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Our Vision

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

Our Mission

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

FUND INFORMATION

MANAGEMENT COMPANY

Al Meezan Investment Management Limited
Ground Floor, Block "B", Finance & Trade Centre,
Shahrah-e-Faisal, Karachi 74400, Pakistan.
Phone: (9221) 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. Mohammad Shoaib, CFA	Chief Executive
Mr. Tasnimul Haq Farooqui	Director
Mr. Aliuddin Ansari	Director
Mr. Rizwan Ata	Director
Mr. Mazhar Sharif	Director
Syed Owais Wasti	Director

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
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

Al Baraka Islamic Bank B.S.C (E.C)
Bank Alfalah Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking
Bank Islami Pakistan Limited
Emirates Global Islamic Bank Limited
Dawood Islamic Bank Limited
Habib Bank Limited - Islamic Banking
Habib Metropolitan Bank Limited - Islamic Banking
MCB Bank Limited - Islamic Banking
Meezan Bank Limited
Soneri Bank Limited - Islamic Banking
UBL Ameen Islamic Banking
Standard Chartered Bank (Pakistan) Limited - 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 Islamic Fund (MIF) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2009.

Economic and Equity Market Review

The fiscal year 2009 was one of the most volatile for global economy with challenges involving sub-prime default, financial market crisis, stock market crashes and souring commodity prices including food inflation. The economic fundamentals for Pakistan were also negatively impacted by global economic downturn and led to various economic imbalances including growing fiscal and trade deficit, rising inflation, declining foreign exchange reserves etc. In all, Pakistan managed an economic growth of 2% as against a target of 5%. The country's foreign exchange reserves declined from US\$ 11.1 billion in June 2008 to US\$ 6.6 billion in November 2008. The Fund's benchmark, Dow Jones - JS Pakistan Islamic Index (DJIMPK), registered a decline of 55% whereas KSE-100 Index declined by about 52% till December 31, 2008.

A tight monetary policy stance was adopted by SBP in the first half of fiscal year 2009 on the back of surging oil and food prices. Later, with the decline in oil prices coupled with lower commodity prices, it helped in easing pressure and economic recovery steadily progressed. Lower commodity prices have continued to ease pressure on external accounts, which alongwith 23-month US\$ 7.6 billion Stand-By Agreement by IMF and other inflows, have lent some degree of stability to Pak Rupee. Moreover, rescinding inflation paved the way for decline in interest rates which helped in bringing overall stability. Likewise, the stock market also experienced a recovery and ended the year at a level of 7,162 up by 48.7% from its lowest level of 4,815 in January 2009.

During the fiscal year 2009, the benchmark index, DJIMPK, declined by 35.4% whereas KSE-100 Index closed at 7,162 posting a 42% decline year on year. The average trading volume at KSE was 109 million shares as compared to 241 million shares a year earlier.

Outlook

Going forward, we maintain a positive view over the future capital market performance. With an expected cut in the policy rate by SBP, the liquidity position will improve and is going to have a positive impact on the stock market. Moreover, growing interest of the foreign investors is seen in the emerging markets. It is expected that Pakistan will also have foreign portfolio inflows (as compared to a net outflow of US\$ 445 million in fiscal year 2009) as our market is trading at an attractive PE multiple of 7x which is more than 50% discount to the regional markets.

Fund Rating

JCR-VIS Credit Rating Company Limited has assessed the fund performance ranking of Meezan Islamic Fund (category: open-end Islamic stock fund), at 'MFR 3-Star' for the one and two year periods ended March 31, 2009.

2-year rankings are based on average performance over the performance horizon and only include those funds which have completed the full term. JCR-VIS star rankings present only comparative performance within a peer group based on historical risk adjusted returns and do not provide assurance of future returns.

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 Karachi Stock Exchange (KSE) listing regulations.
- ▶ The Board of Directors and employees of the management company have signed "Statement of Ethics and Business Practices".
- ▶ The sale and repurchase of units of the Fund carried out by the Directors, CEO, CFO and Company Secretary of the management company are as under:

Trades by		No. of units invested	No. of units redeemed
Mr. Ariful Islam	Director	125,601.72	-
Mr. Rizwan Ata	Director	9,676.54	4,066.14
Mr. Mohammad Shoaib, CFA	Chief Executive	1,446,440.96	529,845.97
Syed Owais Wasti	CFO & Company Secretary	5,476.26	11,606.18

- ▶ Pattern of holding of units is given on page no. 07 of the financial statements.
- ▶ Financial highlights are given in note no. 19 of the financial statements.

Board Meetings

Please refer to note no. 21 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 2010. 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 Karachi Stock Exchange for all their support and guidance. We also take this opportunity to thank the members of the Shariah Supervisory Board of Meezan Bank for their continued guidance and support on Shariah aspects of fund management.

For and on behalf of the Board

Mohammad Shoaib, CFA
Chief Executive

August 20, 2009
Karachi.

**PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2009**

Units held by	Units Held	%
Associated Companies		
Al Meezan Investment Management Limited	6,365,442	6.01
Meezan Bank Limited	7,242,403	6.84
Directors		
Mr. Ariful Islam	200,080	0.19
Mr. Rizwan Ata	34,381	0.03
Syed Owais Wasti	5,476	0.01
Chief Executive		
Mr. Mohammad Shoaib, CFA	1,411,659	1.33
Executives	101,983	0.10
Public Limited Companies	9,907	0.01
Banks and financial institutions	184,107	0.17
Individuals	51,853,523	48.96
Retirement funds	25,898,172	24.45
Other corporate sector entities	9,818,848	9.27
Not for Profit Organizations	2,794,337	2.64
Total	105,920,317	100

REPORT OF THE FUND MANAGER

Meezan Islamic Fund (MIF) is an open end equity fund investing in Shariah compliant listed equity securities.

MIF invests only in Shariah compliant instruments with the objective of maximizing total return for the given level of risk, while abiding by the "Non-Banking Finance Companies Rules, 2003", "Non Banking and Finance Companies and Notified Entities Regulations 2007" and the "Non-Banking Finance Companies and Notified Entities Regulations, 2008", and other prevailing rules and regulations. Total return refers capital gains (realized and unrealized), dividend income (from investment in secondary and primary equities - Musharika), rental income (from operating leases - Ijara), mark-up (from cost-plus sales - Murabaha), and other Shariah Compliant investments.

Strategy and Investment Policy

Performance of MIF is directly linked to the performance of local bourses. The fund manager, Al Meezan Investment Management Limited, actively manages the Fund with an aim to provide maximum risk adjusted total return to the investors. To control risk, the exposure in growth stocks is balanced against that of high dividend yield stocks. Moreover, the fund manager strives to reduce equity exposure in times when the market peaks off while increasing equity exposures near troughs. This may result in temporary underperformance as exposure is increased in a rising market, but it pays off when the market corrects.

Economic Review

The macroeconomic outlook remained bearish during the initial months of fiscal year 2009 as inflationary pressures mounted and current account deficit continued to widen unabated. The main reason for the widening of the current account deficit was the worsening of trade balance which rose to US \$ 5.84 billion during the initial months of fiscal year 2009. This was mainly due to the extraordinary increase in international crude oil prices, which peaked at \$147 per barrel in mid July, and hike in food prices. As a result, foreign exchange reserves declined from US\$ 11.1 billion in June 2008 to US\$ 6.6 billion in November 2008.

Subsequently, the government administered much needed macro stabilization measures like subsidy removal, fiscal deficit management, monetary tightening and tightening of forex market regulations. The impact of these decisions along with reversal in global commodity prices helped in bringing down current account deficit and inflationary pressure. Later, 23-month Stand-By Arrangement with IMF along with strong remittance inflows of US\$ 7.8 billion for the year, the highest ever, helped in reserve replenishment which reached US\$11.84 billion at the close of the year and also helped in stabilization in the rupee-dollar parity. The rupee remained under pressure vis-à-vis the dollar especially in the first half of fiscal year 2009 and closed at about Rs. 81.5, depreciation of 19% for the period under review.

On the domestic front, the Government of Pakistan did not succeed in meeting its tax collection target of Rs.1.3 trillion and collected Rs. 1.15 trillion for the fiscal year 2009. The government has once again set an ambitious target of Rs. 1.37 trillion for fiscal year 2010 for which Federal Board of Revenue is actively bringing about tax administration reforms. Given the current global economic situation, Pakistan is expected to post a growth of 3% in the fiscal year 2010.

On the monetary front these were challenging times for the central bank. In order to arrest the unabated inflation which had reached alarming level of 25% in first four months of fiscal year 2009, and to adhere to IMF conditions, the State Bank of Pakistan (SBP) continued its policy of monetary tightening and raised the discount rate by 1% in July and subsequently 2% in November to 15%. The tight monetary stance resulted in six month KIBOR and T-bill rates to peak at 15.71% and 14.01% respectively. The interest rate environment during the period under review kept the money market very tight with overnight rates making new highs of over 40%.

Later, some corrective measures by SBP included reducing Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) for commercial banks and subsequent cut-off by 1% in discount rate in March helped to improve the liquidity position. As a result, overnight rates declined to 10-11%. The effect of these measures was also reflected in the six month KIBOR and T-bill rates which dropped from their peak by 245 bps and 200 bps to close at 12.76% and 12.01% respectively on June 30, 2009.

Equity Market Review

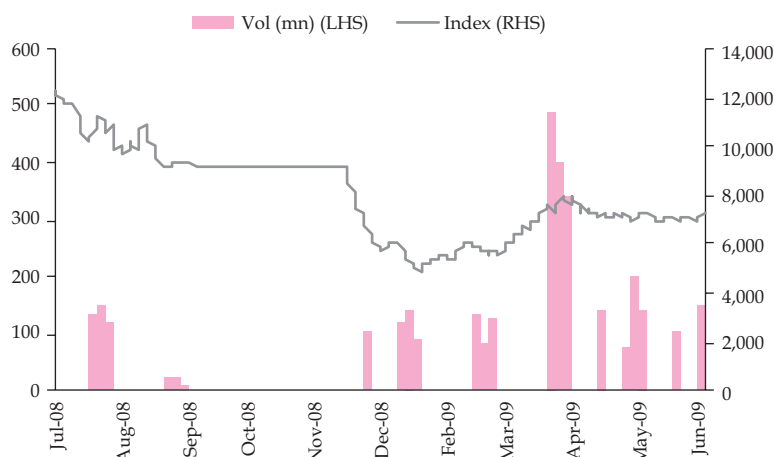
The fiscal year 2009 began on a bearish note for the equity market, in continuation of its decline from previous year. To arrest the sharp decline, Securities and Exchange Commission of Pakistan (SECP) had changed the circuit breakers to a floor of 1% and a cap of 10% at the end of the fiscal year 2008. This measure, however, did not improve the situation and created a problem for margin traders who wanted an exit. Due to the drying up of volumes after the introduction of these circuit breakers, the SECP decided to revert them back to the original 5% level in early July 2008.

Nonetheless, the unabated economic pressures continued to create further downward pressure. To stem further downslide in the market, KSE Board of Directors on August 27, 2008 decided to place a floor on the index at a level of 9,144 based on that day's closing prices. As a result, investors decided to stay from the regular market and trading mainly took place in off the market counter at 20%-50% discount from floor prices.

Due to the imposition of floor for 110 days, Pakistan was removed from the MSCI-Emerging Market Index which resulted in foreign portfolio outflows. On December 15, 2008 the floor was finally removed, with the KSE 100 Index undergoing heavy correction falling to the lowest level of 4,815 by the end of January 2009. With the removal of the price floors, the brokers, who got margin calls from the financiers and were on the verge of default, were ultimately bailed out by financiers and government institutions. Initially trading in the ready market was nominal as prices corrected by 5% daily downward limit for several days.

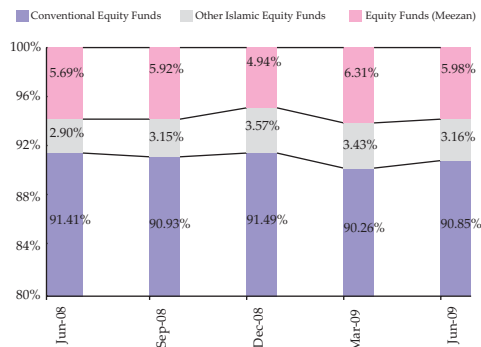
Subsequently, Government administered macro stabilization measures began to lead to some recovery. Consequently, stock market started improving in beginning of calendar year 2009. The major booster for the market came in March, with the restoration of judges and in anticipation of political stability. This provided a further impetus to the market with index breaching psychological barrier of 7,000 points. Other factors contributing to the bull run were inclusion of KSE in MSCI Frontier Index, declining interest rates, incentive driven petroleum policy, and encouraging prospects of funding from the Friends of Democratic Pakistan meeting in April 2009. Eventually, KSE-100 Index closed at the level of 7,162 posting a decline of 42% in fiscal year 2009.

On the international front, all leading indices were adversely affected at the prevalence of the negative sentiment due to global recession. However, as economies stabilized in the latter half of the year, the markets responded likewise and closed above their intra-year lows.



Equity Mutual Fund Industry

The equity mutual fund industry, contributing around 45% to the mutual fund industry, had been enjoying substantial growth since 2002. However, during fiscal year 2009, amid liquidity crunch in the market and closure of stock exchange, the size of the equity funds reduced to Rs. 88 billion in June 2009 from Rs. 144 billion, a year earlier, showing a decline of 39%. While in the same period, the size of the Islamic Mutual Funds depreciated by 35% to Rs. 8.6 billion at the end of fiscal year 2009. The Islamic mutual fund industry marginally gained market share from 8.59% to 9.14% in the current fiscal year. Similarly, Al Meezan's market share in equity funds increased from 5.69% in fiscal year 2008 to 5.98% at the end of fiscal year 2009.



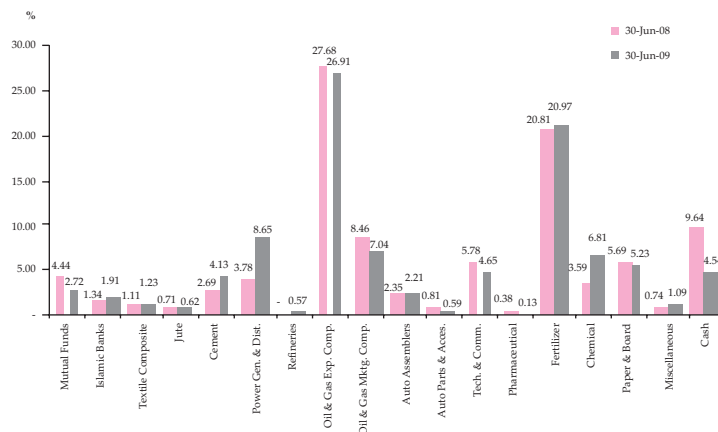
New Initiatives

Al Meezan Investments along with KSE launched the first Co-branded Islamic Index "KSE-Meezan Index (KMI)" in September 2008. The index comprises of thirty companies which qualify KMI Shariah screening criteria and are weighted by float adjusted market capitalization subject to a 12% cap on weights of individual securities.

Implementation and Sector Allocation

The equity market remained closed for 110 days in the first half of the fiscal year 2009 and opened on December 15, 2008, due to which market took a major correction and index went down below 5,000 level. In this connection, fund increased exposure over 95% and made major strategic changes in the portfolio to maximize the dividend yield without comprising the growth potential of the portfolio.

During the period under review the fund maintained significant exposure in oil and fertilizer sectors in order to benefit from rising international oil and fertilizer prices. Average equity exposure of the fund during the period under review was maintained at 90% while at the year end equity exposure stood at 95% in line with the expectation that the bullish trend will continue in the market.



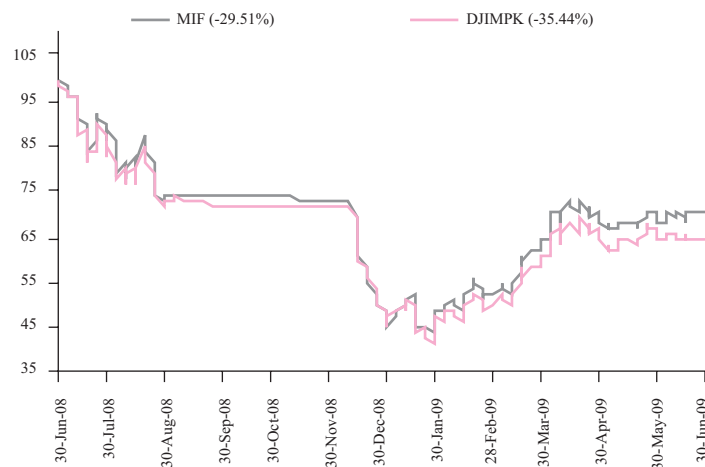
Performance Review

Meezan Islamic Fund (MIF) during the year ended June 30, 2009 incurred a net loss of Rs. 1,564 million as compared to net profit of Rs. 528 million earned during previous year ended June 30, 2008.

During the year, the fund incurred gross loss of Rs. 1,675 million (2008: Gross profit of Rs. 107 million), main contributor of which was capital loss (realized and unrealized) of Rs. 1,982 million (2008: Rs. 187 million) compensated by dividend income of Rs. 283 million (2008: Rs. 230 million). After accounting for expenses of Rs. 101 million (2008: Rs. 177 million) and element of income/capital gain on purchase and sale of units of Rs. 213 million (2008: Rs. 598 million), the fund recorded net loss of Rs. 1,564 million (2008: Net profit of Rs. 528 million) for the year ended June 30, 2009.

The net assets of MIF decreased from Rs. 6,034 million at the beginning of the year to Rs. 3,737 million by the end of fiscal year 2009, a decline of 38%, mainly due to fall in market value of investments. Although the net asset value per unit of MIF declined by 29.5% in the fiscal year 2009, it outperformed its bench mark, DJIMPK, which declined by 35.4%.

	MIF	DJIMPK (Benchmark)
Value as on June 30, 2008 (Bonus Adjusted)	50.05	18,097.44
Value as on June 30, 2009	35.28	11,684.22
Return During the Period -- Net Basis	-29.51%	-35.44%
Return During the Period -- Gross Basis	-27.51%	
Outperformance -- Net basis	5.93%	
Outperformance -- Gross Basis	7.93%	



Meezan Islamic Fund			
	FY 09	FY08	FY 07
Net Asset Value (Rs million)	3,737	6,034	3,679
NAV per unit (Rs)	35.28	60.05	75.49
Highest Redemption Price (Rs)	48.19	71.10	75.88
Lowest Redemption Price (Rs)	21.89	54.77	56.33
Highest Offer Price (Rs)	49.30	72.73	77.63
Lowest Offer Price (Rs)	22.39	56.03	57.63
Total Return (%)	-29.51	0.27	28.78

Charity Statement

According to the Trust Deed of MIF, charity refers to the amount paid by Management Company out of the income of the Trust to a charitable /welfare organization, in consultation with Shariah Advisor, representing income that is Haram. During the year ended June 30, 2009 an amount of Rs. 4.49 million was accrued as charity payable.

Distributions

No distribution was made during Fiscal Year 2008-2009

Breakdown of unit holdings by size:

(As on June 30, 2009)

Range of units	Number of investors
1 - 9,999	6,278
10,000 - 49,999	861
50,000 - 99,999	134
100,000 - 499,999	109
500,000 and above	22
	7,404

Future Outlook

The economic outlook remains very challenging. However, we are optimistic about the long term growth trend in the economy. Future direction of the market is likely to be driven by developments on the economic front. We continue to see the value in Pakistani equities and remain positive on the basis of relative attractive valuations and continuing double-digit earnings growth of listed companies.

REPORT OF THE SHARIAH ADVISER MEEZAN ISLAMIC FUND (MIF)

Karachi
September 1, 2009

In the capacity of Shariah Adviser, we have prescribed five criteria for Shariah compliance of equity investments which relate to (i) Nature of business, (ii) 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 per share vs. share price.

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

- i. We have reviewed and approved the modes of investments of MIF in light of Shariah requirements. The following is a list of investments of MIF as on June 30, 2009 and their evaluation according to the screening criteria established by us. (The latest accounts of the Investee companies available as on March 31, 2009 have been used for the following calculations):

Company Name	Nature of Business	(i)*	(ii)	(iii)	(iv)	(v)	
		Debt to Assets (<40%)	% of Non-Shariah Compliant Investments (<33%)	Non-Compliant Income to Gross Revenue (<5%)	Illiquid Assets to Total Assets (>20%)	Net Liquid Assets vs. Share Price (B>A)	Share Price (B)
Agri Auto Industries Limited	Manufacturers of Automobile Parts and Accessories	0.33%	6.21%	0.79%	69%	4.85	27.96
Attock Cement Pakistan Limited	Cement Manufacturer	0.18%	1.87%	0.33%	87%	(20.28)	67.46
Lucky Cement	Cement Manufacturer	32.83%	0.00%	0.00%	89%	(36.73)	49.39
D.G. Khan Cement Company Limited***	Cement Manufacturer	41.93%***	6.58%	0.03%	95%	(88.55)	21.81
Engro Chemical Pakistan Limited***	Manufacturers of Fertilizers and Chemicals	51.43%***	0.09%	1.34%	87%	(279.41)	144.65
Fauji Cement Company Limited	Cement Manufacturer	20.65%	0.00%	4.04%	88%	(3.46)	6.26
Fauji Fertilizer Bin Qasim Limited	Manufacturers of Fertilizers	33.21%	0.00%	3.78%	71%	(17.94)	17.12
Fauji Fertilizer Company Limited	Manufacturers of Fertilizers	30.74%	2.59%	1.24%	71%	(43.09)	86.92
ICI Pakistan Limited	Manufacturers of Paints, Soda Ash, Staple Fibre and Chemicals	1.06%	0.01%	0.1%	73%	(2.78)	96.18
Indus Motors Company Limited	Automobile Assembling	0.00%	0.00%	0.99%	47%	1.06	73.85
Pakistan Refinery Limited	Provider of refinery Services	5.18%	0.00%	0.08%	24%	(119.19)	68.43
Packages Limited	Manufacturers of Paper and Board	23.83%	21%	0.69%	69%	(32.36)	173.09
Nishat Mills Limited	Manufacturers of Textile Products	22.96%	13.27%	0.05%	74.6%	(46.51)	30.30
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	4.77%	2.37%	54%	5.59	72.07
Pak Suzuki Motors Limited	Automobile Assembling	1.53%	0.00%	1.54%	72%	27.80	54.53
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	5.33%	4.78%	67%	(7.41)	171.06
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.15%	1.9%	4.00%	57%	9.99	173.27

Company Name	Nature of Business	(i)*	(ii)	(iii)	(iv)	(v)	
		Debt to. Assets (<40%)	% of Non-Shariah Compliant Investments (<33%)	Non-Compliant Income to Gross Revenue (<5%)	Illiquid Assets to Total Assets (>20%)	Net Liquid Assets vs. Share Price (B>A)	Net Liquid Assets per Share (A)
Pakistan State Oil Company Limited	Distribution of Oil & Gas	15.23%	0.00%	0.00%	37%	(162.66)	195.94
Pakistan Telecommunication Company Limited	Telecom	6.28%	0.00%	3.42%	70%	(6.98)	16.68
Sitara Chemical Industries Limited	Manufacturers of Soda Ash and Chemicals	0.00%	0.00%	0.06%	78%	(195.08)	170.9
Sui Northern Gas Pipeline Limited	Distribution of Gas	3.03%	0.00%	0.2%	61%	(107.44)	30.22
Thal Limited	Manufacturers of Jute bags and Acs and Wire Harness of Cars	19.33%	0.57%	0.82%	79%	(39.78)	54.86
The Hub Power Company Limited	Producer of Power & Energy	19.92%	0.88%	0.05%	52%	(8.38)	20.62
Glaxo Smith Kline Limited	Manufacturers of Pharmaceutical Products	0.00%	2.93%	1.19%	53%	10.67	90.64
Tri - Pack Films	Manufacture of Biaxially Oriented Polypropylene	39.79%	0.00%	0.51%	74%	(56.33)	98.45
Meezan Bank Limited	Islamic Commercial Bank	**					
Al Meezan Mutual Fund Limited	Closed end Mutual Fund	**					

* All interest based debts

** These ratios are for the calculation of non-Shari'ah Compliant Element in the business and are not relevant for Islamic Financial Institution.

*** The scrip become non-compliant on the basis of latest accounts and will be disinvested within the grace period.

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 by us.

ii. On the basis of information provided by the management, all operations of MIF for the year ended June 30, 2009 have been in compliance with the Shariah principles.

During the Year a provision of Rupees 4.304 million was transferred to charity account and an amount of Rupees 3.849 million was disbursed.

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

Dr. Muhammad Imran Ashraf Usmani

Shariah Adviser

INDEPENDENT ASSURANCE PROVIDER'S REPORT ON SHARIAH COMPLIANCE TO THE UNITHOLDERS

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 Adviser of Meezan Islamic Fund for the year ended June 30, 2009.

Management company's responsibility

Management company of the Fund is responsible for the appointment of Shariah Adviser of the Fund and for compliance with the Shariah guidelines prescribed by the Shariah Adviser. This responsibility includes: designing, implementing and maintaining internal control to ensure compliance with the Shariah guidelines issued by the Shariah Adviser 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 Adviser.

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 Adviser of the Fund for the year ended June 30, 2009.

A. F. Ferguson & Co.
Chartered Accountants
Karachi, September 28, 2009

TRUSTEE REPORT TO THE UNIT HOLDERS

MEEZAN ISLAMIC FUND

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

Meezan Islamic Fund (the Fund), an open-end scheme was established under a trust deed dated June 16, 2003, executed between Al Meezan Investment Management Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee.

In our opinion, the management company has in all material respects managed the Fund during the year ended June 30, 2009 in accordance with the provisions of the following:

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

Muhammad Hanif

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi, September 18, 2009

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 (now 35) of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The board of directors (the Board) of Al-Meezan Investment Management Limited, the management company, which is an unlisted public company, manages the affairs of Meezan Islamic Fund (the Fund). The Fund being a unit trust scheme does not have its own board of directors. The management company has applied the principles contained in the code to the Fund, whose units are listed as a security on the Karachi Stock Exchange, in the following manner:

1. The management company encourages representation of non-executive directors. All the directors except the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are non-executive directors.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the management company.
3. All the existing resident directors of the management company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. No casual vacancy occurred during the year on the Board of the management company of the Fund.
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. The minutes of the meetings were appropriately recorded and circulated.
9. The orientation course for the directors of the management company was arranged during the year ended June 30, 2007.
10. The Board has approved the appointment of the Chief Financial Officer (CFO) and the company secretary of the management company.
11. The directors' report relating to the Fund, for the year ended June 30, 2009 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Fund were duly endorsed by the CEO and the CFO of the management company before approval by the Board.
13. The interest of the CEO, Directors and the Executives in the units of the Fund is disclosed in the pattern of unit holdings.
14. The management company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It comprises of three non-executive directors of the management company as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the Board of the management company and advised to the committee for compliance.
17. The Board has outsourced the internal audit function of the Fund to a 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 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, 2009 have been placed before the audit committee and approved by the board of directors in their respective meetings held on August 19 and 20, 2009 instead of at each of their meetings held since January 19, 2009.
21. We confirm that all other material principles contained in the Code have been complied with.

Syed Owais Wasti
Chief Financial Officer

Mohammad Shoaib, CFA
Chief Executive

Karachi.
August 20, 2009

REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH THE 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 Al Meezan Investment Management Limited (the management company) of Meezan Islamic Fund (the Fund) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange where the Fund is listed.

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

Further, Sub-Regulation (xiii a) of Listing Regulation 37 (now Regulation 35) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 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 equivalent to those that prevail in arm's length transaction 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 to check the approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee which were done in their respective meetings held on August 20 and 19, 2009. 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'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 June 30, 2009.

A. F. Ferguson & Co.
Chartered Accountants
Karachi, September 28, 2009

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the accompanying financial statements of Meezan Islamic Fund, which comprise the statement of assets and liabilities as at June 30, 2009, and the related income statement, distribution statement, statement of movement in unitholder's fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2009 and of its financial performance, cash flows and transactions for the year then ended in accordance with the requirements of the approved accounting standards as applicable in Pakistan.

Other matters

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

A. F. Ferguson & Co.
Chartered Accountants
Karachi, September 28, 2009

Audit Engagement Partner: Saad Kaliya.

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2009

	Note	2009 (Rupees in '000)	2008
Assets			
Balances with banks	5	142,537	264,232
Investments at fair value through profit or loss	6	3,568,703	5,775,714
Receivable against sale of investments		6,076	-
Dividend receivable		36,020	52,860
Advances, deposits and other receivables	7	9,588	14,903
Total assets		3,762,924	6,107,709
Liabilities			
Payable to Al Meezan Investment Management Limited - management company of the Fund	8	6,666	15,536
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund	9	397	581
Payable to Meezan Bank Limited - shariah adviser of the Fund	10	1,223	1,581
Payable to Securities and Exchange Commission of Pakistan	11	3,867	5,040
Payable on redemption of units		5,609	31,913
Payable against purchase of investments		5	11,531
Accrued expenses and other liabilities	12	7,864	7,059
Total liabilities		25,631	73,241
Net assets		3,737,293	6,034,468
 Unitholders' fund (as per statement attached)		3,737,293	6,034,468
		Number of units	
Number of units in issue	13	105,920,317	100,488,707
		Rupees	
Net assets value per unit		35.28	60.05

The annexed notes 1 to 26 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 JUNE 30, 2009

	Note	2009 (Rupees in '000)	2008
Income			
Net realised (loss) / gain on sale of investments		(1,050,669)	309,845
Dividend income		282,896	229,569
Profit on savings accounts with banks		21,758	55,824
Other income		2,303	9,067
		<u>(743,712)</u>	<u>604,305</u>
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)		(931,370)	(451,450)
Loss on re-measurement of derivative financial instruments (net)		-	(45,408)
		<u>(931,370)</u>	<u>(496,858)</u>
Total (loss) / income		<u>(1,675,082)</u>	<u>107,447</u>
Expenses			
Remuneration to Al Meezan Investment Management Limited - management company of the Fund	8.1	85,062	151,200
Remuneration to Central Depository Company of Pakistan Limited - trustee of the Fund	9	4,973	6,043
Remuneration to Meezan Bank Limited - shariah adviser of the Fund	10	444	600
Annual fee to Securities and Exchange Commission of Pakistan	11	3,867	5,040
Auditors' remuneration	14	513	465
Fees and subscription		35	35
Legal and professional charges		150	191
Amortisation of preliminary expenses and floatation costs		-	277
Brokerage		5,058	11,543
Bank and settlement charges		659	1,428
Printing charges		590	431
Total expenses		<u>101,351</u>	<u>177,253</u>
Net loss from operating activities		<u>(1,776,433)</u>	<u>(69,806)</u>
Element of income and capital gains included in prices of units issued less those in units redeemed (net)		212,565	597,820
Net (loss) / income		<u>(1,563,868)</u>	<u>528,014</u>

The annexed notes 1 to 26 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 JUNE 30, 2009

	2009 (Rupees in '000)	2008
Undistributed income brought forward	1,010,031	1,242,346
Less : Final distribution in the form of bonus units @ 20% for the year ended June 30, 2008 (June 30, 2007 @ 31.2%)	(1,004,058)	(760,329)
Less : Final distribution in the form of cash dividend for the year ended June 30, 2008 (June 30, 2007 @ Nil)	(829)	-
Net income for the year	(1,563,868)	528,014
Undistributed (loss) / income carried forward	<u>(1,558,724)</u>	<u>1,010,031</u>

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

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

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2009

	2009 (Rupees in '000)	2008
Net assets at the beginning of the year	6,034,468	3,679,298
Issuance of 23,788,808 (2008: 67,324,604) units	891,081	4,223,638
Redemption of 38,418,307 (2008: 28,270,327) units	(1,410,994)	(1,798,662)
	(519,913)	2,424,976
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	(212,565)	(597,820)
Net income for the year less distribution	(2,568,755)	(232,315)
Issue of 20,061,109 bonus units for the year ended June 30, 2008 (2007: 12,695,418 bonus units)	1,004,058	760,329
Net assets at the end of the year	3,737,293	6,034,468
Net asset value per unit at the beginning of the year - Rupees	60.05	75.49
Net asset value per unit at the end of the year - Rupees	35.28	60.05

The annexed notes 1 to 26 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 JUNE 30, 2009

	Note	2009 (Rupees in '000)	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / income for the year		(1,563,868)	528,014
Adjustments for:			
Dividend income		(282,896)	(229,569)
Profit on savings accounts with banks		(21,758)	(55,824)
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)		931,370	451,450
Loss on re-measurement of derivative financial instruments (net)		-	45,408
Amortisation of preliminary expenses and floatation costs		-	277
Element of income and capital gains included in prices of units issued less those in units redeemed (net)		<u>(212,565)</u>	<u>(597,820)</u>
		(1,149,717)	141,936
Decrease / (increase) in assets			
Investments at fair value through profit or loss		1,275,641	(3,383,098)
Receivable against sale of investments		(6,076)	166,388
Advances, deposits and other receivables		-	(2,500)
		1,269,565	(3,219,210)
(Decrease) / increase in liabilities			
Payable to Al Meezan Investment Management Limited - management company of the Fund		(8,870)	13,021
Payable to the Central Depository Company of Pakistan Limited - trustee of the Fund		(184)	157
Payable to Meezan Bank Limited - shariah adviser of the Fund		(358)	498
Payable to Securities and Exchange Commission of Pakistan		(1,173)	1,458
Payable on redemption of units		(26,304)	(52,237)
Payable against purchase of investments		(11,526)	(44,885)
Accrued expenses and other liabilities		805	2,844
		(47,610)	(79,144)
Dividend received		299,736	193,357
Profit received on savings accounts with banks		27,073	54,704
Dividend paid		(829)	-
Net cash inflow / (outflow) from operating activities		398,218	(2,908,357)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from sale of units		891,081	4,223,638
Payments against redemption of units		(1,410,994)	(1,798,662)
Net cash (outflow) / inflow from financing activities		(519,913)	2,424,976
Net cash outflow during the year		(121,695)	(483,381)
Cash and cash equivalents at the beginning of the year		264,232	747,613
Cash and cash equivalents at the end of the year	5	<u>142,537</u>	<u>264,232</u>

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

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

Chief Executive

Director



MEEZAN
Islamic Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Meezan Islamic Fund (the Fund) was established under a Trust Deed executed between Al Meezan Investment Management Limited (AMIML) as management company and Central Depository Company of Pakistan Limited (CDC) as trustee. The Trust Deed was executed on June 16, 2003 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on June 4, 2003 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). On November 21, 2007 Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations, 2007) were notified which are now superseded by the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations, 2008) issued through S.R.O.1203(I)/2008 on November 21, 2008. The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2** The Fund has been formed to 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 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 SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3** The Fund is an open-end fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The SECP through its circular No. 23 of 2008 dated October 7, 2008, suspended the pricing, issuance and redemption of units by mutual funds with direct exposure to equity securities which was uplifted on December 17, 2008. The Fund, further suspended dealing in its units from December 17, 2008 till December 29, 2008. The rating of the Fund has not been conducted as of June 30, 2009. The management company of the Fund has been given quality rating of AM2- and credit rating of A by JCR - VIS.
- 1.4** Title to the assets of the Fund is held in the name of CDC as a trustee of 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 adviser are accounted for on substance rather than the form prescribed by aforementioned guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

3. STATEMENT OF COMPLIANCE

- 3.1** 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, 2007, NBFC Regulations, 2008 and the directives issued by the SECP.

Wherever the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations, 2007, NBFC Regulations, 2008 or the said directives differ with the requirements of IFRSs, the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations, 2007, NBFC Regulations, 2008 and the said directives take precedence.

3.2 Standards, amendments and interpretations effective during the year ended June 30, 2009:

During the year, IFRS 7 'Financial Instruments : Disclosures' became effective. This IFRS has superseded IAS 30 and the disclosure requirements of IAS 32. The presentation requirements of IAS 32 remain unchanged. This IFRS requires disclosures in the financial statements that enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. Such disclosures have been set out in note 16 to these financial statements.

Certain standards, amendments and interpretations to the approved accounting standards were mandatory for accounting periods beginning on or after July 1, 2008 but are considered not to be relevant or have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective from January 1, 2009) introduces enhanced disclosures relating to liquidity risk and fair value measurements. However it does not have any impact on the classification and valuation of the financial instruments.

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or have any significant effect on the Fund's operations and are therefore not detailed 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. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4.1 Accounting convention

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

4.2 Critical accounting estimates and judgments

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 judgment 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 (notes 4.3, 4.4, 4.5 and 6)
- (b) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.12)

Estimates and judgments 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 assets and financial liabilities at fair value through profit or loss' are expensed immediately.

Subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the income statement. Changes in the fair value of 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 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 shares of listed companies / units of funds, derivatives and financial instruments sold on deferred settlement basis is based on their price quoted on the Karachi Stock Exchange at the balance sheet date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

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 profit or loss is removed from equity and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is recognised in equity.

4.3.6 Derecognition

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

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

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

4.5 Financial instruments sold on deferred settlement basis

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

4.6 Unitholders' fund

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

4.7 Issue and redemption of units

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

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

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

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

The 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.

4.9 Provisions

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

4.10 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from August 8, 2003 in accordance with the Trust Deed of the Fund.

4.11 Net assets value per unit

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

4.12 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. Accordingly, the Fund has not recorded a tax liability in respect of income relating to the current period as the Fund intends to avail this exemption.

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

Deferred

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

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

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on enacted tax rates. However, the Fund has distributed and intends to continue availing the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no deferred tax has been recognised in these financial statements.

4.13 Revenue recognition

- (i) Gains / (losses) arising on sale of investments are included in the income statement currently on the date when the transaction takes place.
- (ii) Unrealised gains / (losses) arising on revaluation of securities classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- (iii) Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the income statement.
- (iv) Dividend income is recognised when the Fund's right to receive the dividend is established.
- (v) Profit on savings accounts with banks and investments in debt instruments are recorded on an accrual basis.
- (vi) Transaction costs are recognised as income as and when the units are issued.

4.14 Expenses

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

4.15 Offsetting of financial instruments

A financial asset and financial liability 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.

4.16 Zakat

Units held by resident Pakistani unitholders are subject to Zakat at 2.5% of the face value or redemption value of the units, 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.

4.17 Cash and cash equivalents

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

4.18 Dividend and bonus units

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.

	Note	2009 (Rupees in '000)	2008
5. BALANCES WITH BANKS			
On current accounts		127	1,813
On saving accounts	5.1	<u>142,410</u>	<u>262,419</u>
		<u>142,537</u>	<u>264,232</u>

5.1 The balances in saving accounts bears expected profit which ranges from 4.97 % to 15 % (2008 : 3% to 9.5%) per annum.

6. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2009 (Rupees in '000)	2008
Held for trading - shares of listed companies / units of fund	6.1	3,194,878	5,060,523
Investments at 'fair value through profit or loss upon initial recognition'	6.2	<u>373,825</u>	<u>715,191</u>
		<u>3,568,703</u>	<u>5,775,714</u>

6.1 Held for trading - shares of listed companies / units of fund

Name of the investee company	As at July 1, 2008	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Market value as at June 30, 2009	Unrealised gain / (loss)	Percentage of total market value of investments
	Number of Shares/units					Rupees in '000			
Open - end mutual fund									
Meezan Islamic Income Fund (note 6.1.1) (an associate of the Fund)	6,276,250	2,366,942	227,117	(8,870,309)	-	-	-	-	-
Textile composite									
Nishat Mills Limited	778,000	932,750	-	(497,000)	1,213,750	69,523	45,904	(23,619)	1.29
Jute									
Thal Limited (note 6.1.1)	220,034	10,000	88,013	(17,000)	301,047	41,280	23,316	(17,964)	0.65
Cement									
Attock Cement Pakistan Limited	519,100	60,300	-	(165,000)	414,400	31,087	29,099	(1,988)	0.82
Cherat Cement Company Limited	50,300	-	-	(50,300)	-	-	-	-	-
D. G. Khan Cement Company Limited	1,609,300	1,875,900	62,880	(3,485,200)	62,880	1,258	1,864	606	0.05
Fauji Cement Company Limited	1,278,010	1,455,000	-	(1,942,500)	790,510	7,052	5,209	(1,843)	0.15
Lucky Cement Limited	-	2,131,400	-	(109,500)	2,021,900	99,399	118,342	18,943	3.32
									4.34
Refinery									
Pakistan Refinery Limited	-	288,300	-	(50,000)	238,300	29,252	21,399	(7,853)	0.60
Power generation and distribution									
The Hub Power Company Limited	7,980,500	7,172,500	-	(3,220,000)	11,933,000	294,500	323,265	28,765	9.06
Oil and gas marketing companies									
Pakistan State Oil Company Limited	1,061,200	809,200	-	(757,100)	1,113,300	323,877	237,857	(86,020)	6.67
Sui Northern Gas Pipelines Limited	1,556,300	537,700	-	(1,305,600)	788,400	33,649	25,189	(8,460)	0.71
									7.38
Oil and gas exploration companies									
Oil and Gas Development Company Limited (note 6.1.2)	4,679,866	3,713,200	-	(2,517,300)	5,875,766	556,377	462,070	(94,307)	12.95
Pakistan Oilfields Limited	1,029,400	1,014,800	201,880	(727,000)	1,519,080	325,720	221,634	(104,086)	6.21
Pakistan Petroleum Limited	2,899,420	638,800	294,042	(2,131,200)	1,701,062	358,718	322,419	(36,299)	9.03
									28.19
Automobile assembler									
Indus Motor Company Limited	522,577	55,500	-	(45,500)	532,577	101,506	57,369	(44,137)	1.61
Pak Suzuki Motor Company Limited	310,810	96,700	-	(36,600)	370,910	43,035	25,185	(17,850)	0.70
									2.31
Automobiles parts and accessories									
Agriauto Industries Limited (note 6.1.1)	589,000	20,100	119,800	(49,700)	679,200	46,106	22,169	(23,937)	0.62
Technology and communication									
Pakistan Telecommunication Company Limited "A"	7,325,000	5,390,900	-	(2,650,000)	10,065,900	291,935	173,536	(118,399)	4.86
TRG Pakistan Limited	10,488,000	1,500,000	-	(11,988,000)	-	-	-	-	-
									4.86
Fertilizer									
Engro Chemical Pakistan Limited	1,684,738	819,100	736,335	(2,444,300)	795,873	52,270	102,214	49,944	2.86
Fauji Fertilizer Company Limited	3,396,062	2,176,600	1,604,767	(1,132,900)	6,044,529	510,855	525,572	14,717	14.73
Fauji Fertilizer Bin Qasim Limited	9,267,500	3,341,000	-	(3,785,000)	8,823,500	259,663	156,088	(103,575)	4.37
									21.96
Chemical									
ICI Pakistan Limited	1,205,500	780,100	-	(270,000)	1,715,600	222,523	240,613	18,090	6.74
Sitara Chemical Industries Limited	87,690	-	-	-	87,690	22,137	13,680	(8,457)	0.38
									7.12
Miscellaneous									
Tri-Pack Films Limited	260,000	181,300	-	(32,000)	409,300	65,613	40,885	(24,728)	1.15
Total						3,787,335	3,194,878	(592,457)	
Total cost of investments							3,851,193		

6.1.1 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 and units of Meezan Islamic Income Fund which have a face value of Rs 50 each.

6.1.2 400,000 shares of Oil and Gas Development Company Limited, having market value of Rs. 31.456 million as at June 30, 2009, have been pledged as collateral in favour of National Clearing Company of Pakistan Limited against exposure margins and mark to market losses.

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

6.2.1 Shares of listed companies

Name of the investee company	As at July 1, 2008	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Market value as at June 30, 2009	Unrealised gain / (loss)	Percentage of total market value of investments
	Number of Shares				Rupees in '000				
Closed-end mutual fund									
Al Meezan Mutual Fund Limited (an associate of the Fund)	19,570,700	-	-	-	19,570,700	268,119	101,768	(166,351)	2.85
Commercial bank									
Meezan Bank Limited (an associate of the Fund)	2,647,344	868,000	2,991,672	-	6,507,016	124,776	71,577	(53,199)	2.00
Pharmaceutical									
Glaxosmithkline Pakistan Limited	136,093	-	-	95,000	41,093	6,986	4,923	(2,063)	0.14
Paper and board									
Packages Limited	1,362,569	24,000	-	141,300	1,245,269	312,857	195,557	(117,300)	5.48
Grand Total						<u>712,738</u>	<u>373,825</u>	<u>(338,913)</u>	
Total cost of Investments							<u>633,015</u>		

7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

	Note	2009 (Rupees in '000)	2008
Advance tax recoverable		76	76
Security deposits		2,600	2,600
Profit receivable on savings accounts with banks		6,912	12,227
		<u>9,588</u>	<u>14,903</u>

8. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED - management company of the Fund

Management fee	8.1	6,084	14,551
Sales load payable		578	704
Preliminary expenses and floatation costs		-	277
Certificate charges payable		4	4
		<u>6,666</u>	<u>15,536</u>

8.1 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. Accordingly the remuneration of the management company has been charged at the rate of three percent per annum for the five years period ended August 8, 2008 and two percent per annum for the period August 9, 2008 to June 30, 2009.

9. 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.

10. PAYABLE TO MEEZAN BANK LIMITED - shariah adviser of the Fund

	Note	2009 (Rupees in '000)	2008
Shariah advisory fee	10.1	1,044	600
Sales load		179	981
		1,223	1,581

10.1 This represents an amount payable to MBL for providing technical services relating to shariah matters. During the year ended June 30, 2009, the SECP through its circular 11 of 2009 dated March 26, 2009 required that the shariah advisory fee shall not be charged to the collective investment scheme. Accordingly, the management has ceased to charge such fee to the Fund from March 26, 2009.

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

This represents annual fee payable to SECP. Under regulation 71 of NBFC Regulations, 2007, fee at the rate of one tenth of one percent of the average annual net assets of the fund is payable to SECP. Subsequent to the notification of NBFC Regulations, 2008 on November 21, 2008, fee at the rate of 0.095 percent of the average annual net assets of the fund is payable to SECP under regulation 62 read with Schedule II of the NBFC Regulations, 2008.

	Note	2009 (Rupees in '000)	2008
12. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		350	320
Withholding tax payable		263	332
Charity payable	12.1	6,615	5,977
Performance rating fee		224	74
Printing charges payable		331	212
Tax advisory fee		-	40
Others		81	104
		7,864	7,059

12.1 According to the instructions of the shariah adviser, 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 6.615 million (2008: Rs 5.977 million) is outstanding in this regard after making charity payments of Rs 3.849 million (2008: 2.000 million) to renowned charitable institutions. None of the directors of the management company of the Fund were interested in any of donees.

13. CLASSES OF UNITS IN ISSUE

13.1 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.

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

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

13.3 The units in issue as at June 30, 2009 and 2008 in each class and their par values were as follows:

Class	2009		2008	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
A				
- Growth units	6,745,578	337,279	6,950,295	347,515
B				
- Growth units	98,981,253	4,949,063	93,455,554	4,672,778
- Income units	193,486	9,674	82,858	4,143
Total	<u>105,920,317</u>	<u>5,296,016</u>	<u>100,488,707</u>	<u>5,024,436</u>

2009 2008
(Rupees in '000)

14. AUDITORS' REMUNERATION

Audit fee	250	220
Half yearly review	95	95
Other certifications and services	100	100
Out of pocket expenses	68	50
	<u>513</u>	<u>465</u>

15. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

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

Remuneration payable to the management company and the trustee is determined in accordance with the provision of NBFC Rules, NBFC Regulations, 2007 and NBFC Regulations, 2008 and the Trust Deed respectively.

Details of transactions with connected persons and balances with them for the year ended June 30, 2009 and as of that date are as follows:

	2009	2008
	(Rupees in '000)	
Al Meezan Investment Management Limited		
- management company of the Fund		
Remuneration payable	<u>6,084</u>	<u>14,551</u>
Sale load payable	<u>578</u>	<u>704</u>
Preliminary expenses and floatation cost	<u>-</u>	<u>277</u>
Certificate charges payable	<u>4</u>	<u>4</u>
Investment of 6,365,442 units (June 30, 2008: 5,295,172 units)	<u>224,573</u>	<u>317,975</u>
Al Meezan Mutual Fund Limited		
Investment in 19,570,700 shares (June 30, 2008: 19,570,700 shares)	<u>101,768</u>	<u>268,119</u>
Meezan Islamic Income Fund		
Investment in Nil units (June 30, 2008: 6,276,250 units)	<u>-</u>	<u>322,160</u>
Meezan Bank Limited		
Bank balance	<u>14,439</u>	<u>43,444</u>
Shariah advisory fee payable	<u>1,044</u>	<u>600</u>
Sales load payable	<u>179</u>	<u>981</u>
Investment in 6,507,016 shares (June 30, 2008: 2,647,344 shares)	<u>71,577</u>	<u>80,718</u>
Investment of 7,242,403 units (June 30, 2008: 6,036,341 units)	<u>255,512</u>	<u>362,482</u>
Central Depository Company of Pakistan Limited		
Trustee fee payable	<u>386</u>	<u>567</u>
CDS Charges payable	<u>11</u>	<u>14</u>
Directors and executives		
Investment of 1,753,579 units (June 30, 2008: 547,740 units)	<u>61,866</u>	<u>32,189</u>

	For the year ended	
	June 30, 2009	June 30, 2008
Al Meezan Investment Management Limited	(Rupees in '000)	
- management company of the Fund		
Remuneration for the year	85,062	151,200
Bonus units issued: 1,057,976 units (2008: 22 units)	52,952	1
Units issued: 1,627,058 units (2008: 5,297,972 units)	64,000	330,500
Redemptions: 1,614,764 units (2008: 2,905 units)	57,000	175
Al Meezan Mutual Fund Limited		
Dividend income	19,571	42,545
Meezan Bank Limited		
Profit on savings account	381	3,393
Shariah advisory fee	444	600
Bonus units issued: 1,206,062 units (2008: 1,247,409 units)	60,363	74,707
Units issued: Nil units (2008: 6,036,341 units)	-	380,525
Redemptions: Nil units (2008: 6,036,341 units)	-	380,531
Central Depository Company of Pakistan Limited		
Trustee fee	4,973	6,043
CDS charges	154	169
Pakistan Kuwait Investment Company (Private) Limited		
Bonus units issued: Nil units (2008: 311,852 units)	-	18,677
Redemptions: Nil units (2008: 1,509,085 units)	-	99,690
Directors and executives		
Bonus units issued: 109,438 units (2008: 77,453 units)	5,477	4,639
Units issued: 1,720,691 units (2008: 282,517 units)	55,175	16,487
Redemptions: 624,290 units (2008: 121,296 units)	22,828	2,744

16. FINANCIAL RISK

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

Risk of the Funds are being managed by the fund manager in accordance with the approved policies of the Investment Committee which provides broad guidelines for management of risk pertaining to market risks (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 SECP.

Risks managed and measured by the Fund are explained below:

16.1 Market risk

16.1.1 Price risk

Price risk is the risk of volatility in prices of financial instruments resulting from their dependence on market sentiments, speculative activities, supply and demand for financial instruments 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 maximum return to the unit holders from investment in shariah compliant investments for the given level of risks. The Fund's market risk is managed on a daily basis by the fund manager in accordance with the policies and procedures laid down by SECP. 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 Regulations, 2007 and NBFC Regulations, 2008.

The Fund's overall market positions are monitored on a quarterly basis by the board of directors of the management company of the Fund.

Details of the Fund's investment portfolio exposed to price risk, at the balance sheet date are disclosed in note 6 to these financial statements. At June 30, the Fund's overall exposure to price risk is limited to the fair value of those positions. The Fund manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weighting to that of the Dow Jones - JS Pakistan Islamic Index (DJIMPK). The Fund's policy is to concentrate the investment portfolio in sectors where management believe the Fund can maximise the returns derived for the level of risk to which the Fund is exposed.

The net assets of the Fund will increase / decrease by approximately Rs 3 million (2008: decrease / increase approximately Rs 12 million) if the prices of equity vary due to increase / decrease in DJIMPK. This is based on the assumption that the fair value of the Fund's portfolio moves according to their historical correlation with DJIMPK and that DJIMPK increase / decreases by 10 points with all other factors held constant.

The fund manager uses DJIMPK as a reference point in making investment decisions. However, the fund manager does not manage the Fund's investment strategy to track DJIMPK or any other index or external benchmark. The sensitivity analysis presented is based upon the portfolio composition as at June 30 and the historical correlation of the securities comprising the portfolio to the DJIMPK. The composition of the Fund's investment portfolio and the correlation thereof to DJIMPK, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30 is not necessarily indicative of the effect on the Fund's net assets attributed to units of future movements in the level of DJIMPK.

16.1.2 Interest rate risk

The interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates which affect cashflows pertaining to debt instruments and their fair values. The Fund does not hold any debt instruments therefore its net assets are not exposed to these risks.

16.2 Credit risk

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

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

The maximum exposure to credit risk as at June 30, 2009 and 2008 is tabulated below:

Financial Assets	2009 (Rupees in '000)	2008
Balances with banks	142,537	264,232
Investments at fair value through profit or loss	3,568,703	5,775,714
Receivable against sale of investments	6,076	-
Dividend receivable	36,020	52,860
Advances, deposits and other receivables	9,588	14,903
	<u>3,762,924</u>	<u>6,107,709</u>

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

16.3 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 liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

In accordance with the regulation 58(1)(k) of the NBFC Regulation 2008, the Fund has the ability to borrow funds for meeting redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen percent of its net assets which amounts to Rs 560.594 million as on June 30, 2009 (2008: Rs 905.170 million). However, no such borrowing has been obtained during the year.

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

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

An analysis of the Fund's liabilities into relevant maturity grouping as at June 30, 2009 and 2008 is tabulated below:

	Maturity upto				Total 2009	Total 2008
	Three months	six months	one year	More than one year		
	------(Rupees in '000)-----					
Payable to Al Meezan Investment Management Limited - management Company of the Fund	6,666	-	-	-	6,666	15,536
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund	397	-	-	-	397	581
Payable to Meezan Bank Limited- shariah adviser	1,223	-	-	-	1,223	1,581
Payable on redemption of units	5,609	-	-	-	5,609	31,913
Payable against purchase of investments	5	-	-	-	5	11,531
Accrued expenses and other liabilities	7,601	-	-	-	7,601	6,727
2009	<u>21,501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,501</u>	<u>67,869</u>
2008	<u>67,869</u>	<u>-</u>	<u>-</u>	<u>-</u>		

17. CAPITAL RISK MANAGEMENT

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

The Fund has no restrictions or specific capital requirements on the subscription and redemption of units.

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

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

In accordance with risk management policies stated in note 16, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments where necessary.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The fair values of all other financial assets and liabilities are not considered to be significantly different from their carrying values as these financial assets and liabilities are short term in nature.

19. PERFORMANCE TABLE

	2009	2008	2007	2006
Net assets (Rs. '000) (ex-distribution)*	3,737,293	6,033,639	3,679,298	3,199,548
Net assets value / redemption price per unit as at June 30 (Rs.) (ex-distribution)*	35.28	50.05	59.89	58.62
Offer price per unit as at June 30 (Rs.) (ex-distribution)*	36.09	51.20	61.27	59.97
Highest offer price per unit (Rs.)	49.30	72.73	77.63	93.01
Lowest offer price per unit (Rs.)	22.39	56.03	57.63	59.43
Highest redemption price per unit (Rs.)	48.19	71.10	75.88	90.92
Lowest redemption price per unit (Rs.)	21.89	54.77	56.33	58.09
Distribution (%)				
- Interim	-	-	-	-
- Annual	-	20.00	31.20	35.00
Dates of distribution (annual)	-	July 7, 2008	July 10, 2007	July 7, 2006
Income distribution (Rupees in '000)	-	829	-	-
Growth distribution (Rupees in '000)	-	1,004,058	760,329	735,611
Total return (%)	(29.51)	0.27	28.78	29.65

* The distribution is not accounted for in these financial statements as also explained in note 22.

	One Year	Two Year	Three Year	Four Year
Average annual return (%) as at June 30, 2009	-29.51%	-15.93%	-3.09%	4.23%

Investment portfolio composition of the Fund

Investment portfolio composition of the Fund is as described in note 6.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate as described in note 16.

20. INVESTMENT COMMITTEE MEMBERS

20.1 Details of members of investment committee of the Fund are as follows:

	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Nineteen years
2. Mr. Muhammad Asad	Chief Investment Officer / Fund Manager	CFA level 2 / MBA	Thirteen years
3. Ms. Sanam Ali Zaib	Head of Research	CFA level 2 / MBA	Five years

20.2 Other funds being managed by the Fund Manager are as follows:

- Al Meezan Mutual Fund Limited
- Meezan Islamic Income Fund

21. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name /	Designation	----- Dates of Board of Directors Meetings and Directors' present therein -----					
		July 10, 2008	August 9, 2008	October 22, 2008	December 4, 2008	February 15, 2009	April 22, 2009
Mr. Ariful Islam	Chairman	Yes	Yes	No	Yes	No	Yes
Mr. Mohammad Shoaib	Chief Executive	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Aliuddin Ansari *	Director	No	Yes	Yes	No	Yes	Yes
Mr. Tasnimul Haq Farooqui	Director	Yes	Yes	Yes	Yes	Yes	No
Mr. Mazhar Sharif	Director	Yes	Yes	No	Yes	Yes	Yes
Mr. Rizwan Ata	Director	Yes	Yes	Yes	Yes	Yes	No
Syed Owais Wasti	Director	Yes	Yes	Yes	Yes	Yes	Yes

* Mr. Aliuddin Ansari chaired the meetings held on September 30, 2008 and February 23, 2009 in the absence of Mr. Ariful Islam.

22. NON ADJUSTING EVENTS

The board of directors of the management company of the Fund in its meeting held on August 20, 2009 has announced a payout of Nil (2008: 20%) amounting to Rs. Nil (2008: Rs 1,004.887 million) equivalent to Nil bonus units (2008: 20,061,109 bonus units) and cash dividend of Rs. Nil (2008: Rs 0.829 million). The financial statements for the year ended June 30, 2009 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2010.

	2009	2008
The effect of issue of bonus units is as follows:		
	Number of units	
Number of units in issue before bonus units	<u>105,920,317</u>	<u>100,488,707</u>
Number of units in issue after bonus units		<u>120,549,816</u>
		Rupees
Net assets value per unit before distribution	<u>35.28</u>	<u>60.05</u>
Net assets value per unit after distribution		<u>50.05</u>

23. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE

Broker's Name	2009 %
1. Invest Capital Investment Bank Limited	15.64
2. Ample Securities (Private) Limited	13.96
3. Invest and Finance Securities Limited	13.88
4. KASB Securities Limited	10.13
5. JS Global Capital Limited	7.07
6. Foundation Securities (Private) Limited	6.37
7. AKD Securities Limited	6.01
8. Fortune Securities Limited	3.78
9. BMA Capital Management Limited	3.13
10. Invisor Securities (Private) Limited	2.77

Broker's Name	2008 %
1. Ample Securities (Private) Limited	14.44
2. Invest Capital Investment Bank Limited	13.94
3. KASB Securities Limited	10.83
4. Invest and Finance Securities Limited	8.42
5. Invisor Securities (Private) Limited	7.91
6. AKD Securities Limited	6.92
7. JS Global Capital Limited	6.33
8. Fortune Securities Limited	5.69
9. Al-Hoqqani Securities and Investment Corporation (Private) Limited	4.14
10. Ismail Iqbal Securities (Private) Limited	4.05

24. PATTERN OF UNITHOLDING

	----- (2009) -----		
	Number of investors	Investment amount	Percentage of total
	(Rupees in '000)		
Individuals	7,079	1,833,198	49.05
Associated companies / directors	6	538,414	14.41
Insurance companies	8	175,694	4.70
Banks / DFIs	15	6,496	0.17
NBFCs	-	-	-
Retirement funds	196	913,791	24.45
Public limited companies	6	350	0.01
Others	94	269,350	7.21
Total	7,404	3,737,293	100

	----- (2008) -----		
	Number of investors	Investment amount	Percentage of total
	(Rupees in '000)		
Individuals	4,940	2,006,562	33.25
Associated companies / directors	16	712,662	11.81
Insurance companies	6	176,969	2.93
Banks / DFIs	3	374,833	6.21
NBFCs	1	9,389	0.16
Retirement funds	155	1,462,742	24.24
Public limited companies	5	347,849	5.76
Others	63	943,462	15.64
Total	<u>5,189</u>	<u>6,034,468</u>	<u>100</u>

25. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 20, 2009 by the board of directors of the management company.

26. GENERAL

The bifurcation of undistributed income into realised and unrealised income at the beginning and end of the year as required by the NBFC Regulations, 2008 has not been disclosed as such bifurcation was not practicable.

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

Chief Executive

Director