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## Our Vision

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

## Our Mission

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

## FUND INFORMATION

### MANAGEMENT COMPANY

Al Meezan Investment Management Limited  
Ground Floor, Block "B", Finance & Trade Centre  
Shahrah-e-Faisal, Karachi 74400, Pakistan.  
Phone: (9221) 35630722-6, 111-MEEZAN  
Fax: (9221) 35676143, 35630808  
Web site: www.almeezangroup.com  
E-mail: info@almeezangroup.com

### BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

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

### CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

### AUDIT COMMITTEE

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

### TRUSTEE

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

### AUDITORS

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

### SHARIAH ADVISER

Meezan Bank Limited

### BANKERS TO THE FUND

Al Baraka Islamic Bank B.S.C (E.C)  
Bank Alfalah Limited - Islamic Banking  
Bank Al Habib Limited - Islamic Banking  
Bank Islami Pakistan Limited  
Habib Bank Limited - Islamic Banking  
Habib Metropolitan Bank Limited - Islamic Banking  
MCB Bank Limited - Islamic Banking  
Meezan Bank Limited  
UBL Ameen Islamic Banking  
Standard Chartered Bank (Pakistan) Limited - Islamic Banking

### LEGAL ADVISER

Bawaney & Partners  
404, 4<sup>th</sup> 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

The Board of Directors of Al Meezan Investment Management Limited, the management company of Meezan Sovereign Fund (MSF) is pleased to present the un-audited financial statements of the fund for the period January 09, 2010 to March 31, 2010.

### **Economic Review**

Pakistan has shown gradual recovery and improvement on the macroeconomic front in the first nine months of fiscal year 2010. Average year-on-year inflation during the period eased off to 11.28%, which averaged 23.03% during the same period last year. The release of funds from IMF and improved balance of trade numbers has provided a strong impetus to the economy. As a result, foreign exchange reserves increased from US\$ 11.9 billion in June 2009 to US\$ 14.94 billion at the end of March 2010. This helped in stabilizing Pak Rupee against US Dollar, which depreciated by 3.2% in the nine months of fiscal year compared to depreciation of 15% in the corresponding period last year. Moreover, remittance inflows made new records, with nine month figure totaling to US\$ 6.55 billion, providing crucial support to the balance of payment situation.

On domestic front, tax collection for the period was approximately Rs. 903 billion, which helped Government of Pakistan limit its incremental borrowing from State Bank to Rs. 64 billion at the end of March 2010 from Rs. 88 billion in the corresponding period last year. In view of declining inflation, State Bank reduced the policy rate by 150 basis points to 12.5% in November 2009. Moreover, to meet IMF requirements and to stabilize interest rates, State Bank introduced an interest rate corridor, providing a reverse repo facility at 300 basis points below the repo rate. However, since inflation started to inch up from January 2010, State Bank has remained cautious in easing the monetary policy.

The gradual improvement in Pakistan's risk perception has resulted in the yield of Pakistan Eurobond, maturing in 2016, to drop below 8% for the first time since May 2008. Likewise, the spread on Pakistan's 5 year credit default swap has also eased off to 775 basis points from over 5000 basis points in late 2008.

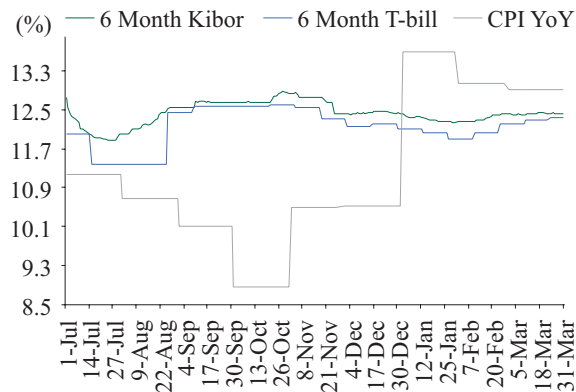
### **Money Market Review**

With the beginning of new financial year, as inflation started easing off, the State Bank continued to ease monetary policy reducing the discount rates by another 150 basis points to 12.5% in first half of fiscal year 2010. However, the State Bank maintained an unchanged policy stance throughout the past quarter.

The soft monetary stance resulted in six month KIBOR to decline by 35 basis points to close the nine months at 12.41%. However, six month T-bill cut off rate increased by 33 basis points to close at 12.34%. Moreover, the introduction of interest rate corridor stabilized the overnight call and repo rates within a narrow band of 11.5% to 12.5%. In the nineteen T-bill auctions conducted by the State Bank during the current fiscal year, a sum of Rs. 921 billion was mopped up from the market, while T-bills worth Rs. 645 billion matured in the same period.

To reduce government borrowing from State Bank and to promote Islamic mode of financing, State Bank conducted fourth Ijarah Sukuk auction in September 2009 and accepted Rs. 14.4 billion at the cut off rate of T-bill minus 5 basis points (current coupon of 12.25%). With this auction, the total size of Ijarah Sukuks issued increased to Rs. 42 billion. The government is also planning to make another Ijarah Sukuk issue before June 30, with a target issue size of Rs. 100 billion.

The following graph shows the trend in interest rates during the period under review:



### Performance Review

Meezan Sovereign Fund (MSF) earned a total income of Rs. 8.1 million in the period under review. Profits from savings accounts at banks were the prime contributor to the total figure, contributing Rs. 7.7 million. A sum of Rs. 0.4 million was generated from income on sukuk certificates. On the expense side, the fund incurred Rs. 1.1 million under different heads. Since inception, fund recorded a net income of Rs. 7 million.

The net assets of the Fund stood at Rs. 536 million translating into NAV per unit of Rs. 50.61. The fund began its operations in February 2010 and in a short span of time, it has provided an annualized return of 9.23% to its investors.

### Outlook

After a turbulent 2008, Pakistan's economy has seen a steady turnaround in 2009 with most economic indicators pointing to greater stability ahead. The improvement in economic and industrial activity will lead to improvement in corporate profitability and hence would reduce the corporate credit risk. Moreover, as the inflation is likely to remain high, interest rates will likely remain sticky on the higher side for the short term. MSF is well placed to benefit from the upturn in the economy and higher rates. On a medium to long term, however, as economy improves and the State Bank eases monetary policy, we expect the interest rates to marginally decline going forward.

### **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 in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan, Central Depository Company of Pakistan and management of Islamabad Stock Exchange for their support. We would also like to thank the members of the Shariah Supervisory Board of Meezan Bank for their continued assistance and support on Shariah aspects of fund management.

For and on behalf of the Board

Date: April 27, 2010  
Karachi.

**Mohammad Shoaib, CFA**  
**Chief Executive**

**CONDENSED INTERIM STATEMENT OF  
ASSETS AND LIABILITIES (UN-AUDITED)  
AS AT MARCH 31, 2010**

	<i>Note</i>	<b>March 31, 2010 (Rupees in '000)</b>
<b>Assets</b>		
Balances with banks		511,531
Investments	4	25,562
Deposits, prepayments and other receivables		7,084
Preliminary expenses and floatation costs		2,485
<b>Total assets</b>		<u>546,662</u>
<b>Liabilities</b>		
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund		3,221
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund		99
Payable to Securities and Exchange Commission of Pakistan (SECP)		52
Payable to Meezan Bank Limited (MBL)		9
Payable on redemption of units		6,871
Accrued expenses and other liabilities		168
<b>Total liabilities</b>		<u>10,420</u>
<b>Net assets</b>		<u>536,242</u>
<b>Commitments</b>		
<b>Unitholders' funds (as per statement attached)</b>		<u>536,242</u>
<b>Number of units</b>		
<b>Number of units in issue</b>		<u>10,595,862</u>
<b>Rupees</b>		
<b>Net asset value per unit</b>		<u>50.61</u>

The annexed notes 1 to 6 form an integral part of these condensed interim financial statements.

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

**Chief Executive**

**Director**

**CONDENSED INTERIM  
INCOME STATEMENT (UN-AUDITED)  
FOR THE PERIOD JANUARY 09, 2010 TO MARCH 31, 2010**

	<b>For the period January 09, 2010 to March 31, 2010 (Rupees in '000)</b>
<b>Income</b>	
Profit on savings accounts with banks	7,769
Profit on sukuk certificates	409
<b>Total income</b>	<b>8,178</b>
<b>Expenses</b>	
Remuneration to Al Meezan - management company of the Fund	701
Remuneration to CDC - trustee of the Fund	140
Annual fee to SECP	52
Auditors' remuneration	89
Fees and subscription	21
Amortisation of preliminary expenses and floatation costs	70
Bank and settlement charges	5
Printing expense	28
<b>Total expenses</b>	<b>1,106</b>
<b>Net income from operating activities</b>	<b>7,072</b>
Element of loss and capital losses included in prices of units sold less those in units redeemed	(623)
<b>Net income</b>	<b>6,449</b>

The annexed notes 1 to 6 form an integral part of these condensed interim financial statements.

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

**Chief Executive**

**Director**



**CONDENSED INTERIM  
DISTRIBUTION STATEMENT (UN-AUDITED)  
FOR THE PERIOD JANUARY 09, 2010 TO MARCH 31, 2010**

**For the period  
January 09, 2010 to  
March 31, 2010  
(Rupees in '000)**

Net income

6,449

The annexed notes 1 to 6 form an integral part of these condensed interim financial statements.

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

**Chief Executive**

**Director**

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN  
UNITHOLDERS' FUNDS (UN-AUDITED)  
FOR THE PERIOD JANUARY 09, 2010 TO MARCH 31, 2010**

	<b>For the period January 09, 2010 to March 31, 2010 (Rupees in '000)</b>
Issue of 13,843,745 units	692,769
Redemption of 3,247,884 units	(163,599)
Element of income and capital gains included in prices of units sold less those in units redeemed	623
Net Income for the period	6,449
Net assets at the end of the period	<u>536,242</u>
Net assets value per unit at the end of the period - Rupees	<u>50.61</u>

The annexed notes 1 to 6 form an integral part of these condensed interim financial statements.

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

**Chief Executive**

**Director**

**CONDENSED INTERIM  
CASH FLOW STATEMENT (UN-AUDITED)  
FOR THE PERIOD JANUARY 09, 2010 TO MARCH 31, 2010**

For the period  
January 09, 2010 to  
March 31, 2010  
(Rupees in '000)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	6,449
<b>Adjustments for non-cash items</b>	
Profit on savings accounts with banks	(7,769)
Profit on sukuk certificates	(409)
Amortisation of preliminary expenses and floatation costs in prices of units sold less those in units redeemed	70
	623
	<u>(7,485)</u>
<b>Increase in assets</b>	
Investments	(25,562)
Deposits, prepayments and other receivables	(39)
	<u>(25,601)</u>
<b>Decrease in liabilities</b>	
Payable to Al Meezan - management company of the Fund	666
Payable to CDC - trustee of the Fund	99
Payable to SECP	52
Payable to MBL	9
Payable on redemption of units	6,871
Accrued expenses and other liabilities	168
	7,865
Profit received on savings accounts with banks	850
<b>Net cash (outflow) from operating activities</b>	<u>(17,639)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Receipts from sale of units	692,769
Payments against redemption of units	(163,599)
<b>Net cash inflow from financing activities</b>	<u>529,170</u>
Net cash inflow during the period	511,531
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	<u>511,531</u>

The annexed notes 1 to 6 form an integral part of these condensed interim financial statements.

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

**Chief Executive**

**Director**

**NOTES TO THE CONDENSED  
INTERIM FINANCIAL REPORT (UN-AUDITED)  
FOR THE PERIOD JANUARY 09, 2010 TO MARCH 31, 2010**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1 Meezan Sovereign Fund (the Fund) was established under a trust deed executed between Al Meezan Investment Management Limited (Al Meezan) as the management company and Central Depository Company of Pakistan Limited (CDC) as the trustee. The trust deed was executed on May 14, 2009 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to provide the unitholders maximum possible preservation of capital along with Halal and reasonable returns by investing primarily in a portfolio of shariah compliant government securities thus minimizing the credit risk of investments. The Fund shall also keep an exposure in short-term near cash instruments for the purpose of maintaining liquidity and to capitalize on exceptional returns if available at any given point of time. Under the trust deed all conducts and acts of the Fund are based on shariah. MBL acts as its shariah adviser to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end fund is listed listing on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 These are the first financial statements of the Fund. These financial statements have been prepared from Jan 9, 2010, being the date on which the 'deposited property' was first transferred to the trustee. The management company of the Fund is rated AM2 and the stability rating of the Fund is AA+(f) given by JCR - VIS Credit Rating Company Limited.
- 1.5 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

**2. STATEMENT OF COMPLIANCE**

- 2.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, the trust deed, NBFC Rules, NBFC Regulation, 2008 and the directives issued by the SECP. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) as are notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the trust deed, NBFC Rules, NBFC Regulations, 2008 and the said directives differ with the requirements of these standards, the requirements of the trust deed, NBFC Rules, NBFC Regulations, 2008 and the said directives take precedence.

## 2.2 Standards, amendments and interpretations effective from July 1, 2009:

- a) IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segment information is therefore reported in a manner that is more consistent with the internal reporting provided to the fund manager. The adoption of this standard would not have any impact on this condensed interim financial report.
- b) IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present one statement (the income statement and statement of comprehensive income).
- c) IAS 39 (amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have a significant impact on the Fund's condensed interim financial report.
- d) IFRS 7 (amendment) 'Financial instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures, which would be detailed in the financial statements for the year ending June 30, 2010, but does not have an impact on the Fund's financial position or performance.

Certain standards and amendments to the approved accounting standards are mandatory for accounting periods beginning on or before July 1, 2009 but are considered not to be relevant or have any significant effect to the Fund's operations and are therefore not disclosed in this condensed interim financial report.

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

Certain standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after July 1, 2009 but are considered not to be relevant or have any significant effect to the Fund's operations and are therefore not detailed in this condensed interim financial report.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

3.1 Accounting Convention

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

3.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of critical accounting estimates. It also requires the management company to exercise its judgment in the process of applying its accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumption and estimates are significant to the financial statements, are as follows:

- (a) Classification and valuation of financial instruments (note 3.3)
- (b) Impairment (note 3.3.5)
- (c) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 3.10)
- (d) Amortisation of preliminary expenses and flotation costs (notes 3.8)

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.

3.3 Financial instruments

3.3.1 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.

### 3.3.2 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.

### 3.3.3 Measurement

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

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

#### 3.3.4 Fair value measurement principles

The fair value of investments 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.

#### 3.3.5 Impairment

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

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

#### 3.3.6 Derecognition

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

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

#### 3.4 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.

#### 3.5 Issue and redemption of units

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

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



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

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

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

3.7 Provisions

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

3.8 Preliminary expenses and floatation costs

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

3.9 Net assets value per unit

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

3.10 Taxation

Current

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

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 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 intends to avail the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no tax liability and deferred tax has been recognised in these financial statements.

#### 3.11 Revenue recognition

- i. Gains / (losses) arising on sale of investments are included in income currently and are recognised on the date at which the transaction takes place.
- ii. Unrealised gains / (losses) arising on revaluation of securities classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- iii. Profit on savings accounts with banks is recorded on an accrual basis.
- iv. Dividend income is recognised at the time of closure of share transfer books of the investee company.

#### 3.12 Expenses

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

#### 3.13 Offsetting of financial instruments

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

#### 3.14 Zakat

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

#### 3.15 Cash and cash equivalents

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

### 3.16 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.

## 4 Held for trading

### 4.1 Sukuk certificates

Name of the investee company	Maturity	profit rate	As at July 01, 2009	Purchase during the period	Sales during the period	Redemptions during the period	As at March 31, 2010	Carrying value as at March 31, 2010	Market value as at March 31, 2010	Unrealised Gain / (Loss)	Percentage in relation to	
			----- Number of certificates -----						----- (Rupees in '000) -----			Net assets of the Fund on the basis of market value (see note 4.1.2 below)
											%	
GoP Ijarah Sukuk Certificates - IV (note 4.1.1)	September 17, 2012	12.25%	-	250	-	-	250	25,562	25,562	-	4.77	100
								<u>25,562</u>	<u>25,562</u>	-		
<b>Total cost of investments</b>								<u><u>25,562</u></u>				

4.1.1 The nominal value of the sukuk certificates of GoP Ijarah IV is Rs 100,000 each.

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

## 5. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the holding company of the management company, Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Islamic Income Fund, Meezan Capital Protected Fund - I and Meezan Cash 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 provisions of NBFC Regulations and the trust deed respectively.

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

	<b>March 31, 2010</b>
	<b>(Rupees in '000)</b>
<b>Al-Meezan - management company of the Fund</b>	
Remuneration payable	<u>496</u>
Sales load payable	<u>170</u>
Preliminary expenses and floatation costs payable	<u>2,555</u>
Units issued: 2,300,000 units	<u>115,000</u>
Redemptions: 1,300,000 units	<u>65,273</u>
Investments as at March 31, 2010: 1,000,000 units	<u>50,610</u>

	<b>March 31, 2010</b>
	<b>(Rupees in '000)</b>
<b>MBL</b>	
Sales load payable	<u>9</u>
Balances with bank	<u>9,626</u>
Profit receivable on savings account	<u>55</u>
<b>CDC - trustee of the Fund</b>	
Trustee fee payable	<u>99</u>
<b>Directors and executives</b>	
Units issued: 30,420 units	<u>1,521</u>
Redemptions: 512 units	<u>26</u>
Investments as at March 31, 2010: 29,907 units	<u>1,514</u>
	<b>For the period January 09, 2010 to March 31, 2010</b>
	<b>(Rupees in '000)</b>
<b>Al-Meezan - management company of the Fund</b>	
Remuneration for the period	<u>701</u>
Preliminary expenses and floatation costs	<u>70</u>
<b>MBL</b>	
Profit on savings accounts	<u>96</u>
<b>CDC - trustee of the Fund</b>	
Remuneration for the period	<u>140</u>

**6. DATE OF AUTHORISATION FOR ISSUE**

These condensed interim financial statements were authorised for issue on April 27, 2010 by the board of directors of the management company.

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

**Chief Executive**

**Director**