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Our Mission

“ To be the leading mutual fund in the industry, providing unitholders, in a truly SHARIAH COMPLIANT way, the best combination of current income and future growth on a risk adjusted basis.”

Our Vision

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

FUND INFORMATION

MANAGEMENT COMPANY

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

BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

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

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

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

TRUSTEE

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

AUDITORS

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

SHARIAH ADVISOR

Meezan Bank Limited

BANKERS TO THE FUND

Al Baraka Islamic Bank B.S.C (E.C)
Bank Alfalah Limited
Bank Islami Pakistan Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
The Bank of Khyber

LEGAL ADVISOR

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

TRANSFER AGENT

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

DISTRIBUTORS

Al Meezan Investment Management Limited
Meezan Bank Limited
The Bank of Khyber



REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

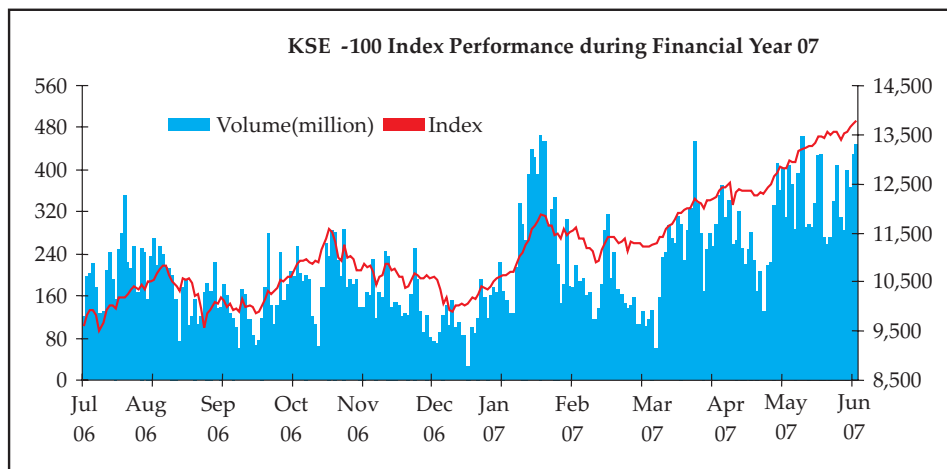
The Board of Directors of Al Meezan Investment Management Limited, the Management Company of Meezan Islamic Fund, is pleased to present the audited accounts of Meezan Islamic Fund (MIF) for the year ended 30 June 2007.

Market Review

The two halves of financial year 07 portrayed distinctly different trends. While the first half only witnessed 0.51% increase in KSE-100 Index due to rumours relating to foreign selling, enforcement of capital gains tax, investigation of March 2005 crisis and new risk management system, the second half of the year was much more rewarding. During the second half the KSE-100 Index rose 37% resulting in a full year appreciation of 37.8%.

During the first half, the market touched a peak of 11,566 before collapsing towards the end of the first half on rumours of a mandatory 4% minimum deposit rate on all banks, IMF's recommendation on devaluation to the tune of 10%, rumours of substantial foreign sell off in the market, rumours of applicability of capital gains tax from July 2007, investigation into the March 2005 crisis and uncertainty regarding the new risk management system. However none of the threats actually materialized.

The unattractive performance of the Pakistani equity markets during first half of financial year 07 was a blessing in disguise as it stood out amongst the regional peers which had done reasonably well during the same period. This attracted substantial foreign interest which resulted in strong portfolio inflows into the country. In the last six months of the fiscal year under review, foreign portfolio inflows in the country amounted to around US\$750 million which took the number for the whole year to roughly US\$970 million which was around 3 times higher than the amount received in fiscal year 2006. The confidence showed by foreign investors in Pakistan's economy and policies despite a noisy political environment also increased the confidence and optimism of local investors taking the index up by 37% in the last six months of financial year 07.

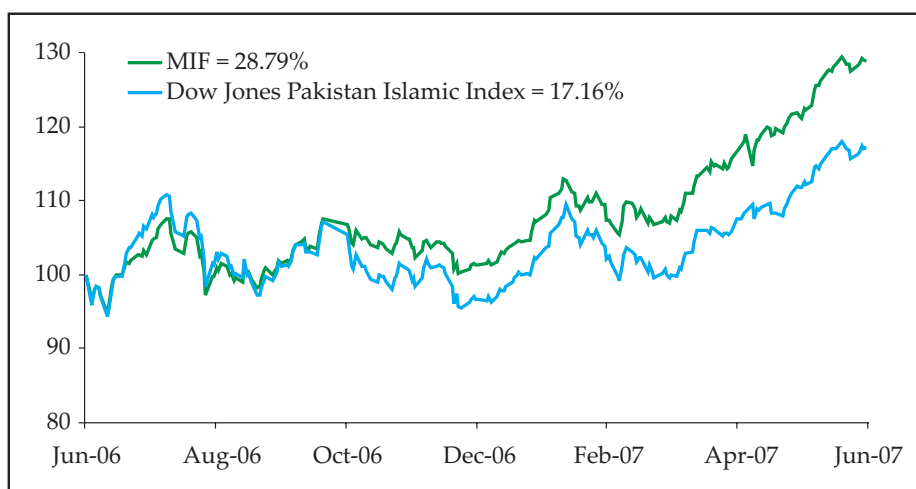


Operational Review

The Fund, during the year ended 30 June 2007 earned a total income of Rs. 1,053 million. The income for the year comprised of, mainly capital gains (net) on sale of investments of Rs. 340 million and dividend income of Rs. 199 million. The un-realised gain on investments at fair value for the year was Rs. 481 million. After accounting for expenses of Rs. 130 million and element of income/(loss) and capital gains/(losses) included in prices of units issued less those in units redeemed of Rs. (42) million, the net income for the year was Rs. 880 million, which translates into the earning of Rs. 18.06 per unit outstanding as at 30 June 2007. The net assets of the fund as at 30 June 2007 were Rs. 3,679 million as compared to Rs. 3,200 million as at 30 June 2006. This makes MIF the largest Islamic fund in both public and private sectors and the largest Open End Equity fund in the private sector. Before payout, the net asset value per unit of the fund as at 30 June 2007 was Rs. 75.49 per unit, providing a total return of 28.79% for the year. The Board of Directors of Management Company approved payout of stock dividend of 31.2%, at par value, for the year to the unit holders.

In accordance with the provision of the Trust Deed of the fund an amount of Rs. 2 million was also set aside as charity to purify the income earned from the non-shariah compliant avenues by the investee companies.

During the year under review, units amounting to Rs. 1,082 million (2006: Rs. 1,179 million) were issued and units amounting to Rs. 1,524 million (2006: Rs. 621 million) were redeemed, resulting in net outflow of Rs. (442) million into the Fund.



Investment Policy

MIF is a Shariah compliant equity fund and therefore its performance is linked with the performance of equity markets in Pakistan. However, as the fund manager, Al Meezan Investments actively manages the fund with an aim to provide maximum risk adjusted total return to the investors. This involves a combination of stock selection, sector allocation and asset allocation. Therefore, the fund manager aims to reduce exposure to equities in times when the market risk increases. While this may result in temporary underperformance as exposure is reduced in an increasing market, it pays off when market corrects.

Mutual Fund Rating

Pakistan Credit Rating Agency (PACRA) and JCR-VIS Credit Rating Company have assigned their respective highest possible ratings for mutual funds to Meezan Islamic Fund. MIF has been rated 5-Star by both the companies which denotes superior performance of MIF versus its peers. It is important to note that while PACRA's rating is within the Islamic Funds category, JCR-VIS has assigned 5-Star rating to MIF in the overall Equity Funds category. We believe that this has been possible due to the untiring efforts of the management of Al Meezan Investments, the fund manager/ Management Company of MIF.

Future Outlook

We remain hopeful of the future prospects of the Fund, given the expected continuation of corporate profitability and economic growth. Reduction in operational risk of the Pakistani stock market on account of continuing reforms will also bode well for the market and hence for the Fund, in the coming years. In the medium term, the market may become jittery close to the upcoming general elections. However, this is likely to be a short term phenomenon as eventually fundamentally attractive valuations will retain investor interest.

Compliance with Code of Corporate Governance

The Management Company always strives to maintain the highest standards of corporate governance. In compliance with the code of corporate governance, the BOD declares that:

- ▶ These financial statements present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in unitholders' funds.
- ▶ 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 judgment.
- ▶ International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- ▶ The system of internal control is sound in design and has been effectively implemented and monitored.
- ▶ There are no significant doubts upon the Fund's ability to continue as a going concern.
- ▶ There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.
- ▶ The BOD and employees of the Management Company have signed "Statement of Ethics and Business Practices".
- ▶ The sale and repurchase of units of the Fund carried out by the Directors, CEO, CFO and Company Secretary of the Management Company including their spouses and minor children are as under:

Trades by:		No. of units invested	No. of units redeemed
Mr. Irfan Siddiqui	Ex Chairman	30,668	-
Mr. Najmul Hassan	Director	3,122	-
Mr. Tasnimul Haq Farooqui	Director	-	2,760
Mr. Mazhar Sharif	Director	8,053	60,050
Mr. Shabbir Hamza Khandwala	Director	3,214	-
Syed Owais Wasti	Director, CFO & Co. Secretary	816	10,181

- ▶ Pattern of holding of units is given on page 8 of the financial statements.
- ▶ Key financial data for the year ended 30 June 2007 is given in note 21 of the financial statements.

Board Meetings

During the year, six board meetings of the Management Company of the fund were held. The details of the attendance by each director in the board meetings are as given below:

Name		Dates of BOD Meetings & Directors' presence therein					
		07 July 2006	15 August 2006	18 October 2006	15 February 2007	22 March 2007	24 April 2007
Mr. Irfan Siddiqui	Ex-Chairman	-	✓	✓	✓	✓	✓
Mr. Ariful Islam	Chairman	✓	✓	✓	✓	-	✓
Mr. Najmul Hassan	Director	-	✓	✓	-	✓	-
Mr. Tasnimul Haq Farooqui	Director	✓	✓	-	✓	✓	✓
Mr. Mazhar Sharif	Director	✓	✓	✓	-	✓	✓
Mr. Shabbir Hamza Khandwala	Director	✓	✓	-	-	✓	✓
Mr. Mohammad Shoaib, CFA	Chief Executive	✓	✓	✓	✓	✓	✓

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

The board appreciates the valuable services rendered by the outgoing Directors and welcomes the new Directors on the board.

Appointment of Auditors

The Audit Committee in its meeting held on 09 August 2007 recommended the appointment of M/s A.F. Ferguson & Co. Chartered Accountants, as auditors of the Fund for the Financial Year 2007-08. The Board has approved the appointment. The retiring auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants have been recommended for appointment as auditors of the Management Company.

Acknowledgement

We thank all our investors who have placed their confidence in us. We also offer our sincere gratitude to the Securities and Exchange Commission of Pakistan, the Trustee - Central Depository Company of Pakistan Limited and the management of the Karachi Stock Exchange. We also wish to place on record our appreciation for the personnel of the Management Company.

Karachi.
09 August 2007

For and on behalf of the Board
Mohammad Shoaib, CFA
Chief Executive

PATTERN OF HOLDINGS (UNITS) AS AT 30 JUNE 2007

Associated companies	<u>Units Held</u>	<u>%</u>
- Al Meezan Investment Management Limited	83	0.00
- Meezan Bank Limited	4,788,931	9.82
- Pakistan Kuwait Investment Company (Private) Limited	1,197,232	2.46
Directors and Chief Executive		
Directors		
- Mr. Ariful Islam	49,247	0.10
- Najam ul Hassan	83,640	0.17
- Shabbir Hamza Khandwala	7,809	0.02
- Syed Owais Wasti	3,262	0.01
Chief Executive		
- Mr. Mohammad Shoaib, CFA	148,991	0.31
Executives	29,973	0.06
Public Limited Companies	170,221	0.35
Banks and financial institutions	5,003,933	10.27
Individuals	20,479,232	42.01
Retirement funds	12,456,527	25.56
Other corporate sector entities	1,812,818	3.72
Non-Profit Organization	2,507,113	5.14
Total	<u><u>48,739,012</u></u>	<u><u>100</u></u>

REPORT OF THE SHARIAH ADVISOR – MEEZAN ISLAMIC FUND

Karachi
August 13, 2007

Alhamdulillah, the year under review was the fourth year of operations of Meezan Islamic Fund (the Fund). We, Meezan Bank Limited (MBL) are the Shariah Advisor of the fund and are issuing this report in accordance with clause 3.2(v) of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah Compliance of the Fund's activities.

In the capacity of Shariah Advisor, we have prescribed a criteria for Shariah compliance of equity investments which comprises of five factors such as (i) Nature of business, (ii) Interest bearing debt to total assets, (iii) Illiquid assets to total assets, (iv) Investment in non-Shariah compliant activities and income from non-compliant investments, and (v) Net liquid assets vs. share market price:

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure compliance with the Shariah guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries from the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

- i. We have reviewed and approved the modes of investments of MIF in light of Shariah requirements. The following is a list of equity investments of MIF as on June 30, 2007 and their evaluation according to the screening criteria established by us. (The latest half yearly or annual accounts of the Investee companies available as on June 30, 2007 have been used for the following calculations):

Company Name	(i)	(ii)*	(iii)	(iv)	(v)	(vi)	
	Nature of Business	Debt to Assets (<40%)	Illiquid Assets to Total Assets (>20%)	Non-Compliant Income to Gross Revenue (<5%)	% of Non-Shariah Compliant Investments (<33%)	Net Liquid Assets vs. Share Price (B>A)	Share Market Price (B)
						Net Liquid Assets per Share (A)	
Agriauto Industries Limited	Manufacturers of Automobile Parts and Accessories	1.63%	43.67%	1.16%	17.18%	34.71	40.95
Attock Cement	Cement Manufacturer	3.96%	91.75%	0.43%	0.00%	(28.85)	66.10
Engro Chemical Pakistan Limited	Manufacturers of Fertilizers and Chemicals	26.77%	51.12%	0.28%	1.46%	7.14	169.00
Fauji Fertilizer Bin Qasim	Manufacturers of Fertilizers	23.55%	59.71%	3.26%	1.83%	(8.05)	28.50
Fauji Fertilizer Company Limited	Manufacturers of Fertilizers	24.59%	46.53%	1.16%	12.43%	0.39	105.55
GlaxoSmithKline Limited	Manufacturers of Pharmaceutical Products	0.00%	42.72%	0.34%	2.07%	25.65	157.85
Indus Motor Company Limited	Automobile Assembling	0.06%	42.26%	2.46%	0.19%	17.71	195.00
Pak Suzuki Motor Company Limited	Automobile Assembling	0.47%	58.20%	2.11%	0.59%	(35.39)	420.00
National Refinery Limited	Refines crude oil to petroleum products	1.42%	37.17%	0.30%	0.00%	(7.85)	259.00

Company Name	(i)	(ii)*	(iii)	(iv)	(v)	(vi)	
	Nature of Business	Debt to Assets (<40%)	Illiquid Assets to Total Assets (>20%)	Non-Compliant Income to Gross Revenue (<5%)	% of Non-Shariah Compliant Investments (<33%)	Net Liquid Assets vs. Share Price (B>A)	Share Market Price (B)
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	49.75%	3.54%	1.83%	7.11	114.70
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	44.92%	1.94%	0.32%	32.49	349.75
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.28%	33.56%	4.84%	0.22%	28.42	232.00
Pakistan State Oil Company Limited	Distribution of Oil & Gas	19.44%	45.92%	0.04%	4.63%	(65.52)	294.00
Nishat Mills Limited	Manufacturers of Textile Products	27.74%	42.44%	1.60%	3.51%	60.27	87.80
Packages Limited	Manufacturers of Paper and Board	32.45%	67.76%	0.76%	4.21%	(24.19)	210.00
Pakistan Telecommunication Company Limited	Telecom	10.46%	65.50%	3.90%	0.00%	(1.71)	44.30
Sitara Chemical Industries Limited	Manufacturers of Soda Ash and Chemicals	0.24%	53.92%	0.17%	0.00%	(88.05)	107.00
Thal Limited	Manufacturers of Jute bags and Acs and Wire Harness of Cars	9.16%	59.35%	1.98%	2.13%	45.83	164.50
The Hub Power Company Limited	Producer of Power & Energy	24.43%	82.62%	0.54%	0.00%	(5.21)	27.00

* All interest based debts

In light of the above, we hereby certify that all the provisions of the Scheme and investments made on account of MIF by AMIM are Shariah compliant and in accordance with the criteria established.

- ii. On the basis of information provided by the management, all operations of MIF for the year ended June 30, 2007 have been in compliance with the Shariah principles.
- iii. The management company has been directed to set aside as charity amount earned as Interest from conventional banks. In addition, there are investments made by MIF where Investee companies have earned a part of their income from non-compliant sources (e.g. interest income). In such cases, the management company has been directed to set aside as charity such proportion of the income from Investee companies in order to purify the earnings of the Fund (as mentioned in column iv of the calculations).

During the Year a provision of Rupees 3.124 million was transferred to charity account and an amount of Rs. 2.568 million was disbursed.

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
For and on behalf of Meezan Bank Limited

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

We have performed our independent assurance engagement of **Meezan Islamic Fund** (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor in accordance with clause 3.3 (b) of the Trust Deed of the Fund dated 16 June 2003 during the year ended 30 June 2007.

Management Company's responsibility

Management Company of the Fund is responsible for the appointment of Shariah Advisor of the Fund and for compliance with the Shariah guidelines prescribed by the Shariah Advisor. This responsibility includes: designing, implementing and maintaining internal control to ensure compliance with the Shariah guidelines issued by the Shariah Advisor in accordance with clause 3.3 (b) of the Trust Deed of the Fund dated 16 June 2003.

Responsibility of independent assurance providers

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

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

Conclusion

In our opinion, the Fund was, in all material respects, in compliance with the Shariah guidelines issued by the Shariah Advisor, in accordance with clause 3.3 (b) of the Trust Deed of the Fund dated 16 June 2003 during the year ended 30 June 2007.

Date : 09 August 2007

Karachi

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

REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

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

The Meezan Islamic Fund, an Open-ended Scheme established under a trust deed executed between Al Meezan Investment Management Limited as the Asset Management Company and Central Depository Company of Pakistan Limited as Trustee on June 16, 2003. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on July 22, 2003.

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

Mohammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: August 31, 2007

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2007

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The board of directors (the Board) of Al-Meezan Investment Management Limited, the Management Company, which is an unlisted public company, manages the affairs of Meezan Islamic Fund (the Fund). The Fund being a unit trust scheme does not have its own board of directors. The Management Company has applied the principles contained in the code to the Fund, whose units are listed as a security on the Karachi Stock Exchange, in the following manner:

1. The Management Company encourages representation of non-executive directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the existing resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies were occurred on 29 March 2007 on the board which were filled in by taking the approval of SECP on 17 May 2007.
5. The board has formulated a Statement of Ethics and Business Practices for the Fund, 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 are being formalised and will be adopted by the board once they are formalised.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO of the Management Company, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The orientation courses for the directors of the management company were arranged during the year on 15 August 2006, to apprise them of their duties and responsibilities and the requirements of the code of corporate governance.

10. The Board has approved the appointment of the Chief Financial Officer (CFO), and the Company Secretary.
11. The directors' report relating to the Fund, for the year ended 30 June 2007 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by the CEO and the CFO of the Management Company before approval by the Board.
13. The directors except CEO and an executive do not hold any interest in the shares of the Management Company. The interest of the CEO, Directors and the Executives in the units of the Fund is disclosed in the pattern of unit holdings.
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It comprises of three non-executive directors of the Management Company as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the Board of the Management Company and advised to the committee for compliance.
17. The board has outsourced the internal audit function of the Fund to a firm of chartered accountants.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

Syed Owais Wasti
Chief Financial Officer &
Company Secretary

Mohammad Shoaib, CFA
Chief Executive

Karachi.
09 August 2007

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of the Management Company of the **Meezan Islamic Fund** to comply with the Listing Regulations No. 37 of the Karachi Stock Exchange, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2007.

Date : 09 August 2007

Karachi

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

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

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

Management's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2007, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and NBFC Rules.

Date : 09 August 2007

Karachi

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

STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2007

	Note	2007 (Rupees in '000)	2006
Assets			
Bank balances in deposit accounts		747,613	171,183
Receivable against sale of investments		166,388	294,694
Investment in marketable securities 'at fair value through profit or loss'	5	2,844,066	2,690,812
Dividend receivable		16,648	32,972
Derivative financial instruments	6	45,562	25,643
Advances, deposits, prepayments and other receivables	7	11,283	2,822
Preliminary expenses and floatation costs	8	277	553
Total assets		<u>3,831,837</u>	<u>3,218,679</u>
Liabilities			
Payable to Al Meezan Investment Management Limited - Management Company of the Fund	9	2,515	10,517
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund	10	424	333
Payable to Meezan Bank Limited - Shariah Advisor and holding company of the Management Company of the Fund	11	1,083	1,354
Payable to Securities and Exchange Commission of Pakistan	12	3,582	2,818
Payable on redemption of units		84,150	12
Payable against purchase of investments		56,416	33
Accrued expenses and other liabilities	13	4,215	3,001
Derivative financial instruments	6	154	1,063
Total liabilities		<u>152,539</u>	<u>19,131</u>
Net assets		<u>3,679,298</u>	<u>3,199,548</u>
Commitments	6		
Unit holders' fund (as per statement attached)		<u>3,679,298</u>	<u>3,199,548</u>
		Number of units	
Number of units in issue	14	<u>48,739,012</u>	<u>54,583,754</u>
		(Rupees)	
Net assets value per unit		<u>75.49</u>	<u>58.62</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

For Al Meezan Investment Management Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	Note	(Rupees in '000)
Income		
Gain on sale of investments (net)	340,256	648,450
Dividend income	198,790	128,873
Profit on deposit accounts with banks	29,054	12,843
Profit on term finance certificates	324	515
Other income	2,782	2,995
	<u>571,206</u>	<u>793,676</u>
Unrealised gain / (loss) on investments 'at fair value through profit or loss'	460,602	(70,532)
Gain on derivative financial instruments (net)	20,828	24,580
	<u>481,430</u>	<u>(45,952)</u>
Total income	<u>1,052,636</u>	<u>747,724</u>
Expenses		
Remuneration to Al Meezan Investment Management Limited - Management Company of the Fund	9.1 108,062	84,678
Remuneration to Central Depository Company of Pakistan Limited - Trustee of the Fund	10 4,602	3,759
Remuneration to Meezan Bank Limited	11.1 600	500
Annual Fee - Securities and Exchange Commission of Pakistan	3,582	2,818
Auditors' remuneration	15 466	483
Fees and subscription	359	385
Amortization of preliminary expenses and floatation costs	8 276	276
Brokerage	11,305	17,827
Bank and settlement charges	1,213	1,406
Total expenses	<u>130,465</u>	<u>112,132</u>
Net income from operating activities	<u>922,171</u>	<u>635,592</u>
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed	(42,014)	232,889
Net income	<u>880,157</u>	<u>868,481</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

For Al Meezan Investment Management Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	2007 (Rupees in '000)	2006
Undistributed income brought forward as at 1 July	1,097,800	689,940
Less : Final distribution in the form of bonus units for the year ended 30 June 2006 (comparative 30 June 2005)	(735,611)	(460,621)
Net income for the year	880,157	868,481
Undistributed income carried forward as at 30 June	<u>1,242,346</u>	<u>1,097,800</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	(Rupees in '000)	
Net assets at the beginning of the year	3,199,548	2,006,000
Issue of 17,254,551 (2006 : 16,234,393) units	1,081,592	1,179,370
Redemption of 23,099,293 (2006: 8,366,348) units	(1,524,013) (442,421)	(621,414) 557,956
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	42,014	(232,889)
Net income for the year less distribution	144,546	407,860
Issue of 12,548,814 bonus units for the year ended 30 June 2006 (2005 : 7,845,698 bonus units)	735,611	460,621
Net assets as at 30 June	3,679,298	3,199,548

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	880,157	868,481
Adjustments for :		
Dividend income	(198,790)	(128,873)
Profit on deposit accounts with banks	(29,054)	(12,843)
Profit on term finance certificates	(324)	(515)
Unrealised (gain) / loss on :		
- investments - 'at fair value through profit or loss'	(460,602)	70,532
- derivative financial instruments	(20,828)	(24,580)
Amortization of preliminary expenses and floatation costs	276	276
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	<u>42,014</u>	<u>(232,889)</u>
	212,849	539,589
(Increase) / decrease in assets		
Receivable against sale of investments	128,306	(294,694)
Advances, deposits, prepayments and other receivables	-	(29)
Investment in marketable securities	307,348	(1,265,813)
	435,654	(1,560,536)
Increase / (decrease) in liabilities		
Payable to Al Meezan Investment Management Limited - Management Company of the Fund	(8,002)	3,247
Payable to the Central Depository Company of Pakistan Limited - Trustee of the Fund	91	32
Payable to Meezan Bank Limited - Shariah Advisor	(271)	498
Payable on redemption of units	84,138	-
Payable to Securities and Exchange Commission of Pakistan	764	314
Payable against purchase of investments	56,383	(51,276)
Accrued expenses and other liabilities	1,214	974
	134,317	(46,211)
Dividend received	215,114	105,944
Profit received on deposit accounts with banks	20,553	10,737
Profit received on term finance certificates	364	475
Net cash inflow / (outflow) from operating activities	1,018,851	(950,002)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from sale of units	1,081,592	1,179,370
Payments against redemption of units	(1,524,013)	(621,414)
Net cash (outflow) / inflow from financing activities	(442,421)	557,956
Net cash inflow / (outflow) during the year	576,430	(392,046)
Cash and cash equivalents at the beginning of the year	171,183	563,229
Cash and cash equivalents at the end of the year	747,613	171,183

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1. LEGAL STATUS AND NATURE OF BUSINESS

Meezan Islamic Fund (the Fund) is an open-ended fund established under a Trust Deed executed between Al Meezan Investment Management Limited (AMIML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 16 June 2003 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 4 June 2003 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The registered office of the Management Company of the Fund, is situated at Finance & Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.

The Fund has been formed to enable the unit holders to participate in a diversified portfolio of securities, which are Shariah compliant. Under the Trust Deed, all the conducts and acts of the Fund are based on Shariah. The Management Company has appointed Meezan Bank Limited (MBL) as its Shariah Advisor to ensure that the activities of the Fund are in compliance with the principles of Shariah. The Management Company of the Fund is registered with SECP as a Non-Banking Finance Company under NBFC Rules.

The Fund is 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.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Basis of preparation

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

4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the Management Company to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

Fair values of financial instruments

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

4.3 Financial instruments

(i) Classification

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

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

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

i) *Financial instruments held for trading*

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

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

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

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

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

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

b) *Loans and receivables originated by the enterprise*

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

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available-for-sale; or

- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

c) *Available-for-sale*

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

(ii) Recognition

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

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

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

(iii) Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available-for-sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in equity until derecognised or impaired, when the accumulated fair value adjustments recognised in equity are included in the Income Statement. Financial instrument that is not quoted on the stock exchange is measured at cost as per NBFC Rules.

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

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

(iv) Fair value measurement principles

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

(v) Impairment

Financial assets not carried at 'fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Income Statement.

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

(vi) Derecognizing

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

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

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

4.4 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, 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 redemption price represents the net assets value per unit less any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

An equalization account called 'element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed' is set up in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

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

4.7 Provisions

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

4.8 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortized over a period of five years commencing from 08 August 2003.

4.9 Net assets value per Unit

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

4.10 Taxation

Current

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

Deferred

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

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

4.11 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of securities classified as 'at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the Income Statement.
- Dividend income is recognised when the right to receive the payment is established.

- Profit on deposit accounts with banks and all investments in debt instruments (irrespective of classification) are recognised on an effective yield method.
- Transaction costs are recognised as income as and when the units are issued.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

4.12 Expenses

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

4.13 Offsetting of financial instruments

A financial asset and financial liability are set off and the net amount is reported in the Statement of Assets and Liabilities if the Fund has a legal right to set off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

4.14 Zakat

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

4.15 Transactions with connected persons

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

4.16 Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

4.17 Dividend and Bonus units

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

5. INVESTMENT IN MARKETABLE SECURITIES - classified as Investments 'at fair value through profit or loss'	Note	2007 (Rupees in '000)	2006
Held for trading	5.1	2,250,045	2,302,854
Investments at fair value through profit or loss upon initial recognition.	5.2	594,021	387,958
		<u>2,844,066</u>	<u>2,690,812</u>

5.1 Held for Trading-Shares of listed companies

Name of the investee company	As at 1 July 2006	Purchases during the year	Bonus/ rights issue	Sales during the year	As at 30 June 2007	Carrying value	Market value	Percentage of net assets on the basis of market value (see note 5.1.2 below)
	Number of shares					Rupees in '000		
Commercial banks								
BankIslami Pakistan Limited	475,000	50,000	239,700	764,700	-	-	-	-
Textile composite								
Artistic Denim Mills Limited	62,400	-	161,600	224,000	-	-	-	-
Nishat Mills Limited	1,141,000	1,678,900	233,100	1,908,500	1,144,500	108,926	149,300	4.06
Synthetic and rayon								
Dewan Salman Fibres Limited	-	100,000	-	100,000	-	-	-	-
Jute								
Thal Limited (note 5.1.1)	183,400	10,000	38,680	35,900	196,180	27,510	54,734	1.49
Cement								
Cherat Cement Company Limited	448,800	-	67,320	516,120	-	-	-	-
D. G. Khan Cement Company Limited	526,500	1,350,825	122,522	1,999,847	-	-	-	-
Maple Leaf Cement Factory Limited	1,689,600	-	-	1,689,600	-	-	-	-
Fauji Cement Company Limited	298,000	1,326,000	-	1,624,000	-	-	-	-
Attock Cement Pakistan Limited	63,000	285,000	-	-	348,000	35,777	42,613	1.16
Refinery								
National Refinery Limited	394,500	72,300	-	188,800	278,000	74,758	94,798	2.58
Power generation and distribution								
Kot Addu Power Company Limited	456,500	-	-	456,500	-	-	-	-
The Hub Power Company Limited	1,820,000	1,259,500	-	1,615,000	1,464,500	44,355	53,747	1.46
Oil and gas marketing companies								
Pakistan State Oil Company Limited	513,200	1,165,900	-	1,586,400	92,700	30,603	36,287	0.99
Shell Pakistan Limited	43,179	-	10,794	53,973	-	-	-	-
Sui Southern Gas Company Limited	518,000	200,000	-	718,000	-	-	-	-
Oil and gas exploration companies								
Oil and Gas Development Company Limited	3,110,300	4,275,966	-	4,435,300	2,950,966	371,064	353,246	9.60
Pakistan Oilfields Limited	658,500	760,100	-	1,089,800	328,800	112,171	104,229	2.83
Pakistan Petroleum Limited	757,500	1,898,500	-	1,723,500	932,500	222,462	244,734	6.65
Automobile assembler								
Indus Motor Company Limited	393,000	65,500	-	-	458,500	87,697	140,072	3.81
Pak Suzuki Motor Company Limited	74,740	138,300	67,370	-	280,410	81,255	109,921	2.99
Automobiles parts and accessories								
Agriauto Industries Limited (note 5.1.1)	626,500	-	-	56,300	570,200	39,230	56,393	1.53
Technology and communication								
Pakistan Telecommunication Company Limited "A"	3,972,700	9,063,500	-	12,986,200	50,000	2,713	2,850	0.08
Fertilizer								
Engro Chemical Pakistan Limited	986,700	1,097,000	-	658,500	1,425,200	270,225	360,576	9.80
Fauji Fertilizer Company Limited	1,896,162	967,600	-	960,500	1,903,262	224,708	230,749	6.27
Fauji Fertilizer Bin Qasim Limited	3,100,000	4,129,000	-	3,730,000	3,499,000	106,771	136,346	3.71
Chemical								
Sitara Chemical Industries Limited	143,300	-	-	-	143,300	16,551	22,820	0.62
ICI Pakistan Limited	-	39,200	-	39,200	-	-	-	-
Securities sold under deferred sale arrangements								
Textile composite								
Nishat Mills Limited	-	510,500	-	510,500	-	-	-	-
Cement								
D.G. Khan Cement Company Limited	-	714,500	-	714,500	-	-	-	-
Power generation & distribution								
The Hub Power Company Limited	-	3,374,500	-	3,374,500	-	-	-	-
					Carried forward	1,856,776	2,193,415	

Name of the investee company	As at 1 July 2006	Purchases during the year	Bonus/ rights issue	Sales during the year	As at 30 June 2007	Carrying value	Market value	Percentage of net assets on the basis of market value (see note 5.1.2 below)
						Number of shares		
						Rupees in '000		
Brought forward						1,856,776	2,193,415	
Oil and gas marketing companies								
Pakistan State Oil Company Limited	-	374,000	-	374,000	-	-	-	-
Oil and gas exploration companies								
Oil and Gas Development Company Limited	200,000	1,742,500	-	1,592,500	350,000	42,056	42,210	1.15
Pakistan Oilfields Limited	-	120,000	-	120,000	-	-	-	-
Pakistan Petroleum Limited	-	695,500	-	695,500	-	-	-	-
Technology and communication								
Pakistan Telecommunication Company Limited "A"	-	17,720,000	-	17,720,000	-	-	-	-
Fertilizer								
Engro Chemical Pakistan Limited	-	1,107,000	-	1,107,000	-	-	-	-
Fauji Fertilizer Company Limited	-	247,000	-	222,000	25,000	3,061	3,053	0.08
Fauji Fertilizer Bin Qasim Limited	-	1,254,000	-	965,500	288,500	11,471	11,367	0.31
Total						1,913,364	2,250,045	
Total cost of Investments							1,879,194	

5.1.1 All shares have a nominal value of Rs 10 each except for the shares of Agriauto Industries Limited and Thal Limited which have a face value of Rs. 5 each.

5.1.2 Net assets are as defined in rule 2 (xxxiv) of NBFC Rules.

5.1.3 SECP through its letter No. SC/MF-JD(R)/363/2003 dated 22 July 2003 has increased the investment limits prescribed in rule 71(3) and (4) of NBFC Rules to fifteen percent and thirty percent respectively.

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

		2007	2006
		(Rupees in '000)	
Shares of listed companies	5.2.1	594,021	382,958
Term finance certificates	5.2.2	-	5,000
		594,021	387,958

5.2.1 Shares of listed companies

Name of the investee company	As at 1 July 2006	Purchases during the year	Bonus/ rights issue	Sales during the year	As at 30 June 2007	Carrying value	Market value	Percentage of net assets on the basis of market value (see note 5.1.2 above)
						Number of shares		
						Rupees in '000		
Closed-end mutual funds								
Al Meezan Mutual Fund Limited (an associate of the Fund)	17,018,000	-	-	-	17,018,000	253,568	258,674	7.03
Commercial banks								
Meezan Bank Limited (an associate of the Fund)	95,336	1,788,668	9,533	46,500	1,847,037	36,736	59,105	1.61
Pharmaceutical								
GlaxoSmithKline Pakistan Limited	87,100	-	21,775	-	108,875	15,330	20,414	0.55
Paper and board								
Packages Limited	533,013	278,200	34,130	43,500	801,843	164,467	255,828	6.95
Grand Total						470,101	594,021	
Total cost of Investments							470,101	

5.2.2 Term finance certificates

Name of the investee company	As at 1 July 2006	Purchases during the year	Bonus/ rights issue	Sales during the year	As at 30 June 2007	Carrying value	Market value	Percentage of net assets on the basis of market value (see note 5.1.2 above)
	Number of certificates					as at 30 June 2007		
						Rupees in '000		
Al Zamin Leasing Modaraba - II	1,000	-	1,000	-	-	-	-	-

6. DERIVATIVE FINANCIAL INSTRUMENTS

Type of contract	Number of shares	Settlement	Underlying	Notional amount	Note	Fair value	
						(Assets)	(Liabilities)
						(Rupees in '000)	
6.1 Deferred Sales							
- Oil and Gas Development Company Limited	350,000	1-Aug-07	Equity indices	42,056	6.1.1	-	154
- Fauji Fertilizer Company Limited	25,000	1-Aug-07	Equity indices	3,061	6.1.1	7	-
- Fauji Fertilizer Bin Qasim Limited	288,500	1-Aug-07	Equity indices	11,471	6.1.1	104	-
6.2 Rights Entitlement							
- Engro Chemical Pakistan Limited	355,080	16-Aug-07	Equity indices	-		45,451	-
					30 June 2007	45,562	154
					30 June 2006	25,643	1,063

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

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

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

2007 2006
(Rupees in '000)

7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advance tax recoverable	76	76
Security deposit with CDC	100	100
Profit receivable on deposit accounts with banks	11,107	2,606
Profit receivable on term finance certificates	-	40
	<u>11,283</u>	<u>2,822</u>

	2007 (Rupees in '000)	2006
8. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs	553	829
Less: Amortization during the year	<u>(276)</u>	<u>(276)</u>
	<u>277</u>	<u>553</u>

9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED - Management Company of the Fund

Management fee	9.1 1,511	7,519
Sales load payable	447	2,168
Preliminary expenses and floatation costs	553	829
Certificate charges payable	<u>4</u>	<u>1</u>
	<u>2,515</u>	<u>10,517</u>

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

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - Trustee of the Fund

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed in accordance with the tariff specified therein, based on the daily net assets value of the Fund.

	2007 (Rupees in '000)	2006
11. PAYABLE TO MEEZAN BANK LIMITED - Shariah Advisor and holding company of the Management Company of the Fund		
Shariah advisory fee	11.1 600	500
Sales load	<u>483</u>	<u>854</u>
	<u>1,083</u>	<u>1,354</u>

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

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

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

		2007 (Rupees in '000)	2006
13. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		399	401
Withholding tax payable		576	133
Charity payable	13.1	3,018	2,461
Performance rating fee		74	-
Others		148	6
		<u>4,215</u>	<u>3,001</u>

13.1 According to the instructions of the Shariah Advisor, any income earned by the Fund from investments whereby portion of the investment of investee company has been made in Shariah non-compliant avenues, such proportion of income of the Fund from those investments should be given away for charitable purposes directly by the Fund. Accordingly, an amount of Rs. 3.018 million (2006: Rs. 2.461 million) is outstanding in this regard after making charity payments of Rs. 2.568 million to renowned charitable institutions. None of the Directors of the Management Company of the Fund were interested in any of the donees.

14. CLASSES OF UNITS IN ISSUE

14.1 The Fund may issue the following classes of units:

Class	Description
A	Units that shall be charged with no sales load.
B	Units that shall be charged with front-end load.
C	Units that shall be charged with back-end load.
D	Units that shall be charged with contingent load.

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

Class	2007		2006	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
A	15,761,069	788,053	22,900,451	881,788
B	32,977,943	1,648,898	31,683,303	1,219,959
Total	<u>48,739,012</u>	<u>2,436,951</u>	<u>54,583,754</u>	<u>2,101,747</u>

The par value of each unit is Rs. 50. The Management Company of the Fund has set a minimum initial investment limit of Rs. 5,000. All units carry equal rights and are entitled to dividends and payment of net asset value on liquidation.

	2007 (Number of units)	2006
14.3 Number of units in issue:		
Units as at the beginning of the year	54,583,754	26,321,197
Units issued during the year	17,254,551	16,234,393
Units redeemed during the year	(23,099,293)	(8,366,348)
	(5,844,742)	7,868,045
Bonus units issued during the year	-	20,394,512
Units as at the end of the year	<u>48,739,012</u>	<u>54,583,754</u>

15. AUDITORS' REMUNERATION

	2007 (Rupees in '000)	2006
Audit fee	200	200
Half yearly review	90	90
Other certifications and services	150	150
Out of pocket expenses	26	43
	<u>466</u>	<u>483</u>

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

Net income for the year	<u>880,157</u>	<u>868,481</u>
	(Number of units)	
Units outstanding as at 30 June	<u>48,739,012</u>	<u>54,583,754</u>
	(Rupees)	
Earning per unit (units outstanding at 30 June)	<u>18.06</u>	<u>15.91</u>

17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

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

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

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

	2007 (Unit in '000)	2006	2007 (Rupees in '000)	2006
<u>Units sold to:</u>				
Management Company				
Al Meezan Investment Management Limited	413	331	25,050	24,500
Other related parties				
- Directors and executives of the Management Company	63	378	4,033	29,125
<u>Units redeemed by:</u>				
Management Company				
Al Meezan Investment Management Limited	1,021	167	73,792	13,091
Other related parties				
- Directors and executives of the Management Company	96	248	6,396	19,448
<u>Bonus units distributed to:</u>				
Management Company				
Al Meezan Investment Management Limited	140	70	8,188	4,097
Other related parties				
- Directors and executives of the Management Company	99	47	5,841	2,777
<u>Units held by:</u>				
Management Company				
Al Meezan Investment Management Limited	0.08	468	6	35,616
Other related parties				
- Directors and executives of the Management Company	401	335	30,209	25,504

	2007 (Rupees in '000)	2006
Transactions and balances with connected persons- unsecured		
Al Meezan Investment Management Limited -Management company		
Balance at the beginning of the year	10,517	7,270
Remuneration for the year	108,062	84,678
Sales load for the year	7,286	11,526
	<u>115,348</u>	<u>96,204</u>
	125,865	103,474
Payments made during the year	(123,350)	(92,957)
Balance at the end of the year	<u>2,515</u>	<u>10,517</u>
Meezan Bank Limited- Shariah Advisor and holding company of the Management Company of the Fund		
Balance at the beginning of the year	1,354	856
Remuneration for the year	600	500
Sales Load	6,894	4,072
	<u>8,848</u>	<u>5,428</u>
Payments made during the year	(7,765)	(4,074)
Balance at the end of the year	<u>1,083</u>	<u>1,354</u>
Bank balances	<u>44,963</u>	<u>126,767</u>
Profit on Deposit Accounts	<u>10,107</u>	<u>7,885</u>
Shareholding in Meezan Bank Limited - note 5.2.1	<u>59,105</u>	<u>2,474</u>
Investment in Al - Meezan Mutual Fund Limited - note 5.2.1	<u>258,674</u>	<u>253,568</u>
Central Depository Company of Pakistan Limited - Trustee		
Balance at the beginning of the year	333	301
Remuneration for the year	4,602	3,759
CDS charges for the year	201	472
	<u>4,803</u>	<u>4,231</u>
	5,136	4,532
Payments made during the year	(4,712)	(4,199)
Balance at the end of the year	<u>424</u>	<u>333</u>
Security deposit (asset) - profit free	<u>100</u>	<u>100</u>

18. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION

2007

Effective Yield/ Interest rate %	Exposed to Yield/ Interest risk										Non-interest bearing financial instruments	
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
	-----Rupees in '000-----											
On-balance sheet financial instruments												
Assets												
Bank balances in deposit accounts	3.0 to 9.5	747,613	747,613	-	-	-	-	-	-	-	-	-
Receivable against sale of investments		166,388	-	-	-	-	-	-	-	-	-	166,388
Investments in Marketable securities- 'at fair value through profit or loss'		2,844,066	-	-	-	-	-	-	-	-	-	2,844,066
Dividend receivable		16,648	-	-	-	-	-	-	-	-	-	16,648
Derivative financial instruments		45,562	-	-	-	-	-	-	-	-	-	45,562
Advances, deposits, prepayments and other receivables		11,283	11,107	-	-	-	-	-	-	-	-	176
		3,831,560	758,720	-	-	-	-	-	-	-	-	3,072,840
Financial liabilities												
Payable to Al Meezan Investment Management Limited Management Company of the Fund		2,515	-	-	-	-	-	-	-	-	-	2,515
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund		424	-	-	-	-	-	-	-	-	-	424
Payable to Meezan Bank Limited- Shariah Advisor and holding company of the Management Company of the Fund		1,083	-	-	-	-	-	-	-	-	-	1,083
Payable to Securities and Exchange Commission of Pakistan		3,582	-	-	-	-	-	-	-	-	-	3,582
Payable on redemption of units		84,150	-	-	-	-	-	-	-	-	-	84,150
Payable against purchase of investments		56,416	-	-	-	-	-	-	-	-	-	56,416
Accrued expenses and other liabilities		4,215	-	-	-	-	-	-	-	-	-	4,215
Derivative financial instruments		154	-	-	-	-	-	-	-	-	-	154
Total financial liabilities		152,539	-	-	-	-	-	-	-	-	-	152,539
On-balance sheet gap		3,679,021	758,720	-	-	-	-	-	-	-	-	2,920,301
Cumulative MROR			758,720	758,720	758,720	758,720	758,720	758,720	758,720	758,720	758,720	3,679,021

2006

Effective Yield/ Interest rate %	Exposed to Yield/ Interest risk										Non-interest bearing financial instruments	
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
	-----Rupees in '000-----											
On-balance sheet financial instruments												
Assets												
Bank balances in deposit accounts	3.0 to 8.0	171,183	-	171,183	-	-	-	-	-	-	-	-
Receivable against sale of investments		294,694	-	-	-	-	-	-	-	-	-	294,694
Investments in Marketable securities- 'at fair value through profit or loss'	8.0 *	2,690,812	-	-	-	5,000	-	-	-	-	-	2,685,812
Dividend receivable		32,972	-	-	-	-	-	-	-	-	-	32,972
Derivative financial instruments		25,643	-	-	-	-	-	-	-	-	-	25,643
Advances, deposits, prepayments and other receivables		2,746	-	2,606	-	-	-	-	-	-	-	140
		3,218,050	-	173,789	-	5,000	-	-	-	-	-	3,039,261
Financial liabilities												
Payable to Al Meezan Investment Management Limited - Management Company of the Fund		10,571	-	-	-	-	-	-	-	-	-	10,571
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund		333	-	-	-	-	-	-	-	-	-	333
Payable to Meezan Bank Limited- Shariah Advisor and holding company of the Management Company of the Fund		1,354	-	-	-	-	-	-	-	-	-	1,354
Payable on redemption of units		12	-	-	-	-	-	-	-	-	-	12
Payable against purchase of investments		33	-	-	-	-	-	-	-	-	-	33
Accrued expenses and other liabilities		3,001	-	-	-	-	-	-	-	-	-	3,001
Derivative financial instruments		1,063	-	-	-	-	-	-	-	-	-	1,063
Total financial liabilities		16,367	-	-	-	-	-	-	-	-	-	16,367
On-balance sheet gap		3,201,683	-	173,789	-	5,000	-	-	-	-	-	3,022,894
Cumulative MROR			-	173,789	173,789	173,789	178,789	178,789	178,789	178,789	178,789	3,201,683

* This represents the effective rate of return on TFCs of Al Zamin Leasing Modaraba- II.

19. RISK MANAGEMENT

The Fund is primarily a stock market fund, which invests in listed securities. Investment in shares of companies carries a risk that is considered higher than that of investment in debt securities. Capital invested in the stock market could, in extreme circumstances, lose its entire value.

Asset allocation is determined by the Fund's Investment Manager who manages the distribution of the assets to achieve the investment objectives. The Investment Manager invests in diversified securities thus reducing the risk associated with investing in the stock market. The Fund also maintains positions in a variety of derivative financial instruments as dictated by its investment management strategy.

The Fund's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The major types of financial risk to which the Fund is exposed are market risk, credit risk and liquidity risk. The risk management policies employed by the Fund are discussed below.

19.1 Market risk

Market risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. The value of investments may fluctuate due to change in business cycles affecting the business of the company in which the investment is made, change in business circumstances of the company, industry environment and / or the economy in general.

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The primary objective of the Fund is to provide the maximum return to the unit holders from investment in Shariah compliant investments for the given level of risks. The Fund, in addition to equities, deferred sale transactions and Riba free bank deposits, is also permitted to invest in TFCs, Musharika, Murabaha and other asset-backed securities allowed by SECP and confirmed as Shariah compliant by the Fund's Shariah Advisor, Meezan Bank Limited. The Fund's market risk is managed on a daily basis by the Investment Manager in accordance with the policies and procedures laid down by the Securities and Exchange Commission of Pakistan. The funds are allocated among various asset classes based on the attractiveness of the particular asset class. The allocation among these is dependent on the time horizon for investments and liquidity requirements of the portfolio. The market risk is managed by monitoring exposure to marketable securities, and by complying with the internal risk management policies and regulations laid down in NBFC Rules. The risk is also mitigated by investing in consistent dividend paying companies having growth prospects and / or which are actively traded. The Fund's overall market positions are monitored on a monthly basis by the Board of Directors of the Management Company of the Fund.

Details of the Fund's investment portfolio at the balance sheet date are disclosed in note 5 to these financial statements. All individual investments in debt and equity instruments are disclosed separately. Details of the nature and terms of derivative financial instruments outstanding at the balance sheet date are set out in note 6 of these financial statements.

19.2 Credit risk and concentration of credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's Investment Manager has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At 30 June 2007, the financial assets that are exposed to credit risk are investments in debt instruments, amounts receivable from brokers against sale of investments, derivative financial assets and other receivables. The total carrying amount of financial assets exposed to credit risk amounted to Rs. 3,831.560 million (2006: Rs. 3,218.050 million).

Credit risk arising on debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of atleast "A". The Fund receives a monthly rating update, against which investments are reviewed. Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties.

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

19.3 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 investments are considered to be readily realisable as they are all listed on stock exchanges of the country. The Fund manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

19.4 Market rate of return (MROR) risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund is exposed to an insignificant MROR risk as it makes investments in equity securities.

20. FAIR VALUES OF FINANCIAL INSTRUMENTS

As the assets and liabilities are essentially short term in nature, the carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values.

21. PERFORMANCE TABLE

	2007	2006	2005	2004*
Net assets (Rs. '000)	3,679,298	3,199,548	2,006,000	1,311,494
Net income (Rs. '000)	880,157	868,841	598,424	252,765
Net assets value (NAV)				
per unit as at 30 June (Rs.)	75.49	58.62	58.71	54.44
Dividend distribution (%)	31.20	35	35	15
Highest offer price per unit (Rs.)	77.63	93.01	87.15	66.35
Lowest offer price per unit (Rs.)	57.63	59.43	53.40	48.62
Highest redemption price per unit (Rs.)	75.88	90.92	85.41	65.02
Lowest redemption price per unit (Rs.)	56.33	58.09	52.33	47.65

* First period of operations from 08 August 2003 to 30 June 2004.

22. NON ADJUSTING EVENTS

The Board of Directors in its meeting held on 10 July 2007 has announced a bonus issue of 31.2% (2006: 35 %) amounting to Rs. 760.33 million (2006: Rs. 735.61 million) equivalent to 12,695,418 bonus units (2006: 12,548,813 bonus units). The financial statements for the year ended 30 June 2007 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending 30 June 2008.

	2007	2006
	Number of units	
The effect of issue of bonus units is as follows:		
Number of units in issue before bonus units	<u>48,739,012</u>	<u>42,034,940</u>
Number of units in issue after bonus units	<u>61,434,430</u>	<u>54,583,754</u>
	Rupees	
Net assets value per unit before bonus issue	<u>75.49</u>	<u>76.12</u>
Net assets value per unit after bonus issue	<u>59.89</u>	<u>58.62</u>

23. DATE OF AUTHORISATION FOR ISSUE

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

24. GENERAL

24.1 There were no reclassifications and restatements requiring disclosures.

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

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

Chief Executive

Director