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**Our Vision**

"To set standards of best practices and performance for the industry through efficient selection of Government Securities on a SHARIAH COMPLIANT basis."

Our Mission

" To be the leading mutual fund in the industry, providing unitholders, stable and halal income stream generated primarily through investing in SHARIAH COMPLIANT Government Securities."

FUND INFORMATION

MANAGEMENT COMPANY

Al Meezan Investment Management Limited
Ground Floor, Block "B", Finance & Trade Centre
Shahrah-e-Faisal, Karachi 74400, Pakistan.
Phone: (9221) 35630722-6, 111-MEEZAN
Fax: (9221) 35676143, 35630808
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 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.

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

Askari Bank Limited - Islamic Banking
Bank Alfalah Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking
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
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: 32062891
Fax: 32552771
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 Sovereign Fund (MSF) is pleased to present the first audited annual financial statements of the fund for the year ended June 30, 2010.

Fund's Performance Review

This is the first annual report since the launch of fund on February 10, 2010. The fund size as on June is Rs. 971 million. The funds annualized return since inception is 9.70%. During the same period benchmark return has been 7.35%.

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.

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 MSF.

Fund Rating

We are pleased to inform our investors that JCR-VIS, the leading rating agency in Pakistan, has assigned an AA+ (f) stability rating to MSF, signaling high degree of stability in Net Asset Value. Risk is modest but may vary slightly from time to time because of changing economies conditions.

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 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 Islamabad Stock Exchange (ISE) 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. Rizwan Ata	Director	30,000	1,020

- Pattern of holding of units is given on page no. 07 of the financial statements.
- Financial highlights since inception are given in note no. 20 of the financial statements.

Board Meetings

Please refer to note no. 23 provided in the financial statements.



Appointment of Auditors

M/s A.F. Ferguson & Co. Chartered Accountants retire and being eligible offers themselves as the auditors of the Fund for fiscal year 2011. The Board of Directors of the management company has approved their re-appointment.

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 Islamabad 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 HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2010

Units held by	Units Held	%
Associated companies		
- Al Meezan Investment Management Limited	1,000,000	5.34
Directors		
- Mr. Rizwan Ata	28,980	0.15
Executives	124	0.00
Public Limited Companies	5,912,937	31.56
Bank and Financial Institutes	805,535	4.30
Individuals	8,722,069	46.55
Retirement Funds	234,851	1.25
Other corporate sector entities	2,031,886	10.84
Total	18,736,382	100



REPORT OF THE FUND MANAGER

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

The Fund's primary objective is to provide investors with a low risk stable rate of current income by primarily investing in Shariah Compliant Sovereign Securities. 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 Sovereign Securities.

Investment Policy, Strategy and Asset Allocation

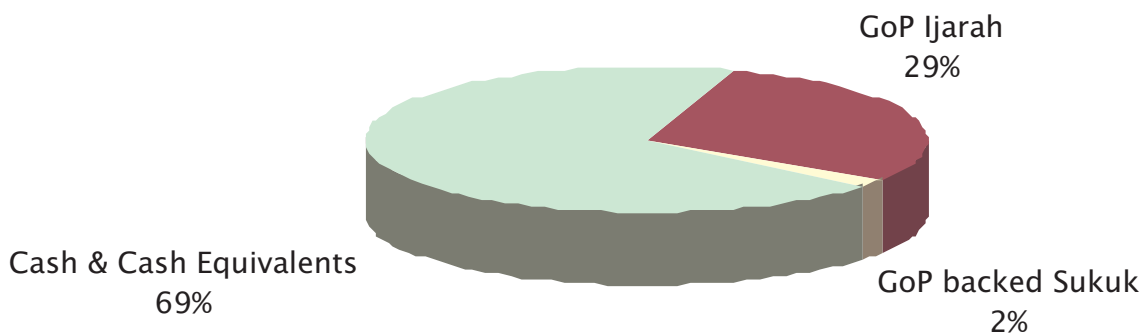
Meezan Sovereign Fund, an open end income fund, was launched in February 2010 with the investment policy stating that at least 70% of the net assets of the fund shall be invested in Shariah compliant fixed government securities. The remaining allocation will be in top rated banks and financial institutions.

During the five months of operations, the fund manager started the process of investing funds in government securities from the secondary market. Since there is thin trade in the secondary market of these instruments and because of no fresh issue of Ijarah sukuk, it is taking time to increase the investment in government backed sukuk. However, the focus was on proactive and continuous re-allocation between high yield government instruments so as to optimize fund yield while maintaining a balance within the risk management constraints. 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 MSF invests are Sovereign Sukuks (Islamic Bonds), Musharaka and Murabaha instruments; Shariah compliant spread transactions in Government securities, Certificate of Islamic Investments, Islamic bank deposits and other Sovereign Islamic income products.

The asset allocation of the fund on June 30, 2010 is as follows:

MSF Asset Allocation



Performance Review

Meezan Sovereign Fund (MSF) commenced its investment activity on February 10, 2010 with an initial size of Rs. 255 million. The fund size at on June 30, 2010 stood at Rs. 971 million. During this period, unit price of the fund has increased from Rs. 50 to Rs. 51.82 as on June 30, 2010, thus showing an annualized return of 9.70%. The benchmark return was 7.35%, thus outperforming the benchmark by 2.34%.

During period under review, the gross income earned by the fund was Rs. 24 million of which Rs. 20 million was contributed by profit on saving accounts and Rs. 4 million by profit on Sukuks. After accounting for expenses of Rs. 3.3 million and Element of income and capital gains included in prices of units sold less those in units redeemed of Rs. 13 million, fund earned a net income of Rs. 34 million.

	MSF	Six Month Deposits at Islamic Banks
Value as on February 09, 2010	Rs. 50.00	
Value as on June 30, 2010	Rs. 51.82	
Return During the Period - Net	9.70%	7.35%
Return During the Period - Gross	10.08%	
Outperformance - Net	2.35%	
OutPerformance - Gross	2.73%	

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.

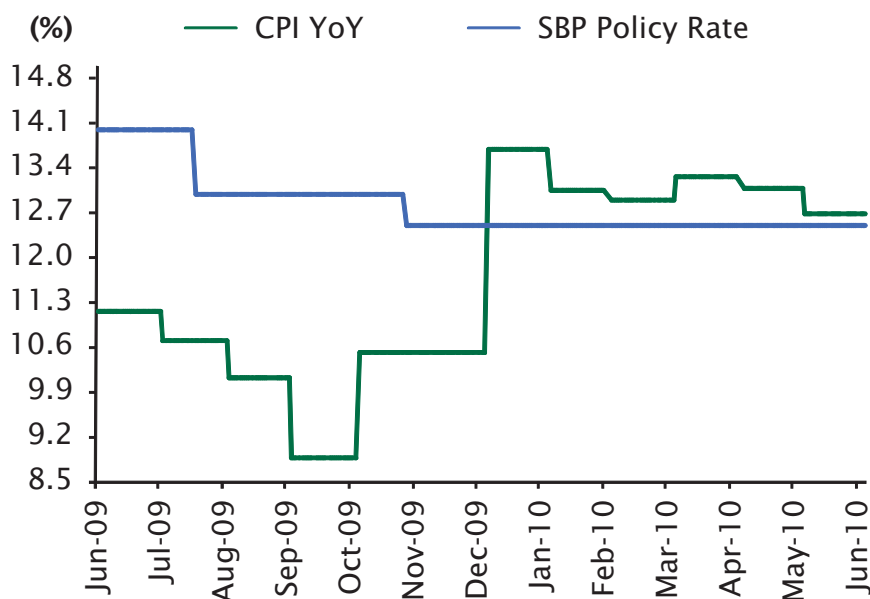


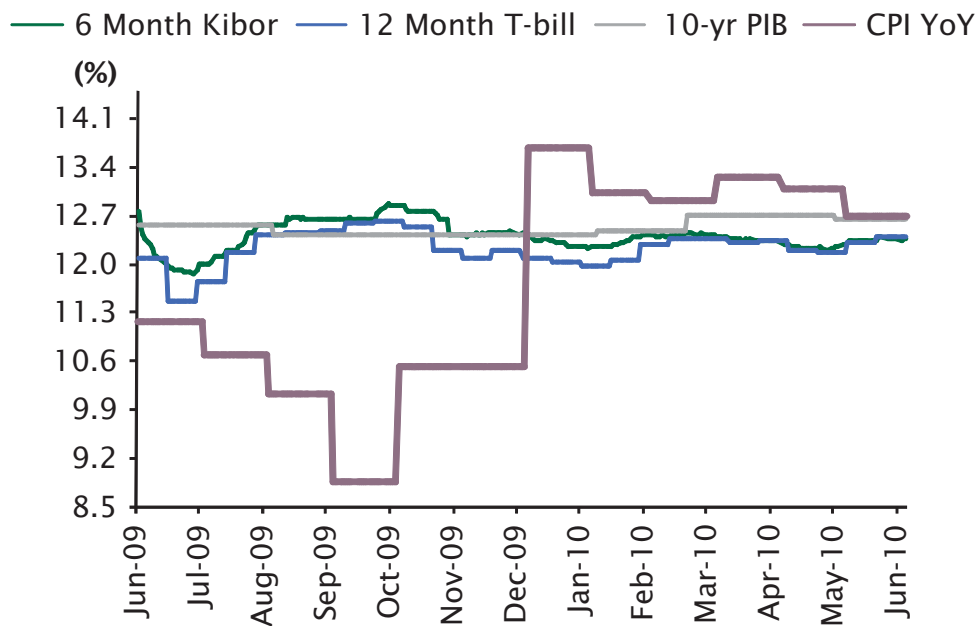
On domestic front, the tax collection for the year was approximately Rs. 1,328 billion. Although this is less than the targeted amount of Rs. 1,380 billion, it represents an impressive 15.7% growth from the previous year's figures. However, government's fiscal deficit and its financing via borrowing 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:





Distributions:

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

Unit holder's breakdown:

Range of Units	Number of Unit holders
Upto 10,000	356
Between 10,001 to 50,000	111
Between 50,001 to 100,000	19
Between 100,001 to 500,000	18
From 500,001 and above	6
Total	510

Future 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 MSF.



Meezan Bank
The Premier Islamic Bank

Report of the Shar'iah Advisor – Meezan Sovereign Fund

Karachi
August 11, 2010

Alhamdulillah, on February 10, 2010, Al-Meezan Investment Management Limited (Al Meezan) launched a new fund by the name of Meezan Sovereign Fund (MSF). We Meezan Bank Limited are the *Shar'iah Advisor* of the Fund and are issuing the report in accordance with clause 8.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shar'iah Compliance of the Fund's activity.

In the capacity of *Shar'iah Advisor*, we have prescribed criteria and procedure to be followed in ensuring Shariah Compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure 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 MSF in light of the Shar'iah guidelines.
- ii. All the provisions of the scheme and investments made on account of MSF 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 MSF 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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Facsimile: (021) 32415007 / 32427938

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

We have performed our independent assurance engagement of Meezan Sovereign 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-compliances with the Shariah guidelines. In making those risk assessments, we have considered internal controls relevant to the entity's compliance with the guidelines in order to design our procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the guidelines. Our engagement was not for the purpose of expressing an opinion on the effectiveness of entity's internal control.

Conclusion

In our opinion, the Fund was, in all material respect, in compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund for the 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 Shakra-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 SOVEREIGN 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 Sovereign Fund (the Fund), an open-end scheme was established under a trust deed dated May 14, 2009, 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 January 09, 2010 to 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.

For the purpose of information the attention of the unit holders is drawn towards clause 3.2 of the Offering Document of the Fund which requires that at least 70% of its net assets should be invested in Government Debt Securities. As at June 30, 2010 the Fund invested up to 32% of its net assets in these securities.

Due to the aforesaid non-compliance, subsequent to the year end i.e. June 30, 2010, the Management Company on the direction of Securities & Exchange Commission of Pakistan (SECP) suspended issuance of units of the Fund. However, on compliance with the above mentioned clause by making investments of over 70% of the net assets in Government Debt Securities, the Management Company with the approval of SECP resumed issuance of units of the Fund with effect from September 28, 2010.

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 Islamabad 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 Sovereign 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 Islamabad 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 NBFIs. 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

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
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Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

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 Sovereign Fund (the Fund) to comply with the Listing Regulation No. 35 of the Islamabad 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 Islamabad 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.


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 Sovereign 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 holders' fund and cash flow statement for the period January 9 to June 30, 2010, 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 period January 9 to June 30, 2010 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
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STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2010

	<i>Note</i>	2010 (Rupees in '000)
Assets		
Balances with banks	5	646,710
Investments	6	304,409
Deposits and other receivables	7	26,091
Preliminary expenses and floatation costs	8	2,358
Total assets		<u>979,568</u>
Liabilities		
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	9	3,058
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	10	98
Payable to Securities and Exchange Commission of Pakistan (SECP)	11	157
Payable to Meezan Bank Limited (MBL)		1
Payable on redemption of units		5,034
Accrued expenses and other liabilities	12	324
Total liabilities		<u>8,672</u>
Net assets		<u>970,896</u>
Unit holders' funds (as per statement attached)		<u>970,896</u>
		Number of Units
Number of units in issue	14	<u>18,736,382</u>
		Rupees
Net assets value per unit		<u>51.82</u>

The annexed notes 1 to 26 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 PERIOD JANUARY 9 TO JUNE 30, 2010

	<i>Note</i>	For the period January 9 to June 30, 2010 (Rupees in '000)
Income		
Profit on savings accounts with banks		20,073
Profit on sukuk certificates		3,849
		<u>23,922</u>
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)		21
Total income		<u>23,943</u>
Expenses		
Remuneration to Al Meezan - management company of the Fund	9	2,099
Remuneration to CDC - trustee of the Fund	10	420
Annual fee to SECP	11	157
Auditors' remuneration	13	265
Fees and subscription		60
Amortisation of preliminary expenses and floatation costs	8	197
Brokerage		30
Bank and settlement charges		24
Printing expense		80
Total expenses		<u>3,332</u>
Net income from operating activities		<u>20,611</u>
Element of income and capital gains included in prices of units sold less those in units redeemed (net)		13,466
Net income		<u><u>34,077</u></u>

The annexed notes 1 to 26 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 PERIOD JANUARY 9 TO JUNE 30, 2010

	For the period January 9 to June 30, 2010		
	Unrealised Gains	Realised Gains	Total
	----- (Rupees in '000) -----		
Net income for the period	21	34,056	34,077
Undistributed income carried forward	<u>21</u>	<u>34,056</u>	<u>34,077</u>

The annexed notes 1 to 26 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 UNIT HOLDERS' FUNDS
FOR THE PERIOD JANUARY 9 TO JUNE 30, 2010**

	For the period January 9 to June 30, 2010 (Rupees in '000)
Issue of 25,315,172 units	1,284,717
Redemption of 6,578,790 units	(334,432)
	<u>950,285</u>
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	(13,466)
Net income for the period	34,077
Net assets at the end of the period	<u>970,896</u>
Net assets value per unit at the end of the period - Rupees	<u>51.82</u>

The annexed notes 1 to 26 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 PERIOD JANUARY 9 TO JUNE 30, 2010

	<i>Note</i>	For the period January 9 to June 30, 2010 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period		34,077
Adjustments for:		
Profit on savings accounts with banks		(20,073)
Profit on sukuk certificates		(3,849)
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)		(21)
Amortisation of preliminary expenses and floatation costs		197
Element of income and capital gains included in prices of units issued less those in units redeemed (net)		(13,466)
		(37,212)
Increase in assets		
Investments		(304,388)
Deposits and other receivables		(100)
		(304,488)
Increase in liabilities		
Payable to Al Meezan - management company of the Fund		503
Payable to CDC - trustee of the Fund		98
Payable to SECP		157
Payable to MBL		1
Accrued expenses and other liabilities		324
		1,083
Profit received on savings accounts with banks		5,089
Profit paid on purchase of sukuk certificates		(7,158)
Net cash outflow from operating activities		(308,609)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from sale of units		1,284,717
Payment against redemption of units		(329,398)
Net cash inflow from financing activities		955,319
Cash and cash equivalents at the end of the period	5	<u>646,710</u>

The annexed notes 1 to 26 form an integral part of these financial statements.

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

Mohammad Shoaib, CFA
Chief Executive

Mazhar Sharif
Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD JANUARY 9 TO JUNE 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Sovereign 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 May 14, 2009 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 maximum possible preservation of capital along with Halal and reasonable returns by investing primarily in a portfolio of shariah compliant government securities thus minimising the credit risk of investments. The Fund shall also keep an exposure in short-term near cash 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 Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 These are the first financial statements of the Fund. These financial statements have been prepared from Jan 9, 2010, being the date on which the 'deposited property' was first transferred to the trustee. The management company of the Fund is rated AM2 and the stability rating of the Fund is AA+(f) given by JCR - VIS Credit Rating Company Limited.
- 1.5 Title to the assets of the Fund are held 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 earlier referred guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

3. STATEMENT OF COMPLIANCE

- 3.1 These 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, 2008 and the directives issued by the SECP.

Wherever the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations, 2008 and the said directives differ with the requirements of IFRSs, the requirements of the Trust Deed, NBFC Rules, NBFC Regulations, 2008 and the said directives take precedence.

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

There are certain 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Accounting Convention

These financial statements have been prepared under the historical cost convention except for certain 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 areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements, are as follows:

- (a) Classification and valuation of financial instruments (note 4.3)
- (b) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.10)
- (c) Amortisation of preliminary expenses and floatation costs (notes 4.8 and 8)

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 as 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 asset or financial liability at fair value through profit or loss' are expensed immediately.

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

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

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

4.3.4 Fair value measurement principles

The fair value of debt securities were determined as follows:

- 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 provisions are also made in accordance with the said circulars and subsequent clarifications.

4.3.5 Impairment

Impairment loss on investments 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 income statement is removed from other comprehensive income and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is not reversed through the income statement but is recognised in other comprehensive income.

4.3.6 Derecognition

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

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

4.4 Unit holders' fund

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

4.5 Issue and redemption of units

Units issued are recorded at the offer price, determined by the management company for the applications received by the distributors during business hours of the day when the application is received. The offer price represents the net assets value of the units as of the close of that business day plus the allowable sales load, provision of duties and charges and provision for transaction costs, if applicable. The sales load is payable to the distributors and the management company.



Units redeemed are recorded at the redemption price prevalent on the date on which the distributors receive redemption application during business hours on that date. The redeemed price represents the net assets value per unit less back end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

4.6 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 sold less those in units redeemed' is set up in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

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

4.7 Provisions

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

4.8 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from February 10, 2010 in accordance with the requirements of the trust deed of the Fund.

4.9 Net assets value per unit

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

4.10 Taxation

Current

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

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

4.11 Revenue recognition

- i. Gains / (losses) arising on sale of investments are included in income currently and are recognised on the date at which 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 other comprehensive income in the period in which they arise.
- iv. Profit on savings accounts with banks is recorded on an accrual basis.
- v. Dividend income is recognised at the time of closure of share transfer books of the investee company.

4.12 Expenses

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

4.13 Offsetting of financial instruments

A financial asset and financial liability is 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.

4.14 Zakat

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



4.15 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet 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.

4.16 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.

	<i>Note</i>	2010 (Rupees in '000)
5. BALANCES WITH BANKS		
On savings accounts	5.1	645,918
On current account		792
		<u>646,710</u>

5.1 The balances in savings accounts have an expected profit ranging from 5.04% to 11.45% per annum.

6. INVESTMENTS

HELD FOR TRADING - Sukuk Certificates

Name of the Issuer	Maturity	Profit rate	As at July 01, 2009	Purchases during the period	Sales / redemptions during the period	As at June 30, 2010	Carrying value as at June 30, 2010	Market value as at June 30, 2010	Unrealised gain / (loss)	Percentage of total market value of investments
			-----Number of Certificate-----			-----Rupees in '000-----				
GoP Ijarah Sukuk Certificates - IV (note 6.1.1)	September 17, 2012	12.25%	-	2,750	-	2,750	281,288	281,188	(100)	92.37%
Karachi Shipyard & Engineering Works II (note 6.1.2)	February 4, 2016	6 months Kibor plus base rate of 0.4%	-	4,800	-	4,800	23,100	23,221	121	7.63%
							<u>304,388</u>	<u>304,409</u>	<u>21</u>	
Total cost of investment								<u>304,388</u>		

6.1 The offering document of Fund requires that atleast 70% of total investment should be invested in Government securities. However as at June 30, 2010 the Fund has placed around 32% of total investment in Government Securities.

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

6.1.2 The nominal value of the sukuk certificates is Rs 5,000 each.

	<i>Note</i>	2010 (Rupees in '000)
7. DEPOSIT AND OTHER RECEIVABLES		
Deposits		100
Profit receivable on savings accounts with banks		14,984
Profit receivable on sukuk certificates		11,007
		<u>26,091</u>
8. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs	8.1	2,555
Less: Amortisation during the period		197
		<u>2,358</u>
8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund restricted to one percent of Pre-IPO capital, and are being amortised over a period of five years in accordance with the trust deed of the Fund.		
9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - management company of the Fund		
Management fee	9.1	490
Preliminary expense and floatation cost		2,555
Sales Load		13
		<u>3,058</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 years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the management company has been charged at the rate of one percent per annum of the average annual net assets of the Fund for the period ended June 30, 2010.		
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 at the rate of 0.075% of the average annual net assets of the Fund payable to the SECP under regulation 62 read with Schedule II of the NBFC Regulations.		



2010
(Rupees in '000)

12. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	255
Withholding tax payable	2
Other payable	67
	324
	324

13. AUDITORS' REMUNERATION

Audit fee	100
Other certifications	165
	265
	265

14. CLASSES OF UNITS IN ISSUE

14.1 The Fund may issue following classes of units:

Class	Description
A (Note 14.1.1)	Units shall be issued to Core Investors with no Front-end Load and no Back-End Load. Any Bonus units issued for distribution of income shall also be Class A units.
B	Units shall be issued to Pre-IPO investors and during the IPO. These Units shall be charged with applicable Front-end Load.
C	Units shall be issued after the IPO period and may be charged with Front-end Load.
D	Units shall be issued after the IPO period any may be charged with a Back-end Load.

14.1.1 Core Units subscribed by the Core Investors shall be offered and issued at the Par Value. Rupees 50 million from that shall not be redeemable for a period of two years from the date of issue.

14.2 Management company of the Fund may issue the following classes of units:

- Growths 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.
- Income units which shall be entitled to cash dividend in case of any distribution by the Fund.

14.3 The units in issue as at June 30, 2010 and their par values were as follows:

Class	2010	
	Number of units	(Rupees in '000)
A - Growth units	3,431,033	171,552
C - Growth units	15,305,349	765,267
Total	18,736,382	936,819

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 and the minimum amount for adding to an existing account is Rs 1,000. All units carry equal rights and are entitled to dividends and payment of net asset value on liquidation.

15. 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, Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Capital Protected Fund - I and Meezan Cash 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 the period end are as follows:

	2010 (Rupees in '000)
Al Meezan - management company of the Fund	
Remuneration payable	490
Sales load payable	13
Preliminary expenses and floatation costs payable	2,555
Investments as at June 30, 2010: 1,000,000 units	51,820
MBL	
Balances with bank	14,800
Profit receivable on savings accounts	78
Sales load payable	1
CDC - trustee of the Fund	
Trustee fee payable	98
Directors and officers of the management company	
Investments as at June 30, 2010: 29,105 units	1,508



**For the period
January 09
to June 30, 2010
(Rupees in '000)**

Al Meezan - management company of the Fund

Remuneration for the period	2,099
Units issued: 2,300,000 units	115,000
Redemptions: 1,300,000 units	65,273

MBL

Profit on savings accounts	175
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CDC - trustee of the Fund

Remuneration for the period	420
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Directors and officers of the management company

Units issued: 30,420 units	1,521
Redemptions: 1,315 units	67

16. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Financial assets at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
	2010			
	------(Rupees in '000)-----			
On balance sheet - financial assets				
Balances with banks	646,710	-	-	646,710
Investments	-	304,409	-	304,409
Deposits and other receivables	26,091	-	-	26,091
	672,801	304,409	-	977,210
On balance sheet - financial liabilities				
Payable to Al Meezan - management company of the Fund	-	-	3,058	3,058
Payable to CDC - trustee of the fund	-	-	98	98
Payable to MBL	-	-	1	1
Payable on redemption on units	-	-	5,034	5,034
Accrued expenses and other liabilities	-	-	322	322
	-	-	8,513	8,513

17. 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.

Risks of the Fund 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 (including price risk and interest rate risk) 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:

17.1 Market risk

17.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

Cash flow interest rate risk

The funds 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 period then ended would have been higher / lower by Rs 1.196 million mainly as a result of finance income.

Fair value interest rate risk

The investment portfolio of the Fund includes non-traded sukuk which are being valued by discounting cash flows using interest rate in accordance with the methodology prescribed by the SECP. The net assets of the Fund will have an immaterial impact if the interest rates used to determine the fair value of such securities decrease / increase by five percent. This is based on the assumption that all other variables remain constant.

17.2 Credit risk and concentration of 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 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. All the debt instruments in which the Fund has invested as at June 30, 2010 are Government Guaranteed securities.

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 maximum exposure to credit risk as at June 30, 2010 is as follows:

	2010 (Rupees in '000)
Financial assets	
Balances with banks	646,710
Investments	304,409
Deposits and other receivables	26,091
	<u>977,210</u>

Credit rating wise analysis of the bank balances of the fund are tabulated below:

	2010 %
AAA	0.02
AA+	80.88
AA	16.81
AA-	2.29
	<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.

17.3 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 holder's redemptions at any time. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

In accordance with regulation 58(1)(k) of the NBFC Regulations, the Fund has the ability to borrow funds for meeting the redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen per cent of the net assets which amounts to Rs 145.634 million as on June 30, 2010. However, no such borrowing has been obtained during the period.

Further, the Fund is also allowed, as per regulation 57(10) of the NBFC Regulation 2008, to defer redemption requests to next dealing day, if 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 is tabulated below:

	Maturity upto			More than one year	Total
	Three months	Six months	One year		
----- (Rupees in '000) -----					
Payable to Al Meezan - management company of the Fund	700	-	-	2,358	3,058
Payable to CDC - trustee of the Fund	98	-	-	-	98
Payable to MBL	1	-	-	-	1
Payable on redemption of units	5,034	-	-	-	5,034
Accrued expenses and other liabilities	322	-	-	-	322
	<u>6,155</u>	<u>-</u>	<u>-</u>	<u>2,358</u>	<u>8,513</u>

18. CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividend and to payment of a proportionate share based on the Fund's net asset value per share 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 unit holders.

In accordance with the NBFC Regulations, 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 17, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by disposal of investments where necessary.

19. 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 (like 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 that are not traded in an active market is determined with reference to the values quoted by Mutual Funds Association of Pakistan (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 SECP.

A security whose fair value is not quoted by MUFAP due to being non-performing or non-investment grade, then the fair value of such security is determined in accordance with the Circular 1 of 2009 dated January 6, 2009.

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 classifies 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	2010			Total
	Level 1	Level 2	Level 3	
	------(Rupees in '000)-----			
Financial assets held for trading	281,188	23,221	-	304,409

20. PERFORMANCE TABLE

Net assets (Rs '000) (ex-distribution)*	970,896
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution)*	50.02
Offer price per unit as at June 30 (Rs) (ex-distribution)*	50.27
Distribution (%)	
- Interim	-
- Annual	3.60
Date of distribution	July 7, 2010'
Highest offer price per unit (Rs)	52.08
Lowest offer price per unit (Rs)	50.25
Highest redemption price per unit (Rs)	51.82
Lowest redemption price per unit (Rs)	50.00
Total return (%)	9.70
Weighted Average Portfolio Duration (years)	2.48

* The distribution is not accounted for in these financial statements as also explained in note 25.

Investment portfolio composition as described in note 6

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate.

21. INVESTMENT COMMITTEE MEMBERS

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

Name	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Twenty years
2. Mr. Muhammad Asad	Chief Investment Officer	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 and Product Development	CFA / BBA / 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 member have been appointed in the Investment Committee subsequent to the year end on August 17, 2010.



21.2 The Fund Manager of the Fund is Ms. Ayesha Irfan. Other Funds being managed by the Fund Manager are as follows:

- Meezan Capital Protected Fund - I
- Meezan Balanced Fund

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

22. BROKERAGE COMMISSION BY PERCENTAGE

Name of the broker	2010 %
KASB Securities (Private) Limited	75
Invisor Securities (Private) Limited	25

23. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present therein	
		February 15, 2010	April 27, 2010
Mr. Ariful Islam	Chairman	Yes	Yes
Mr. Mohammad Shoaib	Chief Executive	Yes	Yes
Mr. Tasnimul Haq Farooqui *	Director	No	No
Mr. Aliuddin Ansari	Director	Yes	Yes
Mr. P. Ahmed **	Director	Yes	Yes
Mr. Rana Ahmed Humayun *	Director	No	Yes
Mr. Rizwan Ata	Director	No	Yes
Mr. Mazhar Sharif	Director	Yes	Yes
Syed Owais Wasti **	Director	No	No

* 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.

24. PATTERN OF UNIT HOLDING

	----- (2010) -----		
	Number of investors	Investment amount Rupees in '000	Percentage of total investment %
Individuals	487	451,973	46.55
Associated companies / directors	2	53,321	5.49
Insurance companies	3	26,020	2.68
Banks / DFIs	2	41,737	4.30
NBFCs	1	5	-
Retirement funds	7	12,170	1.25
Public limited companies	2	306,401	31.56
Others	6	79,269	8.17
Total	510	970,896	100.00

25. NON ADJUSTING EVENT

The board of directors of the management company of the Fund in its meeting held on July 7, 2010 has announced a final payout of 3.60% amounting to Rs 33.725 million equivalent to 674,240 bonus units. The financial statements for the period ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

2010 Number of units

The effect of issue of bonus units is as follows:

Number of units in issue before bonus units	18,736,382
Number of units in issue after bonus units	<u>19,410,622</u>

Rupees

Net assets value per unit before bonus issue	51.82
Net assets value per unit after bonus issue	<u>50.02</u>

26. 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