | 57,016,330 | 2,850,816 |
| - Income units | 21,038,670 | 1,051,934 | 33,037,532 | 1,651,877 |
| C | | | | |
| - Growth units | 1,589,049 | 79,452 | 1,881,831 | 94,091 |
| Total | 65,432,399 | 3,271,620 | 93,860,629 | 4,693,031 |



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 dividend and payment of net asset value on liquidation.

| | 2010 | 2009 |
|---|------------------|------------------|
| | (Rupees in '000) | |
| 16. CASH AND CASH EQUIVALENTS | | |
| Balances with banks | 1,132,702 | 1,301,480 |
| Placements - maturity upto three months | - | 1,235,500 |
| | <u>1,132,702</u> | <u>2,536,980</u> |

17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the holding company of the management company and Al Meezan Mutual Fund Limited, Meezan Sovereign Fund, Meezan Tahaffuz Pension Fund, Meezan Capital Protected Fund - I, Meezan Cash Fund, Meezan Islamic Fund and Meezan Balanced Fund being the Funds under the common management of the management company and Pakistan Kuwait Investment Company (Private) Limited.

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 provision of NBFC Rules, NBFC Regulations, 2008 and the Trust Deed respectively.

Details of transactions with connected persons and balances with them for the year ended June 30, 2010 are as follows:

Al-Meezan - management company of the fund

| | | |
|--|----------------|---------------|
| Remuneration payable | <u>4,148</u> | <u>4,089</u> |
| Sales load payable | <u>412</u> | <u>334</u> |
| Preliminary expenses and floatation costs payable | <u>1,000</u> | <u>1,500</u> |
| Certificate charges payable | <u>1</u> | <u>1</u> |
| Investments as at June 30, 2010: 4,739,846 units (June 30, 2009: 1,719,056 units) | <u>245,856</u> | <u>89,236</u> |

MBL

| | | |
|--|----------------|------------------|
| Shariah adviser fee payable | <u>-</u> | <u>520</u> |
| Sales load payable | <u>46</u> | <u>81</u> |
| Balances with bank | <u>13,248</u> | <u>54,595</u> |
| Profit receivable on savings account | <u>176</u> | <u>99</u> |
| Placements | <u>-</u> | <u>100,000</u> |
| Profit receivable on placements | <u>-</u> | <u>2,318</u> |
| Investments as at June 30, 2010: 17,642,001 units (June 30, 2009: 23,466,113 units) | <u>915,091</u> | <u>1,218,126</u> |

| | 2010 (Rupees in '000) | 2009 |
|--|--------------------------|----------------|
| CDC - trustee of the Fund | | |
| Trustee fee payable | <u>359</u> | <u>491</u> |
| Deposits | <u>2,600</u> | <u>100</u> |
| Directors and officers of the management company | | |
| Investments as at June 30, 2010: 611,003 units (June 30, 2009: 1,177,758 units) | <u>31,693</u> | <u>61,137</u> |
| Al-Meezan - management company of the fund | | |
| Remuneration for the year | <u>68,779</u> | <u>49,917</u> |
| Units issued: 3,515,382 units (June 30, 2009: 4,089,622 units) | <u>180,817</u> | <u>207,000</u> |
| Redemptions: 648,638 units (June 30, 2009: 4,425,018 units) | <u>33,767</u> | <u>224,206</u> |
| Bonus units issued: 154,046 units (June 30, 2009: 164,206 units) | <u>7,738</u> | <u>4,750</u> |
| MBL | | |
| Shariah advisory fee for the year | <u>-</u> | <u>220</u> |
| Profit on savings accounts | <u>974</u> | <u>13,448</u> |
| Profit on placements | <u>9,113</u> | <u>-</u> |
| Units issued: nil units (June 30, 2009: 3,953,746 units) | <u>-</u> | <u>200,000</u> |
| Redemptions: 5,824,112 (June 30, 2009: nil units) | <u>300,000</u> | <u>-</u> |
| Cash dividend paid | <u>85,299</u> | <u>97,209</u> |
| CDC - trustee of the Fund | | |
| Remuneration for the year | <u>5,585</u> | <u>5,992</u> |
| CDS Charges for the year | <u>66</u> | <u>25</u> |
| Units issued: nil units (June 30, 2009: 532,649 units) | <u>-</u> | <u>27,000</u> |
| Redemptions: nil units (June 30, 2009: 1,131,293 units) | <u>-</u> | <u>55,971</u> |
| Bonus units issued: nil units (June 30, 2009: 43,017 units) | <u>-</u> | <u>2,151</u> |
| Directors and officers of the management company | | |
| Units issued: 272,620 units (June 30, 2009: 4,139,460 units) | <u>13,874</u> | <u>206,427</u> |
| Redemptions: 908,433 units (June 30, 2009: 3,860,511 units) | <u>46,188</u> | <u>193,162</u> |
| Bonus units issued: 69,058 units (June 30, 2009: 81,551 units) | <u>3,467</u> | <u>4,100</u> |
| Pakistan Kuwait Investment Company (Private) Limited | | |
| Redemptions: nil units (June 30, 2009: 726,632 units) | <u>-</u> | <u>37,719</u> |
| Bonus units issued: nil units (June 30, 2009: 59,880 units) | <u>-</u> | <u>3,009</u> |



18. CONTINGENCIES

In April 2009 the Fund's management company (Al Meezan) and CDC had received notices from WAPDA that further transfer of the WAPDA First Sukuk Company Limited's (WFSCCL) sukuk being held by the Fund may be stopped until further instructions are given by WAPDA. The Fund, however, in its response stated that it is in the business of purchase and sale of securities and that the Fund is the bonafide holder of these sukuk, which were purchased after taking all necessary steps and measures to ascertain the genuineness of these sukuk including their verification from the issuer (i.e.WFSCCL) therefore, the Fund cannot comply with the instructions of WAPDA.

The Fund disposed off its investment in the aforementioned sukuk having a face value of Rs 180 million by June 30, 2009, i.e. before book closure for rentals due on October 22, 2009.

In September 2009 the Fund received a demand from WAPDA claiming return of Rs 13.6 million being rentals received by it (the Fund) in April 2009 on its holding of WFSCCL sukuk, WAPDA contends that Fund is not a bonafide owner of those sukuk. The management company of the Fund has rejected WAPDA's claim and stated that the said sukuk were purchased after their existence had been duly verified from WAPDA at more than one stage and that these sukuk were transferred in its CDS account, hence, the Fund was the bonafide holder of these sukuk.

Al Meezan, the management company of the Fund, and CDC, as trustee of the Fund have filed a suit, against WFSCCL and some other defendants in October 2009 in the High Court of Sindh (the High Court) for declaration, injunction and damages against the defendants claim for return of the aforementioned rental payments.

The defendants (i.e. WAPDA and WFSCCL) have also filed an interpleader suit in December 2009 against Al Meezan, CDC in its capacity as the trustee of the Fund and some other parties in the senior civil court of Lahore (the Court) seeking a decision from the Court as to who is the lawful owner and to whom the profit payment due on October 22, 2009 and subsequently rentals should be made. The interpleader suit has been dismissed by the court.

Based on the aforementioned facts and the advise of its legal consultant, the management is confident that the Fund was a legitimate and bonafide owner of those sukuk from the date it acquired them till such time that those sukuk were sold in the normal course of business and accordingly it is not liable to return the aforementioned amount of rental (Rs 13.6 million) received by it.

19. FINANCIAL INSTRUMENTS BY CATEGORY

| | Loans and receivables | Financial assets at fair value through profit or loss | Financial assets categorised as 'available for sale' | Financial liabilities measured at amortised cost | Total |
|---|-----------------------|---|--|--|------------------|
| 2010 ----- (Rupees in '000) ----- | | | | | |
| On balance sheet - financial assets | | | | | |
| Balances with banks | 1,132,702 | - | - | - | 1,132,702 |
| Investments | - | 2,128,219 | 76,455 | - | 2,204,674 |
| Deposits and other receivables | 92,576 | - | - | - | 92,576 |
| | <u>1,225,278</u> | <u>2,128,219</u> | <u>76,455</u> | <u>-</u> | <u>3,429,952</u> |
| On balance sheet - financial liabilities | | | | | |
| Payable to Al Meezan | - | - | - | 5,561 | 5,561 |
| - management company of the Fund | - | - | - | 359 | 359 |
| Payable to CDC - Trustee of the fund | - | - | - | 46 | 46 |
| Payable to MBL | - | - | - | 9,709 | 9,709 |
| Payable on redemption of units | - | - | - | 932 | 932 |
| Accrued expenses and other liabilities | - | - | - | 16,607 | 16,607 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>16,607</u> | <u>16,607</u> |

| | Loans and receivables | Financial assets at fair value through profit or loss | Financial assets categorised as 'available for sale' | Financial liabilities measured at amortised cost | Total |
|--|-------------------------------------|---|--|--|------------------|
| | 2009 ------(Rupees in '000)----- | | | | |
| On balance sheet - financial assets | | | | | |
| Balances with banks | 1,301,480 | - | - | - | 1,301,480 |
| Placements | 1,335,500 | - | - | - | 1,335,500 |
| Investments | - | 1,952,983 | 190,102 | - | 2,143,085 |
| Deposits and other receivables | 168,776 | - | - | - | 168,776 |
| | <u>2,805,756</u> | <u>1,952,983</u> | <u>190,102</u> | <u>-</u> | <u>4,948,841</u> |
| On balance sheet - financial liabilities | | | | | |
| Payable to Al Meezan - management company of the Fund | - | - | - | 5,924 | 5,924 |
| Payable to CDC - Trustee of the fund | - | - | - | 491 | 491 |
| Payable to MBL | - | - | - | 601 | 601 |
| Payable on redemption of units | - | - | - | 65,169 | 65,169 |
| Accrued expenses and other liabilities | - | - | - | 669 | 669 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>72,854</u> | <u>72,854</u> |

20. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The risk management policy of the Fund aims to maximise the return attributable to the unit holders and seeks to minimise potential adverse effects on the Fund's financial performance.

Risk of the Funds are being managed by the Fund manager in accordance with the approved policies of the Investment Committee which provides broad guidelines for management of risk pertaining to market risks, credit risk and liquidity risk. Further, the overall exposure of the Fund complies with the NBFC Regulations and the directives issued by the SECP.

Risks managed and measured by the Fund are explained below:

20.1 Market risk

Interest Rate Risk

The interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates which effects cashflows pertaining to debt instruments and their fair values.

Cash flow interest rate risk

The company's interest rate risk arises from the balances in savings accounts and investment in debt securities. At June 30, 2010, if there had been increase / decrease of 5% in interest rates, with all other variables held constant, net assets of the fund for the year then ended would have been higher / lower by Rs 26.858 million (2009: approximately Rs 31.357 million) mainly as a result of finance income.

Fair value interest rate risk

Since the Fund does not have investment in fixed rate security, therefore, is not exposed to fair value interest rate risk.



20.2 Credit Risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Credit risk arises from deposits with banks and financial institutions, credit exposure arising as a result of investment in debt securities, profit receivable on debt securities and receivable against sale of investments. Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The Fund receives a monthly rating update, against which investments are reviewed. The Fund, however, also invests in unrated instruments based on internal ratings assigned by the fund manager using an approach that is consistent with the approach used by the rating agencies. The credit rating wise analysis of investments in debt instruments have been tabulated below:

| | 2010 | 2009 |
|-----------------------|---------------|---------------|
| | (%) | |
| Government guaranteed | 49.66 | 28.98 |
| AA | 13.45 | 13.87 |
| AA- | 6.46 | 12.20 |
| A+ | 4.64 | - |
| A | 1.95 | 15.47 |
| A- | 2.63 | 16.33 |
| BBB- | - | 1.83 |
| Non-rated | 21.21 | 11.32 |
| | <u>100.00</u> | <u>100.00</u> |

Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties. Further, all transactions in securities are settled through approved brokers, thus the risk of default is considered to be minimal. In accordance with the risk management policy of the Fund, the investment manager monitors the credit position on a daily basis which is reviewed by the board of directors on a quarterly basis.

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

The maximum exposure to credit risk as at June 30, 2010 and 2009 is tabulated below:

| | 2010 | 2009 |
|--------------------------------|------------------|------------------|
| | (Rupees in '000) | |
| Financial assets | | |
| Balances with banks | 1,132,702 | 1,301,480 |
| Placements | - | 1,335,500 |
| Investments | 2,204,674 | 2,143,085 |
| Deposits and other receivables | 92,576 | 168,776 |
| | <u>3,429,952</u> | <u>4,948,841</u> |

Credit Rating wise analysis of balances with banks of the Fund are tabulated below:

| | 2010 (Rupees in '000) | 2009 (Rupees in '000) |
|-----|--------------------------|--------------------------|
| AAA | 0.06 | - |
| AA+ | 3.32 | 73.56 |
| AA | 63.81 | 0.02 |
| AA- | 1.18 | - |
| A+ | - | 4.20 |
| A | 31.63 | 22.22 |
| | <u>100.00</u> | <u>100.00</u> |

The Fund does not have any collateral against any of the aforementioned assets.

Due to the Fund's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the fund.

20.3 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 it is therefore exposed to the liquidity risk of meeting unit holders' redemptions at any time. The Fund manages its 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.

In accordance with the regulation 58(1)(k) of the NBFC Regulation, 2008, the Fund has the ability to borrow funds for meeting redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen percent of its net assets which amounts to Rs 509.105 million as on June 30, 2010 (2009: Rs 730.891 million).

Further, the Fund is also allowed, in accordance with regulation 57(10) of the NBFC Regulation, 2008, to defer redemption request to next dealing day, had such requests exceed ten percent of the total number of units in issue.

In accordance with the risk management policy of the Fund, the fund manager monitors the liquidity position on a daily basis, which is reviewed by the board of directors of the management company on a quarterly basis.

An analysis of the Fund's liabilities into relevant maturity grouping as at June 30, 2010 and 2009 is tabulated below:

| | Maturity upto | | | | Total | 2009 |
|--|------------------|------------|----------|--------------------|---------------|---------------|
| | Three months | Six months | One year | More than one year | | |
| | (Rupees in '000) | | | | | |
| Payable to Al Meezan - management company of the Fund | 5,061 | - | - | 500 | 5,561 | 5,924 |
| Payable to CDC - trustee of the Fund | 359 | - | - | - | 359 | 491 |
| Payable to MBL | 46 | - | - | - | 46 | 601 |
| Payable on redemption of units | 9,709 | - | - | - | 9,709 | 65,169 |
| Accrued expenses and other liabilities | 932 | - | - | - | 932 | 669 |
| | <u>16,107</u> | <u>-</u> | <u>-</u> | <u>500</u> | <u>16,607</u> | <u>72,854</u> |
| 2009 | <u>71,854</u> | <u>-</u> | <u>-</u> | <u>1,000</u> | | |



21. CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the 'statement of movement in unit holders' fund.

The Fund has no restrictions or specific capital requirements on the subscription and redemption of units except that the core investor (management company) shall hold its investment of at least Rs 50 million for a minimum period of two years during which its units will not be redeemable.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for units holders and to maintain a strong capital base to meet unexpected losses or opportunities.

In accordance with the NBFC Regulation, 2008, the Fund is required to distribute at least ninety percent of its income from sources other than capital gain whether realised or unrealised as reduced by such expenses as are chargeable to the Fund.

In accordance with risk management policies stated in note 20, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments where necessary.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets (e.g. listed shares) are based on the quoted market prices at the close of trading on the year end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets (e.g. sukuk) that are not traded in an active market is determined with reference to the values quoted by MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009 issued by the SECP.

If a security is not quoted by MUFAP due to it being 'non-investment' grade, its values is determined by applying discount in accordance with Circular 1.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

The Fund adopted the amendment to IFRS 7, effective July 1, 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- ▶ Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- ▶ Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- ▶ Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|------------------|
| Financial assets held for trading | | | | |
| - Debt securities | 701,838 | 20,689 | - | 722,527 |
| Financial assets designated at fair value through profit or loss upon initial recognition | | | | |
| - Debt securities | - | 938,012 | 467,680 | 1,405,692 |
| Financial assets available for sale | | | | |
| - Debt securities | 76,455 | - | - | 76,455 |
| | <u>778,293</u> | <u>958,701</u> | <u>467,680</u> | <u>2,204,674</u> |

The following table presents the transfers between levels for the year ended June 30, 2010

| | Level 1 | Level 2 | Level 3 |
|---------------------------------------|----------------|----------------|----------------|
| Transfers between level 2 and level 3 | | | |
| - Debt securities | - | (616,572) | 616,572 |

The following table presents the movement in level 3 instruments for the year ended June 30, 2010 by class of financial instruments.

| | Debt securities |
|--|------------------------|
| Opening balance | - |
| Transfers into level 3 | 616,572 |
| Purchases | - |
| Sales / redemptions | (25,252) |
| Provisions | (27,893) |
| Gains and losses recognised in profit and loss | (95,747) |
| Closing balance | <u>467,680</u> |



23. PERFORMANCE TABLE

| | 2010 | 2009 | 2008 | 2007 |
|---|-------------------|--------------------|----------------------|---------------------|
| Net assets (Rs '000) (ex-distribution) | 3,367,736 | 4,814,792 | 5,702,224 | 3,162,128 |
| Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution) | 50.62 | 50.16 | 50.01 | 50.03 |
| Offer price per unit as at June 30 (Rs) (ex-distribution) | 50.87 | 50.41 | 50.26 | 50.28 |
| Distribution (%) | | | | |
| - Interim | | | | |
| - First quarter | 2.50 | 2.54 | - | - |
| - Second quarter | 1.00 | 1.50 | - | - |
| - Third quarter | 0.27 | 2.00 | 6.50 | - |
| - Annual | 2.50 | 3.50 | 2.70 | 4.40 |
| Dates of distribution (interim) | | | | |
| - First quarter | October 3, 2009 | September 30, 2008 | - | - |
| - Second quarter | January 4, 2010 | February 23, 2009 | - | - |
| - Third quarter | February 26, 2010 | April 15, 2009 | April 22, 2008 | - |
| Dates of distribution (annual) | July 7, 2010 | July 6, 2009 | July 7, 2008 | July 10, 2007 |
| Income distribution (Rupees in '000) | 88,524 | 163,542 | 148,283 | - |
| Growth distribution (Rupees in '000) | 185,688 | 305,931 | 409,663 | 133,201 |
| Highest offer price per unit (Rs) | 52.36 | 52.17 | 53.95 | 52.49 |
| Lowest offer price per unit (Rs) | 50.34 | 47.06 | 50.42 | 50.28 |
| Highest redemption price per unit (Rs) | 52.10 | 51.91 | 53.68 | 52.23 |
| Lowest redemption price per unit (Rs) | 50.09 | 46.82 | 50.17 | 50.03 |
| Total return (%) | 7.31 | 10.14 | 9.15 | 9.93 |
| Weighted Average Portfolio Duration (years) | 3.87 | 4.24 | 5.66 | 5.00 |
| Average annual return as at June 30, 2010 | One year 7.31% | Two years 8.72% | Three years 8.86% | Four years 9.13% |

Investment portfolio composition of the Fund as described in Note 6.

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

24. INVESTMENT COMMITTEE MEMBERS

24.1 Details of members of investment committee of the Fund are as follow:

| Name | Designation | Qualification | Experience |
|----------------------|--|----------------------|----------------|
| 1 Mr. Mohammad Shoab | Chief Executive Officer | CFA / MBA | Twenty years |
| 2 Mr. Muhammad Asad | Chief Investment Officer / Fund Manager | CFA level 2 / MBA | Fourteen years |
| 3 Ms. Sanam Ali Zaib | Head of Research | CFA level 2 / MBA | Six years |
| 4 Ms. Madiha Javed | Manager Research / Product & Development | CFA / MBA / FRM | Three years |
| 5 Ms. Ayesha Irfan* | Manager Investments and research | MBA | Two years |
| 6 Mr. Muhammad Ali* | AVP Investments | CFA / FRM / MBA / MS | Sixteen years |

* These members have been appointed in the Investment Committee subsequent to the year end on August 17, 2010.

24.2 The Fund manager of the Fund is Mr. Muhammad Asad. Other Funds being managed by the Fund Manager are as follows:

- Al Meezan Mutual Fund Limited
- Meezan Islamic Fund

However Mr. Muhammad Ali has been appointed as Fund manager subsequent to year end on August 17, 2010.

25. TOP BROKERS BY PERCENTAGE OF COMMISSION PAID

| Name of the broker | 2010 % |
|---------------------------------------|-----------|
| Al Falah Securities (Private) Limited | 52.26 |
| KASB Securities (Private) Limited | 27.98 |
| BMA Capital Management Limited | 8.51 |
| JS Global Capital Limited | 6.81 |
| First Capital Equities Limited | 4.44 |
| | |
| Name of the broker | 2009 % |
| JS Global Capital Limited | 58.21 |
| First Capital Equities Limited | 13.05 |
| Al Falah Securities (Private) Limited | 12.13 |
| Elixir Securities (Private) Limited | 10.27 |
| Global Securities (Private) Limited | 4.05 |
| Invest & Finance Securities Limited | 2.26 |
| Ample Securities (Private) Limited | 0.03 |

26. PATTERN OF UNIT HOLDING

As at June 30, 2010

| | Number of unit holders | Investment amount (Rupees in '000) | Percentage of total investment % |
|----------------------------------|---------------------------|--|---|
| Individuals | 4,808 | 1,071,488 | 31.57 |
| Associated companies / directors | 6 | 1,070,451 | 31.54 |
| Insurance companies | 13 | 26,313 | 0.78 |
| Banks / DFIs | 38 | 705,419 | 20.78 |
| NBFCs | 8 | - | - |
| Retirement funds | 78 | 353,218 | 10.41 |
| Public limited companies | 74 | 137,924 | 4.06 |
| Others | 22 | 29,221 | 0.86 |
| Total | 5,047 | 3,394,034 | 100.00 |

As at June 30, 2009

| | Number of unit holders | Investment amount (Rupees in '000) | Percentage of total investment % |
|----------------------------------|---------------------------|--|---|
| Individuals | 3,977 | 2,027,188 | 41.60 |
| Associated companies / directors | 7 | 1,364,053 | 27.99 |
| Insurance companies | 7 | 92,535 | 1.90 |
| Banks / DFIs | 20 | 582,295 | 11.95 |
| NBFCs | - | - | - |
| Retirement funds | 60 | 224,833 | 4.61 |
| Public limited companies | 13 | 219,921 | 4.52 |
| Others | 70 | 361,783 | 7.43 |
| Total | 4,154 | 4,872,608 | 100.00 |



27. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

| Name | Designation | --Dates of Board of Directors Meetings and Directors' present therein-- | | | | | | | | | |
|-----------------------------|-----------------|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Mr. Ariful Islam | Chairman | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Mr. Mohammad Shoaib | Chief Executive | No | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Mr. Tasnimul Haq Farooqui** | Director | Yes | Yes | Yes | Yes | No | Yes | Yes | Yes | No | - |
| Mr. Aliuddin Ansari | Director | Yes | No | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Mr. P. Ahmed* | Director | - | - | - | - | - | Yes | Yes | Yes | Yes | Yes |
| Mr. Rana Ahmed Humayun** | Director | - | - | - | - | - | - | - | - | - | Yes |
| Mr. Rizwan Ata | Director | Yes | Yes | No | No | Yes | No | No | No | No | Yes |
| Mr. Mazhar Sharif | Director | Yes | No | Yes | Yes | No | Yes | No | No | Yes | Yes |
| Syed Owais Wasti* | Director | Yes | Yes | Yes | Yes | Yes | - | - | - | - | - |

* During the year Syed Owais Wasti resigned and his place Mr. P. Ahmed was appointed as Director for the remaining term of the Board.

** During the year Mr. Tasnimul Haq Farooqui resigned and his place Mr. Rana Ahmed Humayun was appointed as Director for the remaining term of the Board.

28. NON ADJUSTING EVENT

The Board of Directors in its meeting held on July 8, 2010 has announced a final dividend of 2.5% (2009: 3.5%) amounting to Rs 81.791 million (2009: Rs 164.256 million) which includes 1,096,257 bonus units (2009: 2,122,018 units) and cash dividend of Rs 26.298 million (2009: Rs 57.816 million). The financial statements for the year ended June 30, 2010 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2010.

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | Number of units | |
| The effect of issue of bonus units is as follows: | | |
| Number of units in issue before bonus units | <u>65,432,399</u> | <u>93,860,629</u> |
| Number of units in issue after bonus units | <u>66,528,656</u> | <u>95,982,647</u> |
| | Rupees | |
| Net assets value per unit before distribution | <u>51.87</u> | <u>51.91</u> |
| Net assets value per unit after distribution | <u>50.62</u> | <u>50.16</u> |

29. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 28, 2010 by the Board of Directors of the Management Company.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director