



Pure. Profit.



Half Yearly Report December 31, 2010



MEEZAN
Islamic Fund

MIIIF
MEEZAN
Islamic Income Fund


MEEZAN
SOVEREIGN FUND


MEEZAN
CASH FUND

Al Meezan Investment Management Limited
A subsidiary of Meezan Bank



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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. Rana Ahmed Humayun	Director
Mr. P. Ahmed	Director
Mr. Rizwan Ata	Director
Mr. Mazhar Sharif	Director
Mr. Mohammad Shoaib, 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 ADVISER

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
Faysal Bank Limited
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

TRANSFER AGENT

Meezan Bank Limited
SITE Branch
Plot # B/9-C, Estate Avenue,
SITE, Karachi.
Phone: (9221) 3206 2891
Fax: (9221) 3255 2771
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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 un-audited financial statements of the fund for the half year ended December 31, 2010.

Brief Overview

During the first half of fiscal year 2011, Meezan Islamic Income Fund (MIIF) provided an annualized return of 9.16% to its investors as compared to benchmark return of 5.87%. MIIF is benchmarked against average return on deposits with three Islamic banks, namely Meezan Bank, Bank Islami and Dubai Islamic Bank.

Economic Review

The Fiscal year beginning 1st July 2010 was pinned with hopes of further economic recovery with the GDP target of 4.5%. However, the whole situation changed with the devastating floods in the first quarter of 2011 with about one-fifth of the country being flooded and 10% of the population being directly affected. As a result all the macroeconomic targets are expected to be missed. The GDP growth target has already been revised down by 1-2% mainly because of sharply lower agricultural output growth which accounts for 21% of GDP and 45% of employment.

Floods caused a sharp increase in food inflation which led CPI to touch a 16-month high of 15.7% in September, 2010. To counter spiraling inflationary expectations, SBP proactively raised discount rate by a cumulative 150bps in 1HFY11 from 12.5% to 14.0%. Floods and delay in structural reforms are likely to have an adverse impact on fiscal deficit which is now expected to cross 6.0% of GDP for fiscal year 2011 against IMF target of 4.7% of GDP. To finance increasing fiscal deficit, government borrowing from SBP has increased to approximately Rs. 272 billion while borrowing from commercial banks has increased to Rs. 178 billion during the period under review. However, tax revenue collection during 1FY11 (provisional) stood at Rs. 642 billion, up 10% year on year, short of target by about Rs. 11 billion.

While inflation and fiscal position have worsened, Pakistan's external position remained comfortable with balance of payment posting a surplus of US\$105 million in Jul-Nov10. Likewise, current account deficit also narrowed to US\$504 million in Jul-Nov10 by posting a surplus for the third consecutive month in November, on the back of upbeat remittances (up 16% YoY) and textile exports (up 23% YoY). Resultantly, this also supported dollar rupee exchange rate which moved in a narrow band of Rs. 85.2 to Rs. 86.3 vis-à-vis dollar.

During the entire period, government faced major resistance while addressing key structural issues in economy such as low tax to GDP ratio, higher subsidies, and excessive borrowings from central bank and implementation of Reformed GST. As a result, IMF delayed dates for fifth and sixth reviews to August 2011. With upward rally in crude price putting pressure on forex reserves and weak fiscal position, IMF's timely release of final payments would play a key role in fiscal stability of the economy.

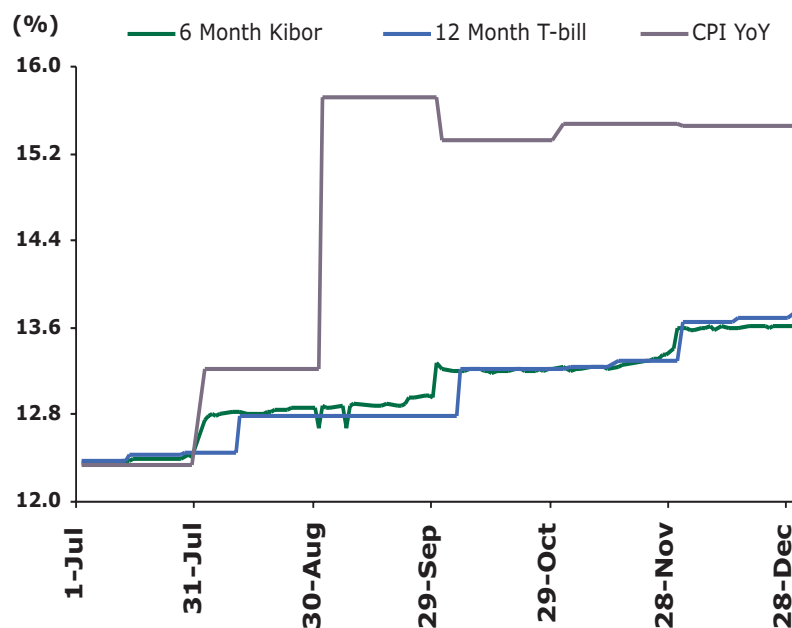
Money Market Review

During the first half of fiscal year 2011, money market remained highly volatile and to normalize the liquidity situation, State Bank of Pakistan (SBP) regularly conducted Open market operations. With the resurgence of inflation, SBP changed its monetary policy stance after 20 months and increased the policy rate by 50 bps to 13% in its bimonthly monetary policy statement at the end of July 2010.

Further hike in inflation occurred as the country was hit by one of the worst floods in its history. Thus to curb the inflationary pressures, SBP went for further monetary tightening increasing the policy rate to 14%, with consecutive 50 bps hikes in September and November. As a result, KIBOR rates also increased, with six month rate increasing by 125 bps to close the half year at 13.62%. During the half year, SBP conducted 13 T-Bill auctions mopping up Rs. 1,268 billion against a target of Rs. 1,220 billion with a maturity of Rs. 1,120 billion. The cut off rate of six month T-Bill increased by 114 bps to close the half year at 13.40%.

Apart from borrowing from SBP, government also tapped other avenues to meet government expenditure. During the period, SBP conducted two auctions of Ijarah Sukuks worth Rs. 89 billion at coupon rate of six month T-Bill.

The following graph shows the trend in interest rate during the period:



Performance Review

The Fund earned a total income of Rs. 158 million in the first half of fiscal year 2011 as compared to Rs. 256 million in the corresponding period last year. For the period under consideration, profit on sukuk certificates and deposit with saving accounts placed with various Islamic Banks was Rs. 153 million and Rs. 61 million respectively. After accounting for unrealized loss on investments in sukuk certificates of Rs. 40 million and a provisioning of Rs. 32 million on sukuks of Arzoo Textile Mills Limited and other expenses of the Fund, the net income as at the period end of the Fund was Rs. 135 million.

The net assets of the Fund were at Rs. 3,023 million as at December 31, 2010. The net asset value (NAV) of the Fund at the period end was Rs. 50.39 per unit, providing a total annualized return of 9.16%. During the period, fresh units worth Rs. 792 million were issued while units amounting to Rs. 1,223 million were redeemed, resulting in net outflow of Rs. 431 million.

After the completion of restructuring process of Security Leasing and Maple Leaf sukuks, both companies are making timely payments as per the new agreed schedule. Moreover, the restructuring of Eden Housing Limited sukuk has also been completed and the first installment subsequently has been received in time.



Outlook

Going forward, the key challenge for the government under the current political environment would be to introduce the reforms demanded by IMF. It is expected that inflation will remain on the higher side because of supply side shortage and hence State Bank may likely go for further monetary tightening in this fiscal year which will positively impact the return on portfolio of MIIF.

Our outlook for the remaining half is cautiously optimistic. The management of Al Meezan is fully aware of the challenges that lie ahead and is taking all possible measures to face them.

Acknowledgement

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

For and on behalf of the Board

**Date: January 24, 2011
Karachi.**

**Mohammad Shoaib, CFA
Chief Executive**

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED****Head Office**

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S.M.C.H.S. Main Shakra-e-Faisal
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TRUSTEE REPORT TO THE UNIT HOLDERS**MEEZAN ISLAMIC INCOME FUND****Report of the Trustee pursuant to Regulation 41(h) 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 period from July 01, 2010 to December 31, 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, February 07, 2011





A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

A.F.Ferguson & Co
Chartered Accountants
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AUDITORS' REPORT TO THE UNITHOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of Meezan Islamic Income Fund (the Fund) as at December 31, 2010 and the related condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds, condensed interim cash flow statement and the notes forming part thereof for the six month period then ended (here-in-after referred to as the 'condensed interim financial information'). The management company is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim financial information for the quarters ended December 31, 2010 and 2009 have not been reviewed as we are required to review only the cumulative figures for the six months period ended December 31, 2010.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter paragraph

We draw attention to note 6.2 to the accompanying condensed interim financial information which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh. Our conclusion is not qualified in respect of this matter.

A.F. Ferguson & Co.
Chartered Accountants
Karachi, February 10, 2011

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CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2010 (UNAUDITED - NOTE 3)

	Note	December 31, 2010	June 30, 2010
		(Rupees in '000)	
Assets			
Balances with banks		733,782	1,132,702
Investments	5	2,221,007	2,204,674
Deposits, prepayments and other receivables		113,462	92,576
Preliminary expenses and floatation costs		248	500
Total assets		3,068,499	3,430,452
Liabilities			
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund		4,925	5,561
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund		346	359
Payable to Securities and Exchange Commission of Pakistan (SECP)		1,216	3,439
Payable to Meezan Bank Limited (MBL)		76	46
Payable on redemption of units		10,226	9,709
Dividend payable		27,089	-
Accrued expenses and other liabilities		2,044	17,304
Total liabilities		45,922	36,418
Net assets		3,022,577	3,394,034
Contingencies	6		
Unit holders' funds (as per statement attached)		3,022,577	3,394,034
		Number of units	
Number of units in issue		59,983,298	65,432,399
		Rupees	
Net asset value per unit		50.39	51.87

The annexed notes 1 to 8 form an integral part of this condensed interim financial report.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director

CONDENSED INTERIM INCOME STATEMENT FOR THE SIX MONTHS AND QUARTER ENDED DECEMBER 31, 2010 (UNAUDITED - NOTE 3)

Note	Six months period ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	(Rupees in '000)			
Income				
Profit on savings accounts with banks	61,340	98,333	29,729	34,169
Profit on placements	-	43,259	-	25,527
Profit on sukuk certificates	152,567	140,546	79,650	71,436
Profit on diminishing musharaka certificates	-	13,789	-	6,807
Realised gain on sale of sukuk certificates	8,418	4,357	2,744	3,681
	<u>222,325</u>	<u>300,284</u>	<u>112,123</u>	<u>141,620</u>
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)	(40,030)	(38,086)	(47,845)	(46,716)
Provision for accrued profit on investments	-	(6,110)	-	(6,110)
Reversal of provision against sukuk certificate	7,593	-	7,593	-
Provision against sukuk certificate	(32,200)	-	(24,500)	-
	<u>(64,637)</u>	<u>(44,196)</u>	<u>(64,752)</u>	<u>(52,826)</u>
Total income	<u>157,688</u>	<u>256,088</u>	<u>47,371</u>	<u>88,794</u>
Expenses				
Remuneration to Al Meezan - management company of the Fund	24,328	40,589	11,843	19,770
Remuneration to CDC - trustee of the Fund	2,126	3,210	1,042	1,570
Annual fee to SECP	1,217	2,029	593	988
Auditors' remuneration	341	327	191	209
Fees and subscription	126	111	68	103
Legal and professional charges	-	3,000	-	-
Amortisation of preliminary expenses and floatation costs	252	252	126	126
Brokerage	47	115	17	115
Bank and settlement charges	36	52	19	35
Printing expense	456	293	370	293
Reversal of provision for Workers' Welfare Fund (WWF)	(15,649)	-	-	-
Total expenses	<u>13,280</u>	<u>49,978</u>	<u>14,269</u>	<u>23,209</u>
Net income from operating activities	<u>144,408</u>	<u>206,110</u>	<u>33,102</u>	<u>65,585</u>
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)	(9,232)	(20,457)	(4,479)	(32,036)
Net income for the period	<u>135,176</u>	<u>185,653</u>	<u>28,623</u>	<u>33,549</u>
Other comprehensive income for the period				
Unrealised gain on available for sale investments	-	7,182	-	3,717
Element of income and capital gains included in prices of units sold less those in units redeemed pertaining to available for sale investment	-	11	-	1,479
Total comprehensive income for the period	<u>135,176</u>	<u>192,846</u>	<u>28,623</u>	<u>38,745</u>

The annexed notes 1 to 8 form an integral part of this condensed interim financial report.

For Al Meezan Investment Management Limited (Management Company)

Mohammad Shoab, CFA
Chief Executive

Mazhar Sharif
Director

CONDENSED INTERIM DISTRIBUTION STATEMENT FOR THE SIX MONTHS AND QUARTER ENDED DECEMBER 31, 2010 (UNAUDITED - NOTE 3)

	Six months period ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	(Rupees in '000)			
Undistributed income brought forward	122,521	189,474	54,372	175,854
Less: Final distribution for the year ended June 30, 2010				
- bonus units @ 2.5% (June 30, 2009: 3.5%)	(55,493)	(106,440)	-	-
- cash dividend @ 2.5%(June 30, 2009: 3.5%)	(26,298)	(57,816)	-	-
Less: Interim distribution for the quarter ended September 30, 2010				
- bonus units @ 3% (September 30, 2009: 2.5%)	(61,353)	(99,966)	-	(99,966)
- cash dividend @ 3% (September 30, 2009: 2.5%)	(31,558)	(41,300)	-	(41,300)
Less: Interim distribution for the quarter ended December 31, 2010				
- bonus units @ 2%	(32,387)	-	(32,387)	-
- cash dividend @ 2%	(27,089)	-	(27,089)	-
Net income for the period	135,176	185,653	28,623	33,549
Element of income and capital gains included in prices of units sold less those in units redeemed (net)	-	11	-	1,479
Undistributed income carried forward	23,519	69,616	23,519	69,616

The annexed notes 1 to 8 form an integral part of this condensed interim financial report.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director



CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNITHOLDERS' FUNDS FOR THE SIX MONTHS AND QUARTER ENDED DECEMBER 31, 2010 (UNAUDITED - NOTE 3)

	Six months period ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	(Rupees in '000)			
Net assets at the beginning of the period	3,394,034	4,872,608	3,211,601	5,820,059
Issue of 15,332,133 units (2009: 56,312,545 units) and 11,668,547 units (2009: 16,632,879 units) for the six months and quarter respectively	791,847	2,860,083	602,110	842,052
Redemption of 23,727,284 units (2009: 73,243,736 units) and 15,475,232 units (2009: 50,594,164 units) for the six months and quarter respectively	(1,222,767)	(3,727,925)	(797,147)	(2,571,171)
	(430,920)	(867,842)	(195,037)	(1,729,119)
Element of loss and capital losses included in prices of units sold less those in units redeemed				
- transferred to income statement	9,232	20,457	4,479	32,036
- transferred directly to distribution statement	-	(11)	-	(1,479)
	9,232	20,446	4,479	30,557
Total comprehensive income for the period less distribution	(99,002)	(112,676)	(30,853)	(102,521)
Issue of 1,096,257 bonus units (2009: 2,122,018 bonus units) for the year ended June 30, 2010	55,493	106,440	-	-
Issue of 1,206,545 bonus units (2009: 1,989,361 bonus units) for the quarter ended September 30, 2010	61,353	99,966	-	99,966
Issue of 643,248 bonus units for the quarter ended December 31, 2010	32,387	-	32,387	-
Net assets at the end of the period	<u>3,022,577</u>	<u>4,118,942</u>	<u>3,022,577</u>	<u>4,118,942</u>
Net assets value per unit at the beginning of the period - Rupees	<u>51.87</u>	<u>51.97</u>	<u>50.86</u>	<u>51.50</u>
Net assets value per unit at the end of the period - Rupees	<u>50.39</u>	<u>50.83</u>	<u>50.39</u>	<u>50.83</u>

The annexed notes 1 to 8 form an integral part of this condensed interim financial report.

For Al Meezan Investment Management Limited (Management Company)

Mohammad Shoab, CFA
Chief Executive

Mazhar Sharif
Director

CONDENSED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS AND QUARTER ENDED DECEMBER 31, 2010 (UNAUDITED - NOTE 3)

	Six months period ended December 31,		Quarter ended December 31,	
	2010	2009	2010	2009
	(Rupees in '000)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	135,176	185,653	28,623	33,549
Adjustments for non-cash items				
Profit on savings accounts with banks	(61,340)	(98,333)	(29,729)	(34,169)
Profit on placements	-	(43,259)	-	(25,526)
Profit on sukuk certificates	(152,567)	(140,546)	(79,650)	(71,436)
Profit on diminishing musharaka certificates	-	(13,789)	-	(6,807)
Reversal of provision for WWF	(15,649)	-	-	-
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)	40,030	38,086	47,845	46,716
Provision for accrued profit on sukuk certificate	-	6,110	-	6,110
Amortisation of preliminary expenses and floatation costs	252	252	126	126
Provision against sukuk certificate	32,200	-	24,500	-
Reversal of provision against sukuk certificate	(7,593)	-	(7,593)	-
Element of loss and capital losses included in prices of units sold less those in units redeemed	9,232	20,457	4,479	32,036
	(155,435)	(231,022)	(40,022)	(52,950)
Decrease / (increase) in assets				
Placements	-	-	-	(100,000)
Investments	(80,970)	(850,939)	(399,889)	118,600
Deposits and prepayments	(15)	(15)	7	7
	(80,985)	(850,954)	(399,882)	18,607
Increase / (decrease) in liabilities				
Payable to Al Meezan - management company of the Fund	(636)	994	(418)	(2,188)
Payable to CDC - trustee of the Fund	(13)	(27)	(4)	(96)
Payable to SECP	(2,223)	(2,230)	592	(3,271)
Payable to MBL	30	(560)	76	(22)
Payable on redemption of units	517	(15,602)	517	(1,269)
Accrued expenses and other liabilities	389	1,695	(1,106)	(6,653)
	(1,936)	(15,730)	(343)	(13,499)
Profit received on savings accounts with banks	51,760	96,283	19,854	40,845
Profit received on placements	-	60,934	-	21,640
Profit received on diminishing musharaka	-	13,963	-	13,963
Profit received on sukuk certificates	141,276	122,631	37,736	62,717
Net cash inflow / (outflow) from operating activities	89,856	(618,242)	(354,034)	124,872
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts from issuance of units	791,847	2,860,083	602,110	842,052
Payments against redemption of units	(1,222,767)	(3,727,925)	(791,964)	(2,571,171)
Dividend paid	(57,856)	(99,116)	(31,558)	(41,300)
Net cash outflow from financing activities	(488,776)	(966,958)	(221,412)	(1,770,419)
Net cash outflow during the period	(398,920)	(1,585,200)	(575,446)	(1,645,547)
Cash and cash equivalents at the beginning of the period	1,132,702	2,536,980	1,309,228	2,597,327
Cash and cash equivalents at the end of the period	733,782	951,780	733,782	951,780

The annexed notes 1 to 8 form an integral part of this condensed interim financial report.

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

Mohammad Shoab, CFA
Chief Executive

Mazhar Sharif
Director

MIF
MEEZAN
Islamic Income Fund



NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS AND QUARTER ENDED DECEMBER 31, 2010 (UNAUDITED - NOTE 3)

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). 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. The Fund has been given a stability rating of A(f) by JCR - VIS.
- 1.4 Title to the assets of the Fund are on the name of CDC as the 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 approved accounting standards as applicable in Pakistan.

3. STATEMENT OF COMPLIANCE

- 3.1 This condensed interim financial report has been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Approved accounting standards comprise of IAS 34: 'Interim Financial Reporting' (IAS 34), the Trust Deed, NBFC Rules, NBFC Regulations and the directives issued by SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations or the said directives differ with the requirements of IAS 34, the requirements of the Trust Deed, NBFC Rules, NBFC Regulations or the said directives take precedence.
- 3.2 This condensed interim financial report comprises of the condensed interim statement of assets and liabilities as at December 31, 2010 condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes thereto for the six months period ended December 31, 2010, which have been subject to a review but not audited. This condensed interim financial report also includes condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement for the quarter ended December 31, 2010 which is not subject to review.

3.3 The comparative condensed interim statement of assets and liabilities presented in these condensed interim financial report as at June 30, 2010 has been extracted from the annual audited financial statements of the Fund for the year ended June 30, 2010 whereas the comparative condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement have been extracted from the condensed interim financial report for the six months period ended December 31, 2009 which were subjected to a review but not audited. The comparative condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement for the quarter ended December 31, 2009 included in this condensed interim financial report were not subjected to a review.

3.4 Standards, amendments to published approved accounting standards and interpretations effective from July 1, 2010:

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the period and are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or have any significant effect on the Fund's operations and are therefore not disclosed in this condensed interim financial report.

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

The following standard and amendment to existing standard has been published and are mandatory for accounting periods beginning on or after July 1, 2011 or later periods:

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011. The Fund is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on Fund's operations and are therefore not detailed in this condensed interim financial report.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial report are the same as those applied in the preparation of the financial statements for the year ended June 30, 2010.



5. INVESTMENTS

	Note	December 31, 2010 (Rupees in '000)	June 30, 2010
Investments at fair value through profit or loss	5.1	2,144,552	2,128,219
Investments - available for sale	5.2	76,455	76,455
		<u>2,221,007</u>	<u>2,204,674</u>
5.1 Investments at fair value through profit or loss			
- Held for trading	5.1.1	950,014	722,527
- Investments at fair value through profit or loss upon initial recognition	5.1.2	1,194,538	1,405,692
		<u>2,144,552</u>	<u>2,128,219</u>

5.1.1 Held for trading

5.1.1.1 Sukuk certificates

Name of the investee company / issuer	Maturity date	Profit rate	As at July 1, 2010	Purchases during the period	Sales / redemptions during the period	As at December 31, 2010	Carrying value as at December 31, 2010	Market value as at December 31, 2010	Unrealised gain/(loss) as at December 31, 2010	Percentage in relation to		
										Number of Certificates	(Rupees in '000)	Net assets of the Fund on the basis of market value (see note 5.3 below)
Century Paper & Board Mills Limited (note 5.1.1.3)	September 25, 2014	6 months Kibor plus base rate of 1.35%	4,320	9,000	1,480	11,840	55,990	57,764	1,774	1.91	8.38	2.60
GoP Ijarah Sukuk Certificates - III (note 5.1.1.2)	March 11, 2012	12.69%	2,000	-	-	2,000	203,880	203,880	-	6.75	N/A	9.18
GoP Ijarah Sukuk Certificates - IV (note 5.1.1.2)	September 17, 2012	12.64%	4,870	-	3,500	1,370	140,082	138,370	(1,712)	4.58	N/A	6.23
GoP Ijarah Sukuk Certificates - V (note 5.1.1.2)	November 15, 2013	13.11%	-	5,500	-	5,500	550,000	550,000	-	18.20	N/A	24.76
Total							<u>949,952</u>	<u>950,014</u>	<u>62</u>			
Total cost of investments								<u>942,968</u>				

5.1.1.2 The nominal value of the sukuk certificates of GoP Ijarah III, IV & V is Rs 100,000 each.

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

5.1.2 Investments at fair value through profit or loss upon initial recognition

5.1.2.1 Sukuk certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2010	Purchases during the period	Sales / redemptions during the period	As at December 31, 2010	Carrying value as at December 31, 2010	Provision / (reversal of provision) for the period	Market value as at December 31, 2010 - net of provision (if any) value	Unrealised gain/(loss) as at December 31, 2010	Percentage in relation to			
											Number of Certificates	(Rupees in '000)	Net assets of the Fund on the basis of market value (see note 5.3 below)	Paid-up capital of investee company (with face value of investment)
Arzoo Textile Mills Limited (note 5.1.1.3 and 5.1.2.4)	April 15, 2014	6 months Kibor plus base rate of 2%	14,000	-	-	14,000	32,200	32,200	-	-	-	-	-	-
Century Paper & Board Mills Limited (note 5.1.1.3)	September 25, 2014	6 months Kibor plus base rate of 1.35%	17,046	-	1,894	15,152	72,565	-	73,923	1,358	2.45	10.72	3.33	
Eden Builders Limited (note 5.1.1.3)	March 8, 2014	3 months Kibor plus base rate of 2.3%	9,000	-	1,200	7,800	37,298	-	38,160	862	1.26	3.39	1.72	
Eden Housing Limited (note 5.1.2.2 and 5.1.2.5)	September 29, 2014	3 months Kibor plus base rate of 2.5%	59,400	-	-	59,400	162,886	-	149,625	(13,261)	4.95	12.41	6.74	
Engro Fertilizers Limited (note 5.1.1.3)	September 1, 2015	6 months Kibor plus base rate of 1.5%	60,500	-	15,000	45,500	222,950	-	227,500	4,550	7.53	6.94	10.24	
Karachi Shipyard & Engineering Works (note 5.1.1.3)	November 2, 2015	6 months Kibor plus base rate of 0.4%	12,000	-	-	12,000	58,160	-	58,595	435	1.94	N/A	2.64	
Karachi Shipyard & Engineering Works II (note 5.1.1.3)	February 4, 2016	---- do ----	53,400	-	-	53,400	258,335	-	253,650	(4,685)	8.39	N/A	11.42	
Maple Leaf Cement Factory Limited (note 5.1.1.3 and 5.1.2.6)	December 3, 2018	3 months Kibor plus base rate of 1%	63,973	-	27	63,946	223,810	(7,593)	200,516	(30,887)	6.63	6.08	9.03	
Maple Leaf Cement Factory Limited II (note 5.1.1.3 and 5.1.2.7)	March 30, 2014	3 months Kibor plus base rate of 1%	-	2,400	-	2,400	8,400	-	8,448	48	0.28	0.23	0.38	
Security Leasing Corporation Limited II (note 5.1.1.3)	March 19, 2014	3% on cash basis and 3% on accrual basis	7,031	-	937	6,094	22,852	-	22,852	-	0.76	8.39	1.03	
Shahmurad Sugar Mills Limited (note 5.1.2.3)	September 30, 2012	6 months Kibor plus base rate of 2.25%	61	-	12	49	46,378	-	47,541	1,163	1.57	23.20	2.14	
Sitara Chemical Industries Limited II (note 5.1.1.3)	December 17, 2011	3 months Kibor plus base rate of 1.7%	4,140	-	1,380	2,760	13,749	-	13,766	17	0.46	6.44	0.62	
Sitara Chemical Industries Limited III (note 5.1.1.3)	December 31, 2012	3 months Kibor plus base rate of 1%	24,750	-	4,500	20,250	99,654	-	99,962	308	3.31	47.25	4.50	
Total							1,259,237	24,607	1,194,538	(40,092)				
Total cost of investments									1,420,353					

5.1.2.2 The nominal value of the sukuk certificates of Eden Housing Limited is Rs 3,656 each.

5.1.2.3 The nominal value of the sukuk certificates of Shahmurad Sugar Mills Limited is Rs 1,000,000 each.

5.1.2.4 The total cost of investment in Arzoo Textile Mills Limited is Rs 52.500 million against which a provision of Rs 20.300 million was made upto June 30, 2010. Further provision of Rs 32.200 million was made during the six months period ended December 31, 2010 in accordance with Circular No.I and the Fund's provisioning policy.

- 5.1.2.5 As at June 30, 2010, principal repayment aggregating Rs 12.994 million i.e. 35% of the principal due on March 3, 2010 was received by the Fund on July 16, 2010 and accordingly the sukuk certificates were classified as performing as per Circular No. 1 and Circular No. 3 dated January 20, 2010 (Circular No. 3) issued by the SECP. On October 15, 2010 a master addendum (effective from September 29, 2010) was signed between Eden Housing Limited and the investment agent of the sukuk certificates whereby certain terms included in the original Investment Agency Agreement dated December 14, 2007 were amended, including the repayment period which was extended from April 2, 2013 to September 29, 2014.
- 5.1.2.6 Subsequent to June 30, 2010 the sukuk certificates of Maple Leaf Cement Factory Limited (MLCFL) have been regularised, i.e. the repayment of two installments as per restructured terms have been received by the Fund, accordingly, the provision against these sukuk certificates amounting to Rs 7.593 million has been reversed in the current period and these sukuk certificates are no longer being classified as non-performing in view of the Circular No. 1 and Circular No. 3 issued by the SECP.
- 5.1.2.7 At time of signing of the first addendum on March 30, 2010 between MLCFL and the investment agent of the sukuk certificates, the Fund received an amount of Rs 12.772 million representing approximately 50% of the mark up due upto March 3, 2010 and the repayment of the balance mark up was settled by issuance of additional sukuk certificates. These additional units of sukuk certificates have been transferred to the Fund's security account maintained with the CDC and accordingly have been recorded in the books of the Fund during the period.

5.2 Investments - available for sale

Name of the issuer	Maturity date	Profit rate	As at July 1, 2010	Purchases during the period	Sales / redemptions during the period	As at December 31, 2010	Carrying value (cost) as at December 31, 2010	Market value as at December 31, 2010	Unrealised loss as at December 31, 2010	Percentage in relation to			
										Number of Certificates	(Rupees in '000)	Net assets of the Fund on the basis of market value (see note 5.3 below)	Paid-up capital of investee company (with face value of investment)
GoP Ijarah Sukuk Certificates - III (note 5.1.1.2)	March 11, 2012	12.69%	750	-	-	750	76,563	76,455	(108)	2.53	N/A	3.44	
Total								<u>76,563</u>	<u>76,455</u>	<u>(108)</u>			
Total cost of investments								<u>76,563</u>					

5.3 Net assets are as defined in regulation 66 of NBFC Regulations.

5.4 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 December 31, 2010	Value of investment after provision	Percentage of net assets	Percentage of total assets
Arzoo Textile Mills Limited Sukuk	Non-traded sukuk certificates	52,500	52,500	-	-	-
Eden Housing Limited	Non-traded sukuk certificates	162,886	-	162,886	5.39	5.31
Maple Leaf Cement Factory Limited	Non-traded sukuk certificates	223,810	-	223,810	7.40	7.29
Maple Leaf Cement Factory Limited II	Non-traded sukuk certificates	8,400	-	8,400	0.28	0.27
Security Leasing Corporation Limited II	Non-traded sukuk certificates	22,852	-	22,852	0.76	0.74
		<u>470,448</u>	<u>52,500</u>	<u>417,948</u>		

5.5 As at December 31, 2010 the Funds investment in non-traded sukuk certificates represent 33.04% of the net assets of the Fund.

6. CONTINGENCIES

- 6.1 As explained in note 18 to the financial statements of the Fund for the year ended June 30, 2010, WAPDA First Sukuk Company Limited (WFSCCL) had claimed a profit installment of Rs. 13.6 million, received by MIIF on WAPDA sukuk certificates. The decisions in respect of the suit filed by Al Meezan, the management company of the Fund, and CDC, as trustee of the Fund, against WFSCCL on 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 and the interpleader suit filed on December 2009 by defendants (i.e. WAPDA and WFSCCL) 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) are still pending.

The Fund based on the advice of its legal consultant is confident that the Fund will not be liable to return the amount of profit received by it, as the Fund is a legitimate and bonafide owner of those sukuk from the date it acquired them till such time 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.

- 6.2 The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Notices of demand have also been issued to several other mutual funds and the matter has been taken up by the respective mutual funds with the FBR for their withdrawal on the basis of the above referred clarification of the Ministry. No such notice was received by the Fund.

On December 14, 2010, the Ministry has filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in the Court.

However, the Management Company believes that the aforementioned constitutional petition pending in the Court has strong grounds for decision in favour of the mutual funds. Accordingly, the management has reversed the liability recognised as at June 30, 2010 amounting to Rs 15.649 million, during the current period. The aggregate unrecognised amount of WWF as at December 31, 2010 amounted to Rs 18.040 million.

There were no other contingencies and commitments outstanding as at December 31 and June 30, 2010.

7. 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, Pakistan Kuwait Investment Company (Private) Limited, directors and officers of the management company and Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Capital Protected Fund - I, Meezan Cash Fund and Meezan Sovereign Fund being the Funds under the common management of the management company.



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

Remuneration payable to the management company and the trustee is determined in accordance with the provisions of NBFC Regulations and the trust deed respectively.

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

	December 31, 2010	June 30, 2010
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration payable	<u>3,918</u>	<u>4,148</u>
Sales load payable	<u>506</u>	<u>412</u>
Preliminary expenses and floatation costs payable	<u>500</u>	<u>1,000</u>
Certification charges payable	<u>1</u>	<u>1</u>
Investments as at December 31, 2010: 3,661,119 units (June 30, 2010: 4,739,846 units)	<u>184,484</u>	<u>245,856</u>
MBL		
Sales load payable	<u>76</u>	<u>46</u>
Balances with bank	<u>35,322</u>	<u>13,248</u>
Profit receivable on savings account	<u>143</u>	<u>176</u>
Investments as at December 31, 2010: 17,642,001 units (June 30, 2010: 17,642,001 units)	<u>888,980</u>	<u>915,091</u>
CDC - trustee of the Fund		
Trustee fee payable	<u>346</u>	<u>359</u>
Deposits	<u>2,600</u>	<u>2,600</u>
Directors and officers of the management company		
Investments as at December 31, 2010: 619,817 units (June 30, 2010: 611,003 units)	<u>31,233</u>	<u>31,693</u>



	Six months period ended December 31	
	2010	2009
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration for the period	24,328	40,589
Units issued: 777,303 units (December 31, 2009: 726,225 units)	40,000	37,000
Redemptions: 2,173,341 units (December 31, 2009: 18,756 units)	112,000	950
Bonus units issued: 317,311 units (December 31, 2009: 121,828 units)	411	6,146
MBL		
Profit on savings accounts	222	722
Cash dividend paid	66,157	5,582
CDC - trustee of the Fund		
Remuneration for the period	2,126	3,210
CDS Charges for the period	3	18
Directors and officers of the management company		
Units issued: nil units (2009: 157,730 units)	-	7,979
Redemptions: 36,530 units (2009: 756,574 units)	1,873	38,561
Bonus units issued: 45,344 units (2009: 57,580 units)	2,296	2,890

8. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial report was authorised for issue on January 24, 2011 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



Pure. Profit.

Registered Office

Al Meezan Investment Management Limited

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