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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 a 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) 5630722-6, 111-MEEZAN  
Fax: (9221) 5676143, 5630808  
Web site: www.almeezangroup.com  
E-mail: info@almeezangroup.com

## BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Chairman
Mr. 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  
Suite # M 13-16, Mezzanine Floor, Progressive Plaza,  
Beaumont Road, 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 ADVISOR

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  
Soneri Bank Limited - Islamic Banking  
The Bank of Khyber  
UBL Ameen Islamic Banking

## LEGAL ADVISER

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

## TRANSFER AGENT

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

## DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited



Islamic Fund

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited, the management company of Meezan Islamic Fund is pleased to present the audited annual financial statements of Meezan Islamic fund (MIF) for the year ended June 30, 2008.

### **Economic and Equity Market Review**

Despite international economic slowdown, Pakistan managed a GDP growth of 5.8% in FY08 as against 7%, a year earlier. The decline in GDP growth this year is mainly attributed to the slow down in key sectors, mainly agriculture and manufacturing. Nonetheless, service sector has again posted an impressive growth of 8.6%, which accounts for 53% of GDP growth.

The KSE 100 index, after posting an outstanding average return of 48% per annum for six consecutive years, marked the end of FY08 with a negative return of 11% YoY, closing at 12,289. Market capitalization during the year declined by 17% to US\$ 55.3bn while the average daily turnover for the year stood at 241mn shares, an increase of 14% YoY. The market remained volatile during the year due to political uncertainty, judicial crisis, imposition of emergency and the assassination of former Prime Minister Benazir Bhutto.

Although peaceful elections and creation of broad based coalition government led to a rebound in the stock market, the situation soon reversed as the country was faced with economic challenges mainly due to hikes in international crude oil and commodity prices, which led to inflationary pressures and widening current account deficit. Moreover, concerns regarding the deteriorating balance of payment position and the weakening of rupee led to a further tightening of monetary policy, resulting in the weakening of the stock market.

The KSE Index touched the lowest level of the year of 11,162 on June 23, 2008. To arrest the free fall of the market near year end, SECP took market stabilization measures. The market responded positively recording the highest single day increase of 960 points (9.6%), and eventually managed to close above 12,000 points.

### **Outlook**

Pakistan economy is facing an uphill task. However, we are optimistic about the long term growth trend in the economy. Therefore we remain confident about the future prospects of the stock market in general and of Meezan Islamic Fund in particular. Future direction of the market is likely to be driven by growth prospects, political stability, improved balance of payment and foreign investment. 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.

### **Fund Rating:**

We are pleased to inform our investors that both the leading rating agencies operating in Pakistan, i.e. Pakistan Credit Rating Agency (PACRA) and JCR-VIS Credit Rating Company have assigned the highest possible rating for mutual funds to Meezan Islamic Fund. MIF has been rated 5-Star by both the rating agencies which denotes superior performance of MIF versus its peers. PACRA

has awarded 5-Star rating to MIF for its superior short term (trailing 12 month period) and long term (trailing 36 month period) performance as compared to its peers. MIF is the only fund in the Islamic Fund category that has been rated 5-Star by JCR-VIS.

### 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 of 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 unitholders' funds.
- ▶ The Fund has maintained proper books of accounts.
- ▶ Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- ▶ International Accounting Standards 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 including their spouses and their minor children are as under:

Trades by	Number of units invested	Number of units redeemed
Mr. Mohammad Shoaib, CFA Chief Executive	224,822.03	-
Mr. Rizwan Ata Director	12,494.16	-
Syed Owais Wasti CFO & Company Secretary	5,562.24	-

- ▶ Pattern of holding of units is given on page no. 07 of the financial statements.
- ▶ Financial highlights are given in note no. 21 of the financial statements.

### Board Meetings

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

### Appointment of Auditors

M/s A.F. Ferguson & Co. Chartered Accountants retire and being eligible offers themselves as the auditors of the Fund for FY 2009. 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 in Pakistan and for making MIF the largest open end equity fund in the private sector. We also thank the regulator, Securities and Exchange Commission of Pakistan, Meezan Islamic Fund's trustee, Central Depository Company of Pakistan and management of Karachi Stock Exchange for all their support and guidance. Last but not the least, we would like to place on record our gratitude for Justice (Retd.) Muhammad Taqi Usmani, in special and other members of the Shariah Board of Meezan Bank in general, for their continued guidance on Shariah aspects of fund management.

For and behalf of the Board

**Date: August 7, 2008**  
**Karachi.**

**Muhammad Shoaib, CFA**  
**Chief Executive**

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**PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT  
OF CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2008**

<b>Units held by</b>	<b>Units Held</b>	<b>%</b>
<b>Associated companies</b>		
- Al Meezan Investment Management Limited	5,295,172	5.27
- Meezan Bank Limited	6,036,341	6.01
<b>Directors</b>		
- Mr. Ariful Islam	62,075	0.06
- Mr. Rizwan Ata	23,979	0.02
- Syed Owais Wasti	9,673	0.01
<b>Chief Executive</b>		
- Mr. Mohammad Shoaib, CFA	412,622	0.41
<b>Executives</b>	27,686	0.03
<b>Public Limited Companies</b>	8,739,521	8.70
<b>Banks and financial institutions</b>	6,398,229	6.37
<b>Individuals</b>	33,414,194	33.25
<b>Retirement funds</b>	24,358,251	24.24
<b>Other corporate sector entities</b>	9,710,243	9.66
<b>Non-Profit Organization</b>	6,000,721	5.97
<b>Total</b>	<b>100,488,707</b>	<b>100</b>

## REPORT OF THE FUND MANAGER

Meezan Islamic fund is an open end equity fund investing primarily in Shariah compliant listed equity securities.

The objective of MIF is to provide the maximum total return to the unit holders from investment in "Shariah compliant" investments for the given level of risk, while abiding by the "Non-Banking Finance Companies Rules, 2003" and "Non-Banking Finance Companies and Notified Entities Regulations, 2007", and any other prevailing rules and regulations. Total return refers to returns from capital gains, realized and unrealized, and dividend income (from investment in secondary and primary equities - Musharaka), rental income (from operating leases - Ijara), mark-up (from cost-plus sales - Murabaha), and other Shariah compliant investments.

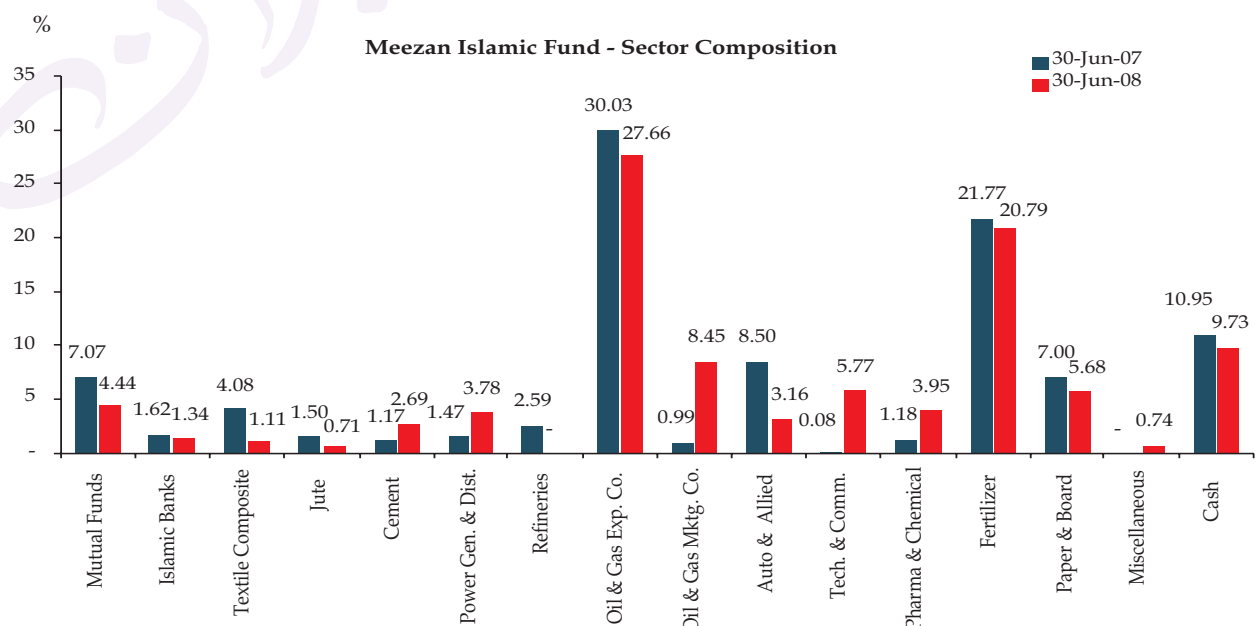
### Strategy and Investment policy

Being an equity fund, Meezan Islamic Fund's performance is linked directly to the performance of the stock market in Pakistan. The fund manager, Al Meezan Investments, actively manages the fund with an aim to provide maximum risk adjusted total return to the investors. This involves a combination of stock selection, sector allocation, and asset allocation. Therefore, the fund manager aims to reduce exposure to equities in times when the market risk increases. While this may result in temporary underperformance as exposure is decreased in a rising market, it pays off when the market corrects.

### Implementation

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. More than 55% of the fund's net assets were invested in oil and fertilizer sectors at the close of the financial year 2008. Average equity exposure of the fund during the period under review was maintained at 87%. Since the equity market has taken a correction, therefore, the fund has increased its exposure in equities to over 90% at the close of financial year 2008.

### Sector Allocation





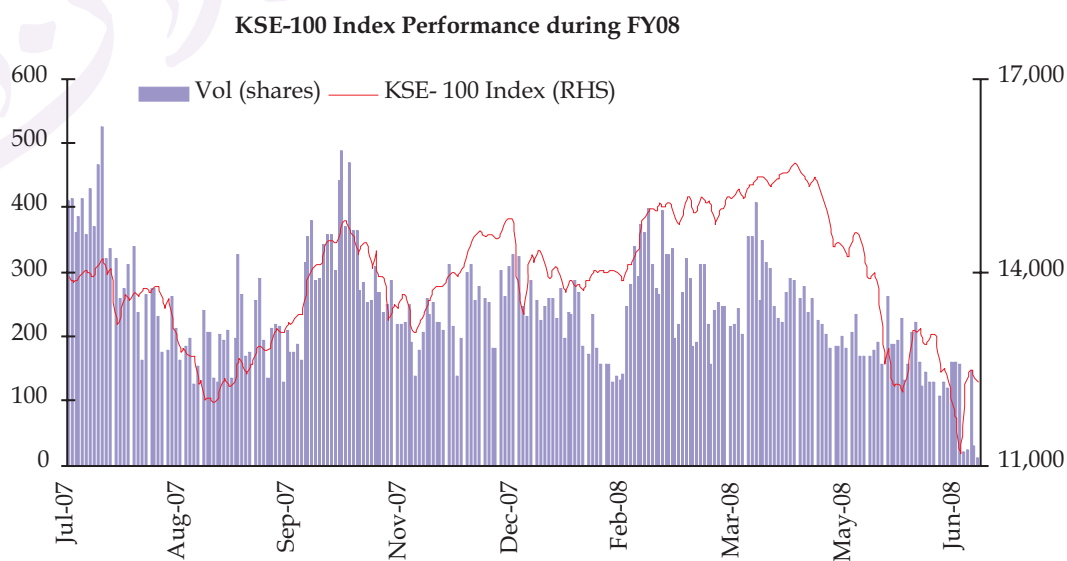
## Equity Market Review

The KSE 100 index, after posting an outstanding average return of 48% per annum for six consecutive years, marked the end of FY08 with a negative return of 11% YoY, closing at 12,289. During the same period, Dow Jones Islamic Market Pakistan Index, an index of Shariah compliant companies listed on Karachi Companies, registered an increase of 0.92%. Market capitalization during the year declined by 17% to US\$ 55.3bn. Average daily turnover for the year stood at 241mn shares, 14% higher than previous year's average of 211mn shares.

The market started with positive momentum but soon sentiments turned bearish as political uncertainty and judicial issue started to impact the market. Later, President's re-election led to stock market recovery which was short lived by the news of imposition of emergency and subsequently the assassination of former Prime Minister Benazir Bhutto; both events were followed by stock market losing over 600 points. Turn of the calendar year brought some relief to the market. Peaceful elections and creation of broad based coalition government led to a rebound in the stock market post elections with the index reaching its all time high of 15,676 on April 18, 2008.

After elections, the country was faced with economic challenges mainly due to hikes in international crude oil and commodity prices, which led to inflationary pressures. Moreover, concerns regarding the deteriorating balance of payment position and the weakening rupee led to a further tightening of monetary policy by increasing discount rate and reserve requirements. This resulted in the weakening of the stock market.

In early June, the news that capital gains tax was postponed for two more years helped in rebound of the market, but the rally could not sustain in the backdrop of rising inflation and interest rate worries. The KSE Index touched the lowest level for the year of 11,162 as on June 23, 2008. To arrest the free fall of the market near year end, SECP took market stabilization measures. The market responded positively recording the highest single day increase of 960 points (9.6%), and eventually managed to close above 12,000 points. Overall during the year, the KSE 100 index was down 11%, to close at 12,289.



## Economic Review

Despite international economic slowdown, Pakistan managed a GDP growth of 5.8% in FY08 as against 7%, a year earlier. The decline in GDP growth this year is mainly attributed to the slow down in key sectors, mainly agriculture and manufacturing. Nonetheless, service sector has again posted an impressive growth of 8.6%, which accounts for 53% of GDP growth.

The current account deficit has reached US \$ 14.01bn for FY08, almost twice as much as in the previous year. The main reason for widening current account deficit is the worsening of trade balance. Due to the extraordinary increase in international crude oil and food prices, Pakistan's trade deficit for FY08 reached US\$20.7 bn resulting in reduction of foreign exchange reserves from US\$15.7bn in July 07 to US\$11.2bn in June 2008. This created further pressure on PKR value against US dollar, thus depreciating PKR by 12.7%. The economy was further hurt by the uncertain political situation as foreign investors remained cautious during the year, resulting in a decline in Foreign Direct and Portfolio investment. However, the inflows of remittances remained strong and provided some support to the balance of payment situation, recording the highest ever amount of US\$6.45bn, 18% more than last year. More importantly, Government of Pakistan successfully achieved its unprecedented tax collection target of PKR 1 trillion, which also helped in providing some relief to the burgeoning budget deficit.

These are challenging times for the monetary authority. The inflation continues to inch upward primarily at the back of surging oil and food prices. The FY 08 inflation is 12% which is 5.4% more than the target of 6.6%. In order to curb inflation, State Bank (SBP) continued its monetary tightening to arrest the inflationary effect and increased the discount rate thrice in last one year from 9.5% to 12%, pushed up CRR from 7% to 9% and raised SLR from 18% to 19% during the year. Going forward, in order to ensure a conservative budget deficit and to curtail its borrowings, the government aims to phase out subsidies through price adjustment of fuel. The concerted measures by GoP and central bank will have positive spill over effects on economy.

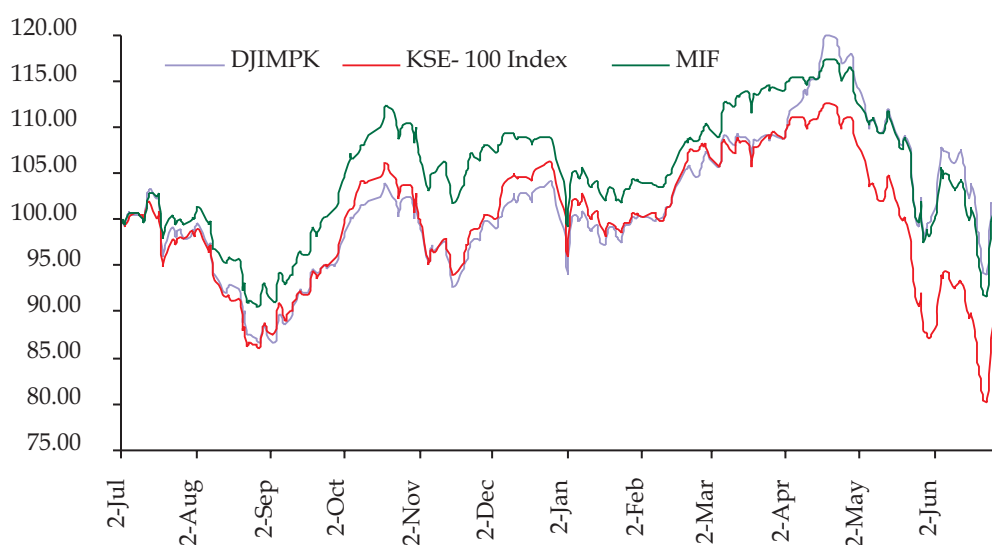
## Performance Review

Meezan Islamic Fund (MIF) during the year ended June 30, 2008 earned a net profit of PKR 528 mn as compared to PKR 880 mn earned during previous period ended June 30, 2007.

Dow Jones JS Islamic Market Pakistan Index (DJIMPK) serves as the performance benchmark of MIF.

Meezan Islamic Fund (MIF) yielded an NAV based return of 0.27% during the year under review as against an increase of 0.92 % in the bench mark, DJIMPK. This resulted in an underperformance of 65 basis points by MIF. The fund's returns are net of all expenses, whereas index return is gross (*i.e it does not account for expenses that need to be incurred while investing directly in the market*). During the same period, KSE 100 Index was down by 10.77%.

During the year, the fund earned gross income of PKR 107mn (2007: 1,053mn), main contributors of which were dividend income of PKR 230mn (2007: PKR 199mn) and capital loss (realized and unrealized) of PKR 187mn (2007: capital gain of PKR 822mn). After accounting for expenses of PKR 177mn (2007: PKR 130mn) and element of income/capital gain on purchase and sale of units of PKR 598mn (2007: loss of PKR 42mn), the fund recorded net profit of PKR 528mn (2007: PKR 880mn) for the year ended June 30, 2008. The net assets of MIF increased from PKR 3,679mn at the beginning of the year to PKR 6,034mn by the end of it, an increase of 64% over the previous period, thus consolidating its position of being the largest open end equity fund in the private sector.



	<u>MIF</u>	<u>DowJones Islamic Index</u>
Value as on June 30, 2007 (Bonus Adjusted)	59,89	17,933.17
Value as on June 30, 2008	60.05	18,097.44
Return During the Period	0.27%*	0.92%**
Underperformanc during the period	0.65%	

\*Return net of all expenses, Gross return 2.77%

\*\*Gross Return

### *Analysis of fund's performance*

<b>Meezan Islamic Fund</b>	<b>FY08</b>	<b>FY07</b>	<b>FY06</b>
Net Asset Value (PKRmn)	<b>6,035</b>	3,680	3200
NAV per unit (PKR)	<b>60.05</b>	75.49	58.62
Highest Redemption Price (PKR)	<b>71.10</b>	75.88	90.92
Lowest Redemption Price (PKR)	<b>54.77</b>	56.33	58.09
Highest Offer Price (PKR)	<b>72.74</b>	77.63	93.01
Lowest Offer Price (PKR)	<b>56.03</b>	57.63	59.43
Total Return (%)	<b>0.27</b>	29	30

## 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, 2008 an amount of PKR 4.96mn was accrued as charity payable.

## 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.

## Distribution:

The Board of Directors of Al Meezan Investments in its meeting declared a distribution for MIF of PKR 10 per unit i.e. 16.70% on the opening ex-div NAV of PKR 59.89 and 20% on face value of PKR 50 per unit.

The net asset value per unit of MIF as on June 30, 2008 was PKR 60.05 before distribution and PKR 50.05 after distribution

## Breakdown of unit holdings by size: (As on June 30, 2008)

Range (Units)	No. of investors
1 - 9,999	4,145
10,000 - 49,999	803
50,000 - 99,999	120
100,000 - 499,999	97
500,000 and above	24
	<hr/>
	5,189
	<hr/> <hr/>

## REPORT OF THE SHARIAH ADVISOR - MEEZAN ISLAMIC FUND

Karachi  
September 10, 2008

In the capacity of Shariah Advisor, 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 stock investments of MIF as on June 30, 2008 and their evaluation according to the screening criteria established by us. (The latest accounts of the Investee companies available as on March 31, 2008 have been used for the following calculations):

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<40%)	(iii) Illiquid Assets to Total Assets (>20%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) % of Non-Shariah Compliant Investments (<33%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Market Price (B)
Agriauto Industries Limited	Manufacturers of Automobile Parts and Accessories	0.97%	64%	0.83%	7.88%	11.93	82.95
Attock Cement Pakistan Limited	Cement Manufacturer	3.33%	90.67%	0.35%	0.00%	(33.14)	99.70
Cherat Cement Company Limited	Cement Manufacturer	22.68%	98%	0.34%	0.16%	(16.47)	44.40
D.G. Khan Cement Company Limited	Cement Manufacturer	30.42%	98%	4.86%	4.74%	(72.86)	94.70
Engro Chemical Pakistan Limited	Manufacturers of Fertilizers and Chemicals	38.94%	82%	1.56%	8.45%	(118.18)	323.9
Fauji Cement Company Limited	Cement Manufacturer	32.72%	96.18%	0.45%	0.00%	(6.52)	14.9
Fauji Fertilizer Bin Qasim Limited	Manufacturers of Fertilizers	27.92%	81.31%	4.26%	13.1%	(16.18)	42.05
Fauji Fertilizer Company Limited	Manufacturers of Fertilizers	24.00%	78%	0.91%	5.88%	(20.39)	118.75
ICI Pakistan Limited	Manufacturers of Paints, Soda Ash, Staple Fibre and Chemicals	0.00%	64.05%	0.17%	0.01%	2.63	196.65
Indus Motors Company Limited	Automobile Assembling	0.01%	55.74%	2.21%	0.00%	11.49	319.2
Kot Addu Power Company Limited	Producer of Power & Energy	43.46%***	57.95%	1.70%	0.00%	(6.42)	48.45
National Refinery Limited	Refines crude oil to petroleum products	0.00%	37.54%	0.41%	5.76%	(15.76)	361
Nishat Mills Limited	Manufacturers of Textile Products	23.79%	94.69%	1857%	4.61%	(58.68)	105.2
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	63%	1.73%	2.02%	3.06	119.45
Pak Suzuki Motors Limited	Automobile Assembling	0.00%	66.73%	1.64%	0.50%	(2.07)	329.65
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	69.34%	2.23%	2.21%	8.77	367.40

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<40%)	(iii) Illiquid Assets to Total Assets (>20%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) % of Non-Shariah Compliant Investments (<33%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Market Price (B)
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.21%	75.82%	4.41%	3.93%	1.27	261.05
Pakistan State Oil Company Limited	Distribution of Oil & Gas	5.21%	50.76%	0.00%	0.00%	(144.83)	406.60
Pakistan Telecommunication Company Limited	Telecom	1.90%	59.5%	3.45%	0.00%	(1.59)	42.05
Sitara Chemical Industries Limited	Manufacturers of Soda Ash and Chemicals	0.00%	75.77%	0.04%	0.00%	(165.34)	336
Sui Northern Gas Pipeline Limited	Distribution of Gas	6.44%	61.8%	1.02%	0.00%	(21.02)	65.55
Thal Limited	Manufacturers of Jute bags and Acs and Wire Harness of Cars	12.53%	62.79%	1.04%	0.01%	34.94	245.25
The Hub Power Company Limited	Producer of Power & Energy	36.26%	68.38%	0.11%	0.00%	(5.41)	30.50
TRG Pakistan Limited	Information Technology Management	0.06%	99.16%	0.00%	0.00%	0.01	14.55
Tri - Pack Films	Manufacture of Biaxially Oriented Polypropylene	23.23%	73.09%	0.17%	1.51%	(39.66)	203.30
BankIslami Pakistan Limited	Islamic Commercial Bank	**					
Meezan Bank Limited	Islamic Commercial Bank	**					
Meezan Islamic Income Fund	Open end Mutual Fund	**					
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 Banks

\*\*\* The scrip became non-compliant on the basis of latest accounts and will be disinvested if it continues to remain non compliant on the basis of half/full year accounts.

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, 2008 have been in compliance with the Shariah principles.

During the Year a provision of Rupees 4.958 million was transferred to Charity account and an amount of Rupees 2.00 million was disbursed.

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

Dr. Muhammad Imran Ashraf Usmani  
For and On behalf of Meezan Bank Limited



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

We have performed our independent assurance engagement of Meezan Islamic Fund (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor of Meezan Islamic Fund for the year ended June 30, 2008.

## **Management Company's responsibility**

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

## **Responsibility of independent assurance providers**

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

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

## **Conclusion**

In our opinion, the Fund was, in all material respects, in compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund for the year ended June 30, 2008.

**A. F. Ferguson & Co.**  
Chartered Accountants  
Karachi, September 11, 2008

## TRUSTEE REPORT TO THE UNIT HOLDERS

### MEEZAN ISLAMIC FUND

#### **Report of the Trustee pursuant to Regulation 58(f) and Clause 9 of Schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007**

Meezan Islamic Fund (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, 2008 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, 2007 and the constitutive documents of the Fund.

**Muhammad Hanif**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi, September 08, 2008



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

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

1. The management company encourages representation of non-executive directors. All the directors except the Chief Executive Officer (CEO) 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. Two vacancies occurred during the year on the board which were filled in by the board through resolution by circulation dated April 9, 2008.
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, including his remuneration and terms and conditions of the employment as determined by the CEO.

11. The directors' report relating to the Fund, for the year ended June 30, 2008 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. We confirm that all other material principles contained in the Code have been complied with.

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**Syed Owais Wasti**  
**Chief Financial Officer**

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

**Karachi.**  
**August 07, 2008**

## REVIEW REPORT TO THE UNIT HOLDERS ON THE 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. 37 of the Karachi Stock Exchange where the Fund is listed.

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

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, 2008.

**A.F. Ferguson & Co.**

Chartered Accountants

Karachi, September 11, 2008

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of Meezan Islamic Fund, which comprise the statement of assets and liabilities as at June 30, 2008, 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 requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations), the directives issued by the Securities and Exchange Commission of Pakistan (the directives) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *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, 2008 and of its financial performance, cash flows and transactions for the year then ended in accordance with the requirements of the Trust Deed, the NBFC Rules and the NBFC Regulations, the directives and approved accounting standards as applicable in Pakistan.

### *Other matters*

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

The Fund's financial statements for the year ended June 30, 2007 were audited by another firm of Chartered Accountants whose report dated August 9, 2007 expressed an unqualified opinion thereon.

**A. F. Ferguson & Co.**  
Chartered Accountants  
Karachi, September 11, 2008

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2008

	Note	2008 (Rupees in '000)	2007
<b>Assets</b>			
Balances with banks	5	264,232	747,613
Investments at fair value through profit or loss	6	5,775,714	2,844,066
Receivable against sale of investments		-	166,388
Dividend receivable		52,860	16,648
Derivative financial instruments	7	-	45,562
Advances, deposits and other receivables	8	14,903	11,283
Preliminary expenses and floatation costs	9	-	277
<b>Total assets</b>		<b>6,107,709</b>	<b>3,831,837</b>
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited - management company of the fund	10	15,536	2,515
Payable to Central Depository Company of Pakistan Limited - trustee of the fund	11	581	424
Payable to Meezan Bank Limited - shariah adviser of the fund	12	1,581	1,083
Payable to Securities and Exchange Commission of Pakistan	13	5,040	3,582
Payable on redemption of units		31,913	84,150
Payable against purchase of investments		11,531	56,416
Accrued expenses and other liabilities	14	7,059	4,215
Derivative financial instruments	7	-	154
<b>Total liabilities</b>		<b>73,241</b>	<b>152,539</b>
<b>Net assets</b>		<b>6,034,468</b>	<b>3,679,298</b>
<b>Commitments</b>	7		
<b>Unitholders' fund (as per statement attached)</b>		<b>6,034,468</b>	<b>3,679,298</b>
		<b>Number of units</b>	
<b>Number of units in issue</b>	15	<b>100,488,707</b>	<b>48,739,012</b>
		<b>Rupees</b>	
<b>Net assets value per unit</b>		<b>60.05</b>	<b>75.49</b>

The annexed notes 1 to 28 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, 2008

	Note	2008 (Rupees in '000)	2007
<b>Income</b>			
Net realised gain on sale of investments		309,845	340,256
Dividend income		229,569	198,790
Profit on savings accounts with banks		55,824	29,054
Profit on term finance certificates		-	324
Other income		<u>9,067</u>	<u>2,782</u>
		<b>604,305</b>	<b>571,206</b>
Unrealised (loss) / gain on re-measurement of investments at fair value through profit or loss (net)		<u>(451,450)</u>	<u>460,602</u>
(Loss) / gain on re-measurement of derivative financial instruments (net)		<u>(45,408)</u>	<u>20,828</u>
		<b>(496,858)</b>	<b>481,430</b>
<b>Total income</b>		<b>107,447</b>	<b>1,052,636</b>
<b>Expenses</b>			
Remuneration to Al Meezan Investment Management Limited - management company of the fund		<u>151,200</u>	<u>108,062</u>
Remuneration to Central Depository Company of Pakistan Limited - trustee of the fund	11	<u>6,043</u>	<u>4,602</u>
Remuneration to Meezan Bank Limited - shariah adviser of the fund		<u>600</u>	<u>600</u>
Annual fee to Securities and Exchange Commission of Pakistan		<u>5,040</u>	<u>3,582</u>
Auditors' remuneration	16	<u>465</u>	<u>466</u>
Fees and subscription		<u>35</u>	<u>285</u>
Legal and professional charges		<u>191</u>	<u>74</u>
Amortisation of preliminary expenses and floatation costs	9	<u>277</u>	<u>276</u>
Brokerage		<u>11,543</u>	<u>11,305</u>
Bank and settlement charges		<u>1,428</u>	<u>1,213</u>
Printing charges		<u>431</u>	<u>-</u>
<b>Total expenses</b>		<b>177,253</b>	<b>130,465</b>
<b>Net (loss) / income from operating activities</b>		<b>(69,806)</b>	<b>922,171</b>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		<u>597,820</u>	<u>(42,014)</u>
<b>Net income</b>		<b>528,014</b>	<b>880,157</b>
<b>Earnings per unit outstanding - basic (Rupees)</b>	17	<b>5.25</b>	<b>14.33</b>

The annexed notes 1 to 28 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, 2008

	2008 (Rupees in '000)	2007 (Rupees in '000)
Undistributed income brought forward as at July 1	1,242,346	1,097,800
Less: Final distribution in the form of bonus units @ 31.2% for the year ended June 30, 2007 (comparative: June 30, 2006 @ 35%)	(760,329)	(735,611)
Net income	<u>528,014</u>	<u>880,157</u>
Undistributed income carried forward as at June 30	<u><u>1,010,031</u></u>	<u><u>1,242,346</u></u>

The annexed notes 1 to 28 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, 2008**

	2008 (Rupees in '000)	2007 (Rupees in '000)
Net assets at the beginning of the year	3,679,298	3,199,548
Issue of 67,324,604 (2007 : 17,254,551) units	4,223,638	1,081,592
Redemption of 28,270,327 (2007: 23,099,293) units	(1,798,662)	(1,524,013)
	2,424,976	(442,421)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(597,820)	42,014
Net income for the year less distribution	(232,315)	144,546
Issue of 12,695,418 bonus units for the year ended June 30, 2007 (2006: 12,548,814 bonus units)	760,329	735,611
Net assets at the end of the year	<u>6,034,468</u>	<u>3,679,298</u>
Net asset value per unit at the beginning of the year	<u>75.49</u>	<u>58.62</u>
Net asset value per unit at the end of the year	<u>60.05</u>	<u>75.49</u>

The annexed notes 1 to 28 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, 2008

	Note	2008 (Rupees in '000)	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income		528,014	880,157
<b>Adjustments for:</b>			
Dividend income		(229,569)	(198,790)
Profit on savings accounts with banks		(55,824)	(29,054)
Profit on term finance certificates		-	(324)
Unrealised loss / (gain) on re-measurement of investments at fair value through profit or loss (net)		451,450	(460,602)
Loss / (gain) on re-measurement of derivative financial instruments (net)		45,408	(20,828)
Amortisation of preliminary expenses and floatation costs		277	276
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		(597,820)	42,014
		<u>141,936</u>	<u>212,849</u>
<b>(Increase) / decrease in assets</b>			
Investments at fair value through profit or loss		(3,383,098)	307,348
Receivable against sale of investments		166,388	128,306
Deposits and other receivables		(2,500)	-
		<u>(3,219,210)</u>	<u>435,654</u>
<b>Increase / (decrease) in liabilities</b>			
Payable to Al Meezan Investment Management Limited - management company of the fund		13,021	(8,002)
Payable to the Central Depository Company of Pakistan Limited - trustee of the fund		157	91
Payable to Meezan Bank Limited - shariah adviser of the fund		498	(271)
Payable to Securities and Exchange Commission of Pakistan		1,458	764
Payable on redemption of units		(52,237)	84,138
Payable against purchase of investments		(44,885)	56,383
Accrued expenses and other liabilities		2,844	1,214
		<u>(79,144)</u>	<u>134,317</u>
Dividend received		193,357	215,114
Profit received on savings accounts with banks		54,704	20,553
Profit received on term finance certificates		-	364
<b>Net cash (outflow) / inflow from operating activities</b>		<u>(2,908,357)</u>	<u>1,018,851</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from sale of units		4,223,638	1,081,592
Payments against redemption of units		(1,798,662)	(1,524,013)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>2,424,976</u>	<u>(442,421)</u>
Net cash (outflow) / inflow during the period		(483,381)	576,430
Cash and cash equivalents at the beginning of the year		747,613	171,183
Cash and cash equivalents at the end of the year	5	<u>264,232</u>	<u>747,613</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

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

Chief Executive

Director

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

### 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) were notified. The registered office of the management company of the Fund, is situated in Finance & 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 NBFC Rules.
- 1.3 The Fund is an open-end fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The management company of the Fund has been given quality rating of AM-2 and credit rating of A/A-2 by JCR - VIS and the Fund is rated five star by Pakistan Credit Rating Agency and JCR - VIS.
- 1.4 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

### 2. BASIS OF MEASUREMENT

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

### 3. STATEMENT OF COMPLIANCE

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

### 3.2 Standards, amendments and interpretations effective during the year ended June 30, 2008:

There are certain new standards and interpretations that were mandatory for accounting period beginning on or after July 1, 2007 but are considered not to be relevant or have any significant effect on the Fund's operations and are therefore not disclosed in these financial statements.

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

IFRS 7, 'Financial instruments: Disclosures' (effective from July 1, 2008) introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the financial instruments.

There are other standards, interpretations and amendments to published approved accounting standards that are mandatory for accounting periods beginning on or after July 1, 2008 but are considered not to be relevant or have any significant effect to 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 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 (notes 4.3, 4.4, 4.5, 6 and 7)
- (b) Impairment of financial instruments (note 4.3.5)
- (c) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.12)

(d) Amortisation of preliminary expenses and floatation costs (notes 4.10 and 9)

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 Consistent with prior years, 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 originated by the enterprise

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 investments, 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 expires 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.

Consistent with prior years, 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

Consistent with prior years, 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 distributors and the management company.

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

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



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

#### 4.9 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 requirements of 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.

#### 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 income currently and are recognised 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 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 unit holders, except those exempted, are subject to Zakat at 2.5% of the face value or redemption value, of the units, whichever is lower, under the Zakat and Ushr Ordinance, 1980 (XVII of 1980). 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 Transactions with connected persons

Transactions between the Fund and its connected persons, as defined in NBFC Regulations are carried out on an arm's length basis substantiated in a manner set out in note 18.

#### 4.18 Cash and cash equivalents

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

#### 4.19 Dividend and bonus units

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

### 5. BALANCES WITH BANKS

	Note	2008 (Rupees in '000)	2007 (Rupees in '000)
On current accounts		1,813	24
On savings accounts	5.1	<u>262,419</u>	<u>747,589</u>
		<u>264,232</u>	<u>747,613</u>

5.1 The balances in savings accounts bear expected profit which ranges from 3% to 9.5% (2007: 3% to 9.5%) per annum.

### 6. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2008 (Rupees in '000)	2007 (Rupees in '000)
Held for trading	6.1	5,060,523	2,250,045
Investments at fair value through profit or loss upon initial recognition	6.2	<u>715,191</u>	<u>594,021</u>
		<u>5,775,714</u>	<u>2,844,066</u>

## 6.1 Held for trading - shares of listed companies / units of funds

Name of the investee	As at July 1, 2007	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2008	Carrying value	Market value	Percentage of net assets on investment market value (see note 6.1.2. below)	Percentage of total investment
						As at June 30, 2008			
						Rupees in '000			
Number of Shares									
<b>Open - end mutual fund</b>									
Meezan Islamic Income Fund (note 6.1.1) (an associate of the Fund)	-	6,276,250	-	-	6,276,250	321,000	322,160	5.34	5.58
<b>Commercial bank</b>									
BankIslami Pakistan Limited	-	6,983,000	250,000	7,233,000	-	-	-	-	-
<b>Textile composite</b>									
Nishat Mills Limited	1,144,500	985,700	-	1,352,200	778,000	76,777	66,885	1.11	1.16
<b>Jute</b>									
Thal Limited (note 6.1.1)	196,180	20,000	58,854	55,000	220,034	48,465	43,131	0.71	0.75
<b>Cement</b>									
Cherat Cement Company Limited	-	50,300	-	-	50,300	2,183	1,363	0.02	0.02
D. G. Khan Cement Company Limited	-	3,135,500	-	1,526,200	1,609,300	172,064	108,048	1.79	1.87
Fauji Cement Company Limited	-	2,023,000	455,010	1,200,000	1,278,010	21,476	12,933	0.21	0.22
Attock Cement Pakistan Limited	348,000	171,100	-	-	519,100	60,889	40,038	0.66	0.69
								2.68	2.80
<b>Refinery</b>									
National Refinery Limited	278,000	20,000	28,200	326,200	-	-	-	-	-
<b>Power generation and distribution</b>									
Kot Addu Power Company Limited	-	214,000	-	214,000	-	-	-	-	-
The Hub Power Company Limited	1,464,500	6,616,000	-	100,000	7,980,500	259,764	228,242	3.78	3.95
								3.78	3.95
<b>Oil and gas marketing companies</b>									
Pakistan State Oil Company Limited	92,700	1,541,900	-	573,400	1,061,200	469,375	442,775	7.34	7.67
Sui Northern Gas Pipelines Limited	-	1,556,300	-	-	1,556,300	70,772	67,808	1.12	1.17
								8.46	8.84
<b>Oil and gas exploration companies</b>									
Oil and Gas Development Company Limited (note 6.1.3)	2,950,966	2,955,900	-	1,227,000	4,679,866	553,583	581,988	9.64	10.08
Pakistan Oilfields Limited	328,800	1,297,000	-	596,400	1,029,400	353,500	375,566	6.22	6.50
Pakistan Petroleum Limited	932,500	2,812,500	179,220	1,024,800	2,899,420	723,866	713,228	11.82	12.35
								27.68	28.93
<b>Automobile assembler</b>									
Indus Motor Company Limited	458,500	312,000	-	247,923	522,577	152,098	104,542	1.73	1.81
Pak Suzuki Motor Company Limited	280,410	71,000	-	40,600	310,810	118,012	37,232	0.62	0.64
								2.35	2.45
<b>Automobiles parts and accessories</b>									
Agriauto Industries Limited (note 6.1.1)	570,200	18,800	-	-	589,000	57,888	48,740	0.81	0.84
<b>Technology and communication</b>									
Pakistan Telecommunication Company Limited "A"	50,000	11,285,000	-	4,010,000	7,325,000	343,605	283,038	4.69	4.90
TRG Pakistan Limited - Class 'A'	-	10,688,000	-	200,000	10,488,000	132,979	65,550	1.09	1.13
								5.78	6.03
<b>Miscellaneous</b>									
Tri-Pack Films Limited	-	260,000	-	-	260,000	44,178	44,777	0.74	0.78
<b>Fertilizer</b>									
Engro Chemical Pakistan Limited	1,425,200	2,237,400	444,238	2,422,100	1,684,738	501,626	473,091	7.84	8.19
Fauji Fertilizer Company Limited	1,903,262	2,117,800	-	625,000	3,396,062	411,126	449,367	7.45	7.78
Fauji Fertilizer Bin Qasim Limited	3,499,000	7,549,500	-	1,781,000	9,267,500	373,415	333,352	5.52	5.77
								20.81	21.74
<b>Chemical</b>									
Sitara Chemical Industries Limited	143,300	-	9,790	65,400	87,690	12,695	22,137	0.37	0.38
ICI Pakistan Limited	-	1,656,500	-	451,000	1,205,500	215,347	194,532	3.22	3.37
								3.59	3.75
<b>Securities sold under deferred sale arrangements</b>									
<b>Oil and gas exploration companies</b>									
Oil and Gas Development Company Limited	350,000	-	-	350,000	-	-	-	-	-
Pakistan Oilfields Limited	-	156,500	-	156,500	-	-	-	-	-
Pakistan Petroleum Limited	-	355,000	-	355,000	-	-	-	-	-
								-	-
<b>Fertilizer</b>									
Engro Chemical Pakistan Limited	-	26,500	-	26,500	-	-	-	-	-
Fauji Fertilizer Company Limited	25,000	168,400	-	193,400	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	288,500	386,000	-	674,500	-	-	-	-	-
								-	-
<b>Total</b>						<b>5,496,683</b>	<b>5,060,523</b>		
<b>Total cost of investments</b>							<b>5,314,967</b>		

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 Net assets are as defined in regulation 2 (xxvi) of NBFC Regulations.

6.1.3 205,000 shares of Oil and Gas Development Company Limited, having market value of Rs 25.494 million as at June 30, 2008, have been pledged as collateral in favour of National Clearing Company of Pakistan Limited against exposure margins and mark to market losses.

6.1.4 The SECP through its letter No. NBFC-II/AD/AMIML/97/2008 dated February 22, 2008 has relaxed the investment limits prescribed in regulation 64(5) and (8) of NBFC Regulations to fifteen percent and thirty percent respectively.

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

### 6.2.1 Shares of listed companies

Name of the investee	As at July 1, 2007	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2008	Carrying value	Market value	Percentage of net assets on investment market value (see note 6.1.2. above)	Percentage of total investment
						As at June 30, 2008			
						Rupees in '000			
Number of Shares									
<b>Closed-end mutual fund</b>									
Al Meezan Mutual Fund Limited (an associate of the Fund)	17,018,000	-	2,552,700	-	19,570,700	258,674	268,119	4.44	4.64
<b>Commercial bank</b>									
Meezan Bank Limited (an associate of the Fund)	1,847,037	549,000	351,307	100,000	2,647,344	73,296	80,718	1.34	1.40
<b>Pharmaceutical</b>									
GlaxoSmithKline Pakistan Limited	108,875	-	27,218	-	136,093	20,414	23,136	0.38	0.40
<b>Paper and board</b>									
Packages Limited	801,843	628,000	177,726	245,000	1,362,569	378,097	343,218	5.69	5.94
Grand total						<u>730,481</u>	<u>715,191</u>		
<b>Total cost of investments</b>							<u>626,134</u>		

## 7. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments outstanding as at June 30, 2008 amounted to Rs nil (June 30, 2007: Rs 45.562 million and Rs 0.154 million for derivative asset and liability respectively).

## 8. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

	2008 (Rupees in '000)	2007
Advance tax recoverable	76	76
Deposits	2,600	100
Profit receivable on savings accounts with banks	<u>12,227</u>	<u>11,107</u>
	<u>14,903</u>	<u>11,283</u>

9. PRELIMINARY EXPENSES AND FLOATATION COSTS	Note	2008 (Rupees in '000)	2007
Preliminary expenses and floatation costs		277	553
Less: Amortisation during the year		<u>(277)</u>	<u>(276)</u>
		<u>-</u>	<u>277</u>

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

Management fee	10.1	14,551	1,511
Sales load payable		704	447
Preliminary expenses and floatation costs		277	553
Certificate charges payable		<u>4</u>	<u>4</u>
		<u>15,536</u>	<u>2,515</u>

10.1 Under the provisions of NBFC Regulations, the management company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the management company has been charged at the rate of three percent per annum of the average annual net assets of the Fund for the year ended June 30, 2008.

**11. 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.

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

	Note	2008 (Rupees in '000)	2007
Shariah advisory fee	12.1	600	600
Sales load		<u>981</u>	<u>483</u>
		<u>1,581</u>	<u>1,083</u>

12.1 Payable to MBL for providing technical services relating to Shariah matters.

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

This represents annual fee at the rate of one tenth of one percent of the average annual net assets of the Fund payable to SECP under regulation 71 of NBFC Regulations.

## 14. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2008 (Rupees in '000)	2007
Auditors' remuneration		320	399
Withholding tax payable		332	576
Charity payable	14.1	5,977	3,018
Performance rating fee		74	74
Printing charges payable		212	-
Tax advisory fee		40	-
Others		104	148
		<u>7,059</u>	<u>4,215</u>

- 14.1 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 5.977 million (2007: Rs 3.018 million) is outstanding in this regard after making charity payments of Rs 2.000 million (2007: Rs 2.568 million) to renowned charitable institutions. None of the directors of the management company of the Fund were interested in any of donees.

## 15. CLASSES OF UNITS IN ISSUE

- 15.1 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.

- 15.2 As per the supplemental offering document - II dated May 6, 2008 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

- 15.3 The units in issue as at June 30, 2008 and 2007 in each class and their par values were as follows:

Class	2008		2007	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
<b>A</b>				
- Growth units	6,950,295	347,515	15,761,069	788,053
- Income units	-	-	-	-
<b>B</b>				
- Growth units	93,455,554	4,672,778	32,977,943	1,648,89
- Income units	82,858	4,143	-	-
<b>Total</b>	<u>100,488,707</u>	<u>5,024,436</u>	<u>48,739,012</u>	<u>2,436,951</u>

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

#### 16. AUDITORS' REMUNERATION

	2008	2007
	(Rupees in '000)	
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.
Audit fee	220	200
Half yearly review	95	90
Other certifications and services	100	150
Out of pocket expenses	50	26
	<u>465</u>	<u>466</u>

#### 17. EARNINGS PER UNIT OUTSTANDING - BASIC

Net income for the year	<u>528,014</u>	<u>880,157</u>
	(Number of units)	
Number of units in issue	<u>100,488,707</u>	<u>61,434,430</u>
	(Rupees)	
Earnings per unit outstanding - basic	<u>5.25</u>	<u>14.33</u>

17.1 There were no convertible dilutive potential units outstanding on June 30, 2008 and 2007.

## 18. 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, Al Meezan Mutual Fund Limited, Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund, Meezan Capital Protected Fund - I 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 and Regulations and the trust deed respectively.

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

	2008	2007
	(Rupees in '000)	
<b>Al Meezan Investment Management Limited</b>		
- management company of the Fund		
Remuneration payable	<u>14,551</u>	<u>1,511</u>
Sale load payable	<u>704</u>	<u>447</u>
Preliminary expenses and floatation costs	<u>277</u>	<u>553</u>
Certificate charges payable	<u>4</u>	<u>4</u>
Investment of 5,295,172 units (June 30, 2007: 83 units)	<u>317,975</u>	<u>6</u>
<b>Al Meezan Mutual Fund Limited</b>		
Investment in 19,570,700 shares (June 30, 2007: 17,018,000 shares)	<u>268,119</u>	<u>258,674</u>
<b>Meezan Islamic Income Fund</b>		
Investment in 6,276,250 units (June 30, 2007: Nil units)	<u>322,160</u>	<u>-</u>
<b>Meezan Bank Limited</b>		
Bank balance	<u>43,444</u>	<u>44,963</u>
Shariah advisory fees payable	<u>600</u>	<u>600</u>
Sales load payable	<u>981</u>	<u>483</u>
Investment in 2,647,344 shares (June 30, 2007: 1,847,037 shares)	<u>80,718</u>	<u>59,105</u>
Investment of 6,036,341 units (June 30, 2007: 4,788,931 units)	<u>362,482</u>	<u>361,516</u>
<b>Central Depository Company of Pakistan Limited</b>		
Trustee fee payable	<u>567</u>	<u>385</u>
Charges payable	<u>14</u>	<u>39</u>
<b>Pakistan Kuwait Investment Company (Private) Limited</b>		
Investment of Nil units (June 30, 2007: 1,197,232 units)	<u>-</u>	<u>90,379</u>
<b>Directors and executives</b>		
Investment of 536,036 units (June 30, 2007: 401,034 units)	<u>32,189</u>	<u>30,209</u>
<b>Sitara Chemical Industries Limited</b>		
Investment in 143,300 shares as at June 30, 2007	<u>-</u>	<u>22,820</u>



	For the year ended June 30	
	2008	2007
	(Rupees in '000)	
<b>Al Meezan Investment Management Limited</b>		
- management company of the Fund		
Remuneration for the year	151,200	108,062
Bonus units issued: 22 units (2007: 139,681 units)	1	8,188
Units issued: 5,297,972 units (2007: 413,164 units)	330,500	25,050
Redemptions: 2,905 units (2007: 1,020,656 units)	175	73,792
<b>Al Meezan Mutual Fund Limited</b>		
Dividend income	42,545	51,054
<b>Meezan Bank Limited</b>		
Profit on savings accounts with bank	3,393	10,107
Shariah advisory fee	600	600
Bonus units issued: 1,247,409 units (2007: 1,100,976 units)	74,707	64,539
Units issued: 6,036,341 units (2007: Nil units)	380,525	-
Redemptions: 6,036,341 units (2007: Nil units)	380,531	-
<b>Central Depository Company of Pakistan Limited</b>		
Trustee fee	6,043	4,602
CDC charges	169	201
<b>Pakistan Kuwait Investment Company (Private) Limited</b>		
Bonus units issued: 311,852 units (2007: 1,100,976 units)	18,677	64,539
Redemptions: 1,509,085 units (2007: Nil units)	99,690	-
<b>Directors and executives</b>		
Bonus units issued: 77,453 units (2007: 99,644 units)	4,639	5,841
Units issued: 282,517 units (2007: 62,856 units)	16,487	4,033
Redemptions: 121,296 units (2007: 95,247 units)	2,744	6,396

## 19. RISK MANAGEMENT

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

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

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



## 19.1 Market risk

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

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The primary objective of the Fund is to provide the maximum return to the unit holders from investment in Shariah compliant investments for the given level of risks. The Fund, in addition to equities, deferred sale transactions and riba free bank deposits, is also permitted to invest in TFCs, Musharika, Murabaha and other asset-backed securities allowed by SECP and confirmed as shariah compliant by the Fund's shariah adviser, Meezan Bank Limited. 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 the 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. The risk is also mitigated by investing in consistent dividend paying companies having growth prospects and / or which are actively traded. The Fund's overall market positions are monitored on a monthly basis by the Board of Directors of the management company of the Fund.

Details of the Fund's investment portfolio at the balance sheet date are disclosed in note 6 to these financial statements.

Details of the nature and terms of derivative financial instruments outstanding at the balance sheet date are set out in note 7 of these financial statements. As at June 30, 2008 no derivative financial instruments were outstanding.

## 19.2 Credit risk and concentration of credit risk

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

The Fund receives a monthly rating update, against which investments are reviewed. Credit risk arising on financial assets is monitored through a regular analysis of financial position of brokers and other parties.

## 19.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily creation and cancellation of units and it is therefore exposed to the liquidity risk of meeting unit holder's redemptions at any time. The Fund's investments are considered to be readily realisable as they are all listed on stock exchanges of the country. The Fund manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

## 19.4 Capital risk management

The Fund's capital is represented by redeemable units. They are entitled to dividends and 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 unitholder's Fund.

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

In accordance with NBFC Regulations, the Fund is required to distribute atleast 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 the risk management policies as stated above, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of investments where necessary.

## 19.5 Yield / interest rate risk

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

	Interest rate(%)	Interest/mark-up bearing			Non-interest/mark-up bearing			Total 2008	Total 2007
		Maturity upto one year	Maturity after one year	sub-total	Maturity upto one year	maturity after one year	Sub-total		
(Rupees in '000)									
<b>Financial assets</b>									
Balances with banks	3 to 9.5	262,419	-	262,419	1,813	-	1,813	264,232	747,613
Investments at fair value through profit or loss	-	-	-	-	5,775,714	-	5,775,714	5,775,714	2,844,066
Receivable against sale of investments	-	-	-	-	-	-	-	-	166,388
Dividend receivable	-	-	-	-	52,860	-	52,860	52,860	16,648
Derivative financial instruments	-	-	-	-	-	-	-	-	45,562
Deposits and other receivables	-	-	-	-	14,827	-	14,827	14,827	11,207
2008		<u>262,419</u>	<u>-</u>	<u>262,419</u>	<u>5,845,214</u>	<u>-</u>	<u>5,845,214</u>	<u>6,107,633</u>	<u>3,831,484</u>
2007		<u>747,589</u>	<u>-</u>	<u>747,589</u>	<u>3,083,895</u>	<u>-</u>	<u>3,083,895</u>	<u>3,831,484</u>	
<b>Financial liabilities</b>									
Payable to Al Meezan Investment Management Limited management company of the fund	-	-	-	-	15,536	-	15,536	15,536	2,515
Payable to Central Depository Company of Pakistan Limited - trustee of the fund	-	-	-	-	581	-	581	581	424
Payable to Meezan Bank Limited- Shariah adviser of the fund	-	-	-	-	1,581	-	1,581	1,581	1,083
Payable on redemption of units	-	-	-	-	31,913	-	31,913	11,531	56,416
Accrued expenses and other liabilities	-	-	-	-	7,059	-	7,059	7,059	4,215
Derivative financial instruments	-	-	-	-	-	-	-	-	- 154
2008		<u>-</u>	<u>-</u>	<u>-</u>	<u>68,201</u>	<u>-</u>	<u>68,201</u>	<u>68,201</u>	<u>148,957</u>
2007		<u>-</u>	<u>-</u>	<u>-</u>	<u>148,957</u>	<u>-</u>	<u>148,957</u>	<u>148,957</u>	

## 20. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying value of financial assets and liabilities either equal or approximate their fair values.

21. PERFORMANCE TABLE	2008	2007	2006	2005
Net assets (Rs '000) (ex-distribution)	6,033,639	3,679,298	3,199,548	2,006,000
Net assets value / redemption price per unit as at				
June 30 (Rs) (ex-distribution)	50.05	59.89	58.62	58.71
Offer price per unit as at 30 June (Rs) (ex-distribution)	51.20	61.27	59.97	60.06
<b>Distribution (%)</b>				
- Interim	-	-	-	-
- Annual	20.00	31.20	35.00	35.00
Dates of distribution (annual)	July 7, 2008	July 10, 2007	July 7, 2006	July 6, 2005
Income distribution (Rupees in '000)	829	-	-	-
Growth distribution (Rupees in '000)	1,004,058	760,329	735,611	460,621
Highest offer price per unit (Rs)	72.73	77.63	93.01	87.15
Lowest offer price per unit (Rs)	56.03	57.63	59.43	53.40
Highest redemption price per unit (Rs)	71.10	75.88	90.92	85.41
Lowest redemption price per unit (Rs)	54.77	56.33	58.09	52.33
Total return (%)	0.27	28.78	29.65	23.04
Earnings per unit	5.25	14.33	15.91	22.74
	<b>Four Year</b>	<b>Three Year</b>	<b>Two Year</b>	<b>One Year</b>
Average annual return (%) as at June 30, 2008	19.80	18.74	13.63	0.27

### 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 19.

## 22. INVESTMENT COMMITTEE MEMBERS

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

	2008		
	Designation	Qualification	Experience in years
1 Mr. Mohammad Shoab	Chief Executive Officer	CFA / MBA	Eighteen years
2 Mr. Muhammad Asad	Chief Investment Officer/ Fund Manager	MBA	Twelve years
3 Mr. Zaheeruddin Khalid	Head of Research and Product Development Department	CFA / MBA	Six years

22.2 Other funds being managed by the Fund Manager are as follows

- Al Meezan Mutual Fund Limited
- Meezan Islamic Income Fund

## 23. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation-----	Dates of Board of Directors Meetings and Directors' present therein-----					
		July 10, 2007	August 9, 2007	October 22, 2007	December 4, 2007	February 15 2008	April 22, 2008
Mr. Ariful Islam	Chairman	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib	Chief Executive	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Najmul Hasan**	Director	Yes	No	Yes	No	No	N/A
Mr. Tasnimul Haq Farooqui	Director	Yes	Yes	Yes	Yes	Yes	No
Mr. Muhammad Adrees*	Director	No	No	No	No	No	N/A
Mr. Mazhar Sharif	Director	Yes	Yes	Yes	No	Yes	Yes
Syed Owais Wasti	Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Aliuddin Ansari *	Director	N/A	N/A	N/A	N/A	N/A	No
Mr. Rizwan Ata **	Director	N/A	N/A	N/A	N/A	N/A	Yes

\* Mr. Aliuddin Ansari appointed in place of Mr. Muhammad Adrees to fill in the causal vacancy by the Board on April 9, 2008

\*\* Mr. Rizwan Ata appointed as Director in place of Mr. Najmul Hasan to fill in the casual vacancy by the Board on April 9, 2008

## 24. NON ADJUSTING EVENT

The Board of Directors in its meeting held on July 7, 2008 has announced a payout of 20% (2007: 31.2%) amounting to Rs 1,004.887 million (2007: Rs 760.329 million) equivalent to 20,061,109 bonus units (2007: 12,695,418 bonus units) and cash dividend of Rs 0.829 million (2007: Rs nil). The financial statements for the year ended June 30, 2008 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2009.

The effect of issue of bonus units is as follows:	2008	2007
	<u>Number of units</u>	
Number of units in issue before bonus units	<u>100,488,707</u>	<u>48,739,012</u>
Number of units in issue after bonus units	<u>120,549,816</u>	<u>61,434,430</u>
	<u>Rupees</u>	
Net assets value per unit before bonus issue	<u>60.05</u>	<u>75.49</u>
Net assets value per unit after bonus issue	<u>50.05</u>	<u>59.89</u>



**27. CORRESPONDING FIGURES**

Annual rating fee has been shown as 'legal and professional charges' for better presentation. Previously, it was included in 'fees and subscriptions'. Accordingly, prior year's figures have also been reclassified.

**28. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue on August 07, 2008 by the Board of Directors of the management company.

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

Chief Executive

Director



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## Our Vision

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

## Our Mission

*“ To be the leading mutual fund in the industry, providing unitholders, in a truly SHARIAH COMPLIANT way,a safe stable stream of Halal returns on risk adjusted basis.”*

# FUND INFORMATION

## MANAGEMENT COMPANY

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

## BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Chairman
Mr. 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  
Suite # M 13-16, Mezzanine Floor, Progressive Plaza,  
Beaumont Road, 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  
Soneri Bank Limited - Islamic Banking  
UBL Ameen Islamic Banking  
Emirates Global Islamic Bank Limited  
Dawood Islamic Bank Limited  
Allied Bank Limited - 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) 565 7658-59  
Fax: (9221) 565 7673  
E-mail: bawaney@cyber.net.pk

## TRANSFER AGENT

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

## DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Ltd., the management company of Meezan Islamic Income Fund (MIIF) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2008.

### **Economic and Money Market Review**

Despite international economic slowdown, Pakistan managed a GDP growth of 5.8% in FY08 as against 7%, a year earlier. The decline in GDP growth this year is mainly attributed to the slow down in key sectors, mainly agriculture and manufacturing. Nonetheless, service sector has again posted an impressive growth of 8.6%, which accounts for 53% of GDP growth.

Increasing inflation and central bank's efforts to control it through tight monetary policy has been the theme of the money market this year. High international oil prices coupled with rising commodity prices partly due to lower domestic production and partly due to international trends, fed domestic inflation during the year. State Bank of Pakistan has been trying to control inflationary pressure through combination of interest rate hikes and higher reserve requirements for commercial banks. SBP increased the policy rate thrice from 9.5% to 12% during the year. The tight monetary stance resulted in six month t-bill rates to increase from 8.9% in June 2007 to 11.47% by end of June 2008, whereas KIBOR during the same period increased by 417 bps to 14.19%.

### **Outlook**

In light of the persistent inflationary pressure on the economy, we expect SBP to continue with its tight monetary policy which will result in a rising interest rate environment. This along with increasing competition in the banking sector resulting in better deposit rates, bodes well for the future outlook of MIIF. In view of rising interest rate environment, the resetting of coupons linked to KIBOR will also help in optimization of yield on Meezan Islamic Income Fund and shortly the yield is expected to cross double digit mark.

### **Fund Rating**

We are pleased to inform our investors that JCR - VIS, the leading rating agency in Pakistan, has assigned an A(f) stability rating to MIIF, signaling moderate degree of stability in returns with risk factors considered variable if economic variables change.

### **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 holders' 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 judgment.
- 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 including their spouses and their minor children are as under:

Trades by		No. of units invested	No. of units redeemed
Mr. Ariful Islam	Chairman	203,309.80	-
Mr. Mohammad Shoaib, CFA	Chief Executive	290,078.45	195,274.36
Mr. Rizwan Ata	Director	118,493.77	118,493.77

- Pattern of holding of units is given on page no. 53 of the financial statements.
- Financial highlights since inception are given in note no. 22 of the financial statements.

### Board Meetings

Please refer to note no. 29 provided in the financial statements.

### Appointment of Auditors

M/s A.F. Ferguson & Co. Chartered Accountants retire and being eligible offer themselves as the auditors of the Fund for FY 2009. The Audit Committee has recommended 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 firm in Pakistan and for making MIIF the largest open end fixed income fund in the private sector. We also thank the regulator, Securities and Exchange Commission of Pakistan, MIIF's trustee, Central Depository Company of Pakistan and management of Karachi Stock Exchange for all their support and guidance. Last but not the least; we would like to place on record our gratitude for Justice (Retd.) Muhammad Taqi Usmani, in special and other members of the Shariah Board of Meezan Bank in general, for their continued guidance on Shariah aspects of fund management.

**Karachi.**  
**August 7, 2008**

For and on behalf of the Board

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

## PATTERN OF HOLDING OF UNITS AS AT JUNE 30, 2008

Held by	Units Held	%
<b>Associated Companies</b>		
- Meezan Bank Limited	19,512,366.87	17.47
- Pakistan Kuwait Investment Company (Private) Limited	666,751.98	0.60
<b>Directors</b>		
- Mr. Arif ul Islam	219,568.13	0.20
- Mr. Tasnimul Haq Farooqi	4,260.30	0.00
- Mr. Rizwan Ata	4,278.99	0.00
<b>Chief Executive</b>		
- Mr. Mohammad Shoaib, CFA	548,178.40	0.49
<b>Executives</b>	11,440.78	0.01
<b>Public Limited Companies</b>	3,281,703.90	2.94
<b>Banks and financial institutions</b>	11,230,508.17	10.05
<b>Individuals</b>	28,370,429.47	25.40
<b>Retirement funds</b>	5,981,567.05	5.36
<b>Other corporate sector entities</b>	40,903,098.15	36.62
<b>Non-Profit Organization</b>	957,864.12	0.86
<b>Total</b>	<b>111,692,016.32</b>	<b>100.00</b>

## REPORT OF THE FUND MANAGER

Meezan Islamic Income fund (MIIF) is Pakistan's first Shariah compliant open end mutual fund which falls in the category of Income Funds.

The Fund's primary objective is to provide investors with a high and stable rate of current income consistent with long-term preservation of capital in a Shariah compliant way. It provides potential to the investors to take advantage of opportunities to realize capital appreciation as well as regular income by investing in a diversified portfolio of long, medium and short term, high quality Islamic income instruments.

### Strategies and Investment Policy

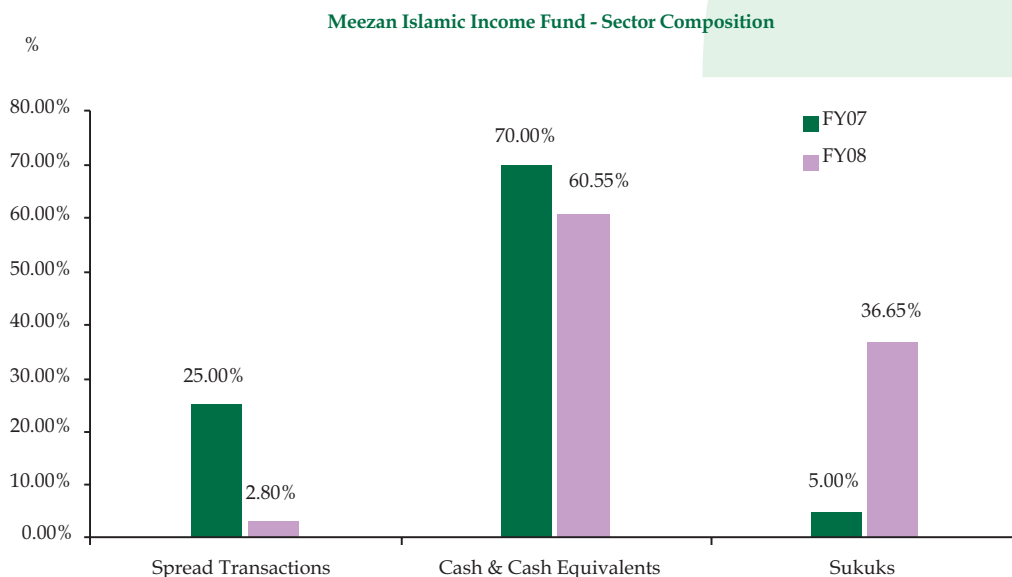
During the year, the focus was on proactive and continuous re-allocation between high yield instruments so as to optimize fund yield while maintaining a balance within the risk management constraints. To manage interest rate risk and meet liquidity objectives, the fund manager over the period has kept the duration below six months.

The instruments in which MIIF invests are Sukuks (Islamic Bonds), Musharaka and Morabaha instruments, Shariah compliant spread transactions, Certificate of Islamic Investments, Islamic bank deposits, and other Islamic income products.

### Implementation

Due to greater acceptance, the Islamic Bond (Sukuks) market grew significantly during the year under review, increasing to over PKR 65bn in FY08 from PKR 30bn in FY07. The rising interest rate environment in the country has pushed up the effective rates on Sukuks by around 200-300bps. The fund manager, in order to maximize profits from this avenue, successfully increased the fund's exposure to Sukuks from 3% in FY07 to 37% in FY08. On the other hand, a balance was maintained between short term liquid avenues and long term investments so that the duration of the fund does not exceed six months, while providing risk adjusted high yield to the investors.

### Asset Allocation





## Economic and Money Market Review

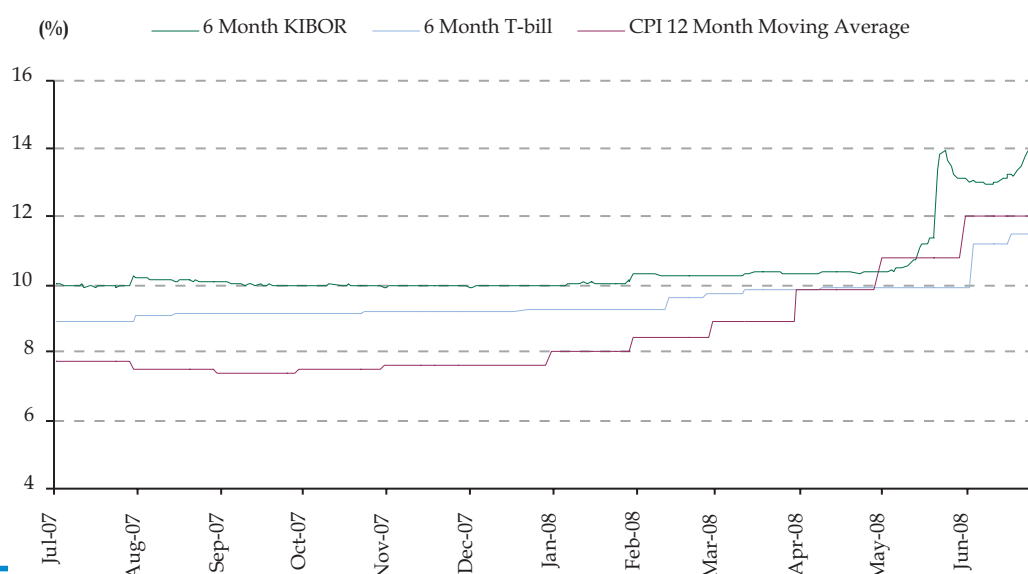
Despite international economic slowdown, Pakistan managed a GDP growth of 5.8% in FY08 as against 7%, a year earlier. The decline in GDP growth this year is mainly attributed to the slow down in key sectors, mainly agriculture and manufacturing. Nonetheless, service sector has again posted an impressive growth of 8.6%, which accounts for 53% of GDP growth.

The current account deficit has reached US \$ 14.01bn for FY08, almost twice as much as in the previous year. The main reason for widening current account deficit is the worsening of trade balance. Due to the extraordinary increase in international crude oil and food prices, Pakistan's trade deficit for FY08 reached US\$ 20.7bn resulting in reduction of foreign exchange reserves from US\$15.7bn in July 2007 to US\$11.2bn in June 2008. This created further pressure on PKR value against US dollar, thus depreciating PKR by 12.7%. The economy was further hurt by the uncertain political situation as foreign investors remained cautious during the year, resulting in a decline in foreign direct and portfolio investment. However, the inflows of remittances remained strong and provided some support to the balance of payment situation, recording the highest ever amount of US\$6.45bn, 18% more than last year. More importantly, Government of Pakistan successfully achieved its unprecedented tax collection target of PKR 1 trillion, which also helped in providing some relief to the burgeoning budget deficit

### Monetary Tightening

These are challenging times for the monetary authority. The inflation continues to inch upward primarily at the back of surging oil and food prices. The FY08 inflation is 12% which is 5.4% more than the target of 6.6%. In order to curb inflation, State Bank (SBP) continued its monetary tightening to arrest the inflationary effect and increased the discount rate thrice in last one year from 9.5% to 12%, pushed up CRR from 7% to 9% and raised SLR from 18% to 19% during the year. The tight monetary stance also resulted in six month t-bill rates to increase from 8.9% in June 2007 to 11.47% by end of June 2008, an increase of almost 257 bps. Also, with regular mopping up of excess liquidity through OMO's, overnight rates during the last quarter increased further, with banks feeling the pinch of tight monetary environment. The following graph shows the trend in interest rate during the period under review.

Trends in 6-month KIBOR, 6-Month T-bill and CPI



Going forward, in order to ensure a conservative budget deficit and curtail its borrowings, the government aims to phase out subsidies through adjustment of fuel prices. The concerted measures by GoP and central bank will have positive spill over effects on economy.

### Performance Review

The Fund, during the year ended June 30, 2008 earned a total income of PKR 594.43mn. The income for the year comprised of mainly profit on placements of PKR 333.75mn. The un-realized gain on investments at fair value for the year was PKR 9.81mn. After accounting for expenses of PKR 76.76mn and element of income and capital gains included in prices of units issued less those in units redeemed of PKR 40.28mn, the net income for the year was PKR 557.96mn, which translates into the earning of PKR 4.99 per outstanding unit as at June 30, 2008.

The net assets of the fund as at June 30, 2008 were PKR 5,737mn. Before final payout, the net asset value of the fund as at June 30, 2008 was PKR 51.36 per unit, providing a total return of 9.15% for the year. The Board of Directors of Management Company approved interim payout of 6.5% and final payout of 2.7% to the unit holders.

During the year under review, units amounting to PKR 14,393mn were issued and units amounting to PKR 12,222mn were redeemed, resulting in net inflow of PKR 2,171mn into the Fund.

Average rate on deposits with Islamic Banks serves as the performance benchmark of MIIF. Fund's performance as compared to the said benchmark is as follows:

	MIIF	Islamic Bank Deposits (Benchmark)
Value as on June 30, 2007 (Bonus Adjusted)	50.03	
Value as on June 30, 2008	51.36	
Return During the Period	9.15%	5.75%
Out performance	3.40%	

### Performance Analysis

Meezan Islamic Income Fund		
	FY08	FY07*
Net Asset (PKR mn)	5,702	3,162
NAV per unit (PKR)	51.36	52.23
Highest Redemption Price (PKR)	53.68	52.23
Lowest Redemption Price (PKR)	50.17	50.03
Highest Offer Price (PKR)	53.95	52.49
Lowest Offer Price (PKR)	50.42	50.28
Total Return (%)	9.15	9.93
Return Since Inception (annualized) (%)	9.70	9.80

\* Launched in January 2007

## Development of Sukuks

In the Islamic bond market many new Sukuks have been issued during this period and several offerings are in the pipeline. With the increasing interest of the corporate sector in raising debt through Shariah compliant avenues, investors have been provided with an opportunity of investing in Islamic fixed income instruments which provide relatively higher yields compared to other Islamic instruments. The major issues during the year in which the fund invested include Engro Chemicals, Century Paper, Eden Housing, Karachi Shipyard, etc.

## Future Outlook

In light of the persistent inflationary pressure on the economy, we expect SBP to continue with its tight monetary policy which will result in a rising interest rate environment. This along with increasing competition in the banking sector resulting in better deposit rates, bodes well for the future outlook of MIIF. In view of rising interest rate environment, the resetting of coupon linked to KIBOR will also help in optimization of yield on Meezan Islamic Income Fund and shortly the yield is expected to cross double digit mark.

## Distribution

The Board of Directors of Al Meezan Investments in its meeting declared a final distribution for MIIF of Rs.1.35 per unit, in addition to an interim dividend of Rs.3.25 per unit, making a total payout of Rs.4.60 per unit. This translates to a return of 9.19% on the opening ex-div NAV of Rs.50.03 and 9.2% on the face value of Rs.50 per unit for the year ended June 30, 2008.

The net asset value per unit of MIIF before and after the initial distribution was Rs.53.68 and Rs.50.43 respectively, and before and after the final distribution, the value was Rs.51.36 and Rs.50.01 respectively.

## Breakdown of unit holdings by size

(As on June 30, 2008)

Range of units	Number of unitholders
Upto 10,000	1,321
Between 10,001 to 50,000	253
Between 50,001 to 100,000	49
Between 100,001 to 500,000	73
From 500,001 and above	31

## REPORT OF THE SHARIAH ADVISER - MEEZAN ISLAMIC INCOME FUND

Karachi

September 10, 2008

**Alhamdulillah**, the period from July 01, 2007 to June 30, 2008 was the second year of operations of Meezan Islamic Income Fund (MIIF). We Meezan Bank Limited are the Shari'ah Adviser of the Fund and are issuing this report in accordance with clause 7.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the shari'ah Compliance of the Fund's activity.

In the capacity of Shari'ah adviser, we have prescribed criteria and procedure to be followed in ensuring Shariah Compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure 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.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MIIF light of Shari'ah guidelines.
- ii. All the provisions of the scheme and investments made on account of MIIF by AMIM are Shari'ah Compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MIIF for the year ended June 30, 2008 have been in compliance with Shariah principles.

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

---

**Dr. Muhammad Imran Ashraf Usmani**  
For and On behalf of Meezan Bank Limited

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

We have performed our independent assurance engagement of Meezan Islamic Income Fund (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Adviser of Meezan Islamic Income Fund for the year ended June 30, 2008.

### **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, 2008.

**A. F. Ferguson & Co.**  
**Chartered Accountants**  
**Karachi, September 11, 2008**

## TRUSTEE REPORT TO THE UNIT HOLDERS MEEZAN ISLAMIC INCOME FUND

### **Report of the Trustee pursuant to Regulation 58(f) and Clause 9 of Schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007**

Meezan Islamic Income Fund (Fund), an open-end scheme was established under a trust deed dated September 13, 2006, executed between Al Meezan Investment Management Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee.

In our opinion, the management company has in all material respects managed the Fund during the year ended June 30, 2008 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, 2007 and the constitutive documents of the Fund.

**Muhammad Hanif**

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi, September 08, 2008

## MEEZAN ISLAMIC INCOME FUND 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 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 Income 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 NBFIs. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. Two vacancies occurred during the year on the board which were filled in by the board through resolution by circulation dated April 9, 2008.
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, including his remuneration and terms and conditions of the employment as determined by the CEO.



11. The directors' report relating to the Fund, for the year ended June 30, 2008 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. We confirm that all other material principles contained in the Code have been complied with.

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**Syed Owais Wasti**  
**Chief Financial Officer**

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

**Karachi.**  
**August 07, 2008**

## 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 Income Fund (the Fund) to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange where the Fund is listed.

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

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, 2008.

**A. F. Ferguson & Co.**  
**Chartered Accountants**  
**Karachi, September 11, 2008**

## INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the accompanying financial statements of Meezan Islamic Income Fund, which comprise the statement of assets and liabilities as at June 30, 2008, 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 requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations), the directives issued by the Securities and Exchange Commission of Pakistan (the directives) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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, 2008 and of its financial performance, cash flows and transactions for the year then ended in accordance with the requirements of the Trust Deed, the NBFC Rules and the NBFC Regulations, the directives and approved accounting standards as applicable in Pakistan.

### Other matters

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

The Fund's financial statements for the year ended June 30, 2007 were audited by another firm of Chartered Accountants whose report dated August 9, 2007 expressed an unqualified opinion thereon.

**A. F. Ferguson & Co.**  
**Chartered Accountants**  
**Karachi, September 11, 2008**

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2008

	Note	2008 (Rupees in '000)	2007
<b>Assets</b>			
Balances with banks	5	1,155,498	638,720
Placements	6	2,596,250	1,638,970
Investments	7	1,927,564	907,293
Receivable against sale of investments		-	225,269
Financial instruments sold on deferred settlement basis	8	2,863	4,350
Deposits and other receivables	9	210,647	33,766
Preliminary expenses and floatation costs	10	1,500	2,000
<b>Total assets</b>		<b>5,894,322</b>	<b>3,450,368</b>
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited - management company of the fund	11	6,717	4,787
Payable to Central Depository Company of Pakistan Limited - trustee of the fund	12	540	293
Payable to Securities and Exchange Commission of Pakistan	13	5,784	730
Payable to Meezan Bank Limited - Shariah adviser of the fund	14	328	228
Payable on redemption of units		56,154	19,857
Payable against purchase of investments		87,067	231,331
Accrued expenses and other liabilities	15	694	294
Financial instruments sold on deferred settlement basis	8	-	30,720
<b>Total liabilities</b>		<b>157,284</b>	<b>288,240</b>
<b>Net assets</b>		<b>5,737,038</b>	<b>3,162,128</b>
<b>Commitments</b>	8		
<b>Unitholders' funds (as per statement attached)</b>		<b>5,737,038</b>	<b>3,162,128</b>
		<b>Number of units</b>	
<b>Number of units in issue</b>	16	<b>111,692,016</b>	<b>60,545,714</b>
		<b>Rupees</b>	
<b>Net asset value per unit</b>		<b>51.36</b>	<b>52.23</b>

The annexed notes 1 to 29 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, 2008

	Note	For the year ended June 30, 2008	For the period December 13, 2006 to June 30, 2007
		(Rupees in '000)	
<b>Income</b>			
Profit on savings accounts with banks		69,249	17,373
Profit on placements		333,750	23,886
Profit on sukuk certificates		130,714	7,262
Profit on diminishing musharaka certificates		2,922	-
Realised income on sale of securities on deferred settlement basis		<u>18,753</u>	<u>44,052</u>
		555,388	92,573
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)		9,813	26,484
Gain / (loss) on re-measurement of financial instruments sold on deferred settlement basis (net)		<u>29,233</u>	<u>(26,370)</u>
		39,046	114
<b>Total income</b>		<u>594,434</u>	<u>92,687</u>
<b>Expenses</b>			
Remuneration to Al Meezan Investment Management Limited - management company of the fund	11.1	57,841	7,297
Remuneration to Central Depository Company of Pakistan Limited - trustee of the fund		6,787	1,324
Annual fee to Securities and Exchange Commission of Pakistan		5,784	730
Remuneration to Meezan Bank Limited - Shariah adviser of the fund	14.1	300	150
Auditors' remuneration	17	442	192
Fees and subscription		16	19
Legal and professional charges		133	82
Profit payment to Pre-IPO and core investors		-	5,891
Amortisation of preliminary expenses and floatation costs	10	500	500
Brokerage		3,422	4,413
Bank and settlement charges		1,094	1,067
Financial cost against murabaha		104	-
Printing expense		334	-
<b>Total expenses</b>		<u>76,757</u>	<u>21,665</u>
<b>Net income from operating activities</b>		517,677	71,022
Element of income and capital gains included in prices of units sold less those in units redeemed		<u>40,280</u>	<u>63,821</u>
<b>Net income</b>		<u>557,957</u>	<u>134,843</u>
<b>Earnings per unit outstanding - basic (Rupees)</b>	18	<u>4.99</u>	<u>2.13</u>

The annexed notes 1 to 29 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, 2008

	For the year ended June 30, 2008	For the period December 13, 2006 to June 30, 2007
(Rupees in '000)		
Undistributed income brought forward	134,843	-
Less: Final distribution in the form of bonus units @ 4.4% for the period December 13, 2006 to June 30, 2007	(133,201)	-
Less: Interim distribution in the form of bonus units @ 6.5%	(293,693)	-
Less: Interim distribution in the form of cash dividend @ 6.5%	(113,469)	-
Net income for the year / period	557,957	134,843
Undistributed income carried forward	152,437	134,843

The annexed notes 1 to 29 form an integral part of these financial statements.

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

**Chief Executive**

**Director**

## STATEMENT OF MOVEMENT IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	For the year ended June 30, 2008	For the period December 13, 2006 to June 30, 2007
	(Rupees in '000)	
Net assets at the beginning of the year	3,162,128	-
Issue of 277,206,735 units (June 30, 2007: issue of 78,348,995 units)	14,392,981	4,017,973
Redemption of 234,546,618 units (June 30, 2007: redemption of 17,803,281 units)	(12,222,279)	(926,867)
	2,170,702	3,091,106
Element of income and capital gains included in prices of units sold less those in units redeemed	(40,280)	(63,821)
Net income for the year / period less distribution	17,594	134,843
Issue of 2,662,414 bonus units for the period December 13, 2006 to June 30, 2007	133,201	-
Issue of 5,823,771 bonus units for the year	293,693	-
Net assets at the end of the year / period	5,737,038	3,162,128
Net asset value per unit at the beginning of the year	52.23	50.03
Net asset value per unit at the end of the year	51.36	52.23

The annexed notes 1 to 29 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, 2008

	For the year ended June 30, 2008	For the period December 13, 2006 to June 30, 2007
Note	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	557,957	134,843
<b>Adjustments for non-cash items</b>		
Profit on savings accounts with banks	(69,249)	(17,373)
Profit on placements	(333,750)	(23,886)
Profit on sukuk certificates	(130,714)	(7,262)
Profit on diminishing musharaka certificates	(2,922)	-
Unrealised gain on re-measurement of investments at fair value through profit or loss	(9,813)	(26,484)
Gain / (loss) on re-measurement of financial instruments sold on deferred settlement basis	(29,233)	26,370
Amortisation of preliminary expenses and floatation costs	500	500
Element of income and capital gains included in prices of units sold less those in units redeemed	(40,280)	(63,821)
	<u>(615,461)</u>	<u>(111,956)</u>
<b>(Increase) / decrease in assets</b>		
Placements	(957,280)	(1,638,970)
Investments	(1,007,536)	(880,809)
Receivable against sale of investments	225,269	(225,269)
Deposits and other receivables	(2,500)	(100)
Preliminary expenses and floatation costs	-	(2,500)
	<u>(1,742,047)</u>	<u>(2,747,648)</u>
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan Investment Management Limited - management company of the fund	1,930	4,787
Payable to Central Depository Company of Pakistan Limited - trustee of the fund	247	293
Payable to Securities and Exchange Commission of Pakistan	5,054	730
Payable to Meezan Bank Limited - Shariah adviser of the fund	100	228
Payable on redemption of units	36,297	19,857
Payable against purchase of investments	(144,264)	231,331
Accrued expenses and other liabilities	400	294
	<u>(100,236)</u>	<u>257,520</u>
Profit received on savings accounts with banks	67,638	10,984
Profit received on placements	210,291	-
Profit received on sukuk certificates	81,403	3,871
<b>Net cash outflow from operating activities</b>	<u>(1,540,455)</u>	<u>(2,452,386)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from sale of units	14,392,981	4,017,973
Payments against redemption of units	(12,222,279)	(926,867)
Dividend paid	(113,469)	-
<b>Net cash inflow from financing activities</b>	<u>2,057,233</u>	<u>3,091,106</u>
Net cash inflow during the year / period	516,778	638,720
Cash and cash equivalents at the beginning of the year / period	638,720	-
Cash and cash equivalents at the end of the year / period	5 <u>1,155,498</u>	<u>638,720</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

## 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Islamic Income Fund (the Fund) was established under a Trust Deed executed between Al Meezan Investment Management Limited (AMIML) as management company and Central Depository Company of Pakistan Limited (CDC) as trustee. The Trust Deed was executed on September 13, 2006 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). On November 21, 2007, Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations) were notified. 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 safe and stable stream of halal income on their investments and to generate superior long term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point in time. Under the Trust Deed all the conducts and acts of the Fund are based on Shariah. Meezan Bank Limited (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-ended fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The management company of the Fund is rated AM-2 and the stability rating of the Fund is A(f) given by JCR - VIS Credit Rating Company Limited.
- 1.4 Title to the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as a trustee of the Fund.

## 2. BASIS OF MEASUREMENT

The transactions undertaken by the Fund in accordance with the process prescribed under the Shariah Guidelines issued by the Shariah adviser are accounted for on substance rather than the form prescribed by the 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 requirements of approved accounting standards as applicable in Pakistan, the Trust Deed, the NBFC Rules and NBFC Regulations and the directives issued by the SECP. Approved accounting standards comprise of such International Accounting Standards (IAS) and International Financial Reporting Standards (IFRSs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, the NBFC Rules and NBFC Regulations and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules and NBFC Regulations and the said directives take precedence.

- 3.2 Standards, amendments and interpretations effective during the period October 25, 2007 to June 30, 2008:

There are certain new standards and interpretations that were mandatory for accounting period beginning on or after July 1, 2007 but are considered not to be relevant or have any significant effect on the Fund's operations and are therefore not disclosed in these financial statements.

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

IFRS 7, 'Financial instruments: Disclosures' (effective from July 1, 2008) introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the financial instruments.

There are other standards, interpretations and amendments to published approved accounting standards that are mandatory for accounting periods beginning on or after July 1, 2008 but are considered not to be relevant or have any significant effect to 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 certain investments which are carried at fair value in accordance with the criteria laid down in the International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

##### 4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of critical accounting estimates. It also requires the management company to exercise its 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 is classification of investments in accordance with the fund manager's accounting are as follows:

- (a) Classification and valuation of financial instruments (notes 4.3, 4.4, 4.5, 7 and 8)
- (b) Amortisation of preliminary expenses and floatation costs (notes 4.10 and 10)
- (c) Impairment of financial instruments (note 4.3.5)
- (d) Provision for current 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 Consistent with prior years, 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 originated by the enterprise

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 marketable securities, derivatives and financial instruments sold on deferred settlement basis is based on their price quoted on the Karachi Stock Exchange and Mutual Funds Association of Pakistan 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.

The fair value of unlisted securities are determined by using fair value techniques as allowed under IAS 39.

#### 4.3.5 Impairment

Impairment loss on investment 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 expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Fund uses 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.

Consistent with prior year, 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 company 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

Consistent with prior year, 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 Unit holders' fund

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

#### 4.7 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 distributors and the management company.

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

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

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

#### 4.9 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 December 13, 2006 as per 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 income currently and are recognised 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 dividend is established.
- (v) Profit on savings accounts with banks, placements and investments in debt instruments are recorded on accrual basis.

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

#### 4.16 Zakat

Units held by resident Pakistani unit holders except those exempted are subject to zakat at 2.5% of the face value or redemption value of the units, whichever is lower, under the Zakat and Ushr Ordinance, 1980 (XVII of 1980). 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 Transactions with connected persons

Transactions between the Fund and its connected persons, as defined in NBFC Regulations 2007 are carried out on an arm's length basis substantiated in a manner set out in note 19.

#### 4.18 Cash and cash equivalents

Consistent with prior years, 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.

#### 4.19 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	2008 (Rupees in '000)	2007
<b>5. BALANCE WITH BANKS</b>			
In saving accounts	5.1	1,154,592	638,708
In current accounts		906	12
		<u>1,155,498</u>	<u>638,720</u>

5.1 The balance in saving accounts bears expected profit which ranges from 3% to 9.85% (2007: 3% to 9.5%) per annum.

#### 6. PLACEMENTS

Placements carry expected profit at rates ranging from 9.85 percent per annum to 10.3 percent per annum (2007: 8 percent per annum to 12.57 percent per annum) and are due to mature during the period from September 1, 2008 to March 15, 2009.



	Note	2008 (Rupees in '000)	2007
<b>7. INVESTMENTS</b>			
Investments at fair value through profit or loss	7.1	1,724,642	907,293
Loans and receivables - originated by the enterprise	7.2	202,922	-
		<u>1,927,564</u>	<u>907,293</u>
<b>7.1 Investments at fair value through profit or loss</b>			
- Held for trading	7.1.1	195,527	752,093
- Investments at fair value through profit or loss upon initial recognition	7.1.2	1,529,115	155,200
		<u>1,724,642</u>	<u>907,293</u>
<b>7.1.1 Held for trading</b>			
Shares of listed companies	7.1.1.1	157,637	752,093
Sukuk certificates	7.1.1.5	37,890	-
		<u>195,527</u>	<u>752,093</u>

#### 7.1.1.1 Shares of listed companies

Name of the investee company	As at July 1, 2007	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2008	Carrying value as at June 30, 2008	Market value as at June 30, 2008	Percentage of net assets on the basis of market value (see note 7.1.1.3 below)	Percentage of total investment
	Number of Shares				Rupees in '000				
<b>Securities sold under deferred settlement basis</b>									
<b>Textile Composite</b>									
Nishat Mills Limited	200,000	801,000	-	870,000	131,000	11,586	11,262	0.20	0.58
<b>Cement</b>									
D G Khan Cement Company Limited	-	515,500	-	250,000	265,500	18,426	17,825	0.31	0.92
<b>Power generation and distribution</b>									
Hub Power Company Limited	-	100,000	-	100,000	-	-	-	-	-
<b>Technology and communication</b>									
Pakistan Telecommunication Company Limited 'A'	4,000,000	32,151,000	-	35,121,000	1,030,000	39,892	39,799	0.69	2.06
<b>Oil and gas exploration companies</b>									
Pakistan Oilfields Limited	227,500	1,286,000	-	1,383,000	130,500	49,051	47,612	0.83	2.47
Oil and Gas Development Company Limited	1,039,000	6,444,800	-	7,483,800	-	-	-	-	-
Pakistan Petroleum Limited	288,800	1,112,300	-	1,401,100	-	-	-	-	-
<b>Oil and gas marketing companies</b>									
Pakistan State Oil Company Limited	50,000	1,174,500	-	1,224,500	-	-	-	-	-
Sui Northern Gas Pipeline Limited	-	116,500	-	116,500	-	-	-	-	-
Sui Southern Gas Company Limited	-	5,000,000	-	5,000,000	-	-	-	-	-
<b>Fertilizer</b>									
Engro Chemical Pakistan Limited	17,000	1,520,500	-	1,391,000	146,500	41,543	41,139	0.72	2.13
Fauji Fertilizer Bin Qasim Company Limited	96,000	1,239,500	-	1,335,500	-	-	-	-	-
Fauji Fertilizer Company Limited	400,000	767,000	-	1,167,000	-	-	-	-	-
<b>Commercial banks</b>									
BankIslami Pakistan Limited	10,000,000	10,000,000	-	20,000,000	-	-	-	-	-
<b>Grand total</b>						<u>160,498</u>	<u>157,637</u>		
<b>Total cost of investments</b>							<u>160,498</u>		

7.1.1.2 All shares have a nominal value of Rs 10 each.

7.1.1.3 Net assets are as defined in Regulation 2 (xxvi) of the NBFC Regulations.

7.1.1.4 The SECP through its letter no. NBFC-II/AD/AMIML/97/2008 dated February 22, 2008 has increased the investment limits prescribed in Regulation 64 (5) and (8) of NBFC Regulations to fifteen percent and thirty percent respectively.

### 7.1.1.5 Sukuk certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2007	Purchases during the year	Sales during the year	Redemptions during the year	As at June 30, 2008	Carrying value as at June 30, 2008	Market value as at June 30, 2008	Percentage of net assets on the basis of market value (see note 7.1.1.3 above)	Percentage of total investment	
			-----Number of certificates-----						-----Rupees in '000-----			
WAPDA First Sukuk Certificates (note 7.1.1.6)	October 22, 2012	6 months Kibor plus base rate of 0.35%	-	7,500	-	-	7,500	38,531	37,890	0.66	1.97	
<b>Total cost of investments</b>									<b>38,531</b>			

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

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

### 7.1.2.1 Sukuk certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2007	Purchases during the year	Sales during the year	Redemptions during the year	As at June 30, 2008	Carrying value as at June 30, 2008	Market value as at June 30, 2008	Percentage of net assets on the basis of market value (see note 7.1.1.3 above)	Percentage of total investment
			-----Number of certificates-----						-----Rupees in '000-----		
Arzoo Textile Mills Limited (note 7.1.2.2)	April 15, 2014	6 months Kibor plus base rate of 2%	-	14,000	-	-	14,000	70,000	70,700	1.23	3.67
Century Paper & Board Mills Limited (note 7.1.2.2)	September 25, 2014	6 months Kibor plus base rate of 1.35%	-	5,000	-	-	5,000	25,000	25,495	0.44	1.32
Dawood Hercules Chemicals Limited (note 7.1.2.3)	September 18, 2012	6 months Kibor plus base rate of 1.2%	-	3,950	-	-	3,950	197,500	197,500	3.44	10.25
Eden Housing Limited (note 7.1.2.2)	April 2, 2013	6 months Kibor plus base rate of 2.5%	-	59,400	-	-	59,400	297,000	300,267	5.23	15.58
Engro Chemical Pakistan Limited (note 7.1.2.2)	September 1, 2015	6 months Kibor plus base rate of 1.5%	-	60,000	-	-	60,000	300,000	306,510	5.34	15.90
Security Leasing Corporation Limited II (note 7.1.2.2)	September 19, 2012	6 months Kibor plus base rate of 1.95%	-	10,000	-	-	10,000	50,000	50,200	0.88	2.60
Shahmurad Sugar Mills Limited (note 7.1.2.4)	September 30, 2012	6 months Kibor plus base rate of 2.25%	-	73	-	-	73	73,000	72,912	1.27	3.78
Sitara Chemical Industries Limited II (note 7.1.2.5)	December 17, 2011	3 months Kibor plus base rate of 1.7%	11,040	-	-	-	11,040	48,300	48,675	0.85	2.53
Sitara Chemical Industries Limited III (note 7.1.2.2)	December 31, 2012	3 months Kibor plus base rate of 1%	-	27,000	-	-	27,000	135,000	135,000	2.35	7.00
Sui Southern Gas Company Limited	April 27, 2012	3 months Kibor plus base rate of 1.4%	30,000	-	30,000	-	-	-	-	-	-
Karachi Shipyard & Engineering Works	November 2, 2015	6 months Kibor plus base rate of 0.4%	-	12,000	12,000	-	-	-	-	-	-
Karachi Shipyard & Engineering Works II	February 4, 2016	6 months Kibor plus base rate of 0.4%	-	53,400	53,400	-	-	-	-	-	-
Maple Leaf Cement Factory Limited (note 7.1.2.2)	December 1, 2013	6 months Kibor plus base rate of 1.7%	-	64,000	-	-	64,000	320,000	321,856	5.61	16.70
<b>Grand Total</b>								<b>1,515,800</b>	<b>1,529,115</b>		
<b>Total cost of investments</b>									<b>1,515,800</b>		

7.1.2.2 The nominal value of the sukuk certificates of Arzoo Textile Mills Limited, Century Paper & Board Mills Limited, Eden Housing Limited, Engro Chemicals Pakistan Limited, Security Leasing Corporation Limited II, Sitara Chemical Industries Limited III and Maple Leaf Cement Factory Limited are Rs 5,000 each.

7.1.2.3 The nominal value of the sukuk certificates of Dawood Hercules Chemicals Limited is Rs. 50,000 each.

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

7.1.2.5 The nominal value of the sukuk certificates of Sitara Chemical Industries Limited II is Rs 4,375 each.

## 7.2 Loans and receivables - originated by the enterprise

7.2.1 Diminishing musharaka certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2007	Purchases during the year	Sales during the year	Redemptions during the year	As at June 30, 2008	Amortised cost as at June 30, 2008	Percentage of net assets on the basis of amortised cost (see note 7.1.1.3 above)	Percentage of total investment
								--Rupees in '000--		
D.G Khan Cement Company Limited Diminishing Musharaka Certificates - I	May 8, 2010	6 months Kibor plus base rate of 0.5%	-	1,100	-	-	1,100	111,774	1.95	5.80
D.G Khan Cement Company Limited Diminishing Musharaka Certificates - II	May 14, 2010	6 months Kibor plus base rate of 0.5%	-	500	-	-	500	50,729	0.88	2.63
D.G Khan Cement Company Limited Diminishing Musharaka Certificates - III	June 3, 2010	6 months Kibor plus base rate of 0.5%	-	400	-	-	400	40,419	0.70	2.10
								<u>202,922</u>	<u>3.53</u>	

7.2.1.1 The nominal value of the diminishing musharaka certificates is Rs 100,000 each.

## 8. FINANCIAL INSTRUMENTS SOLD ON DEFERRED SETTLEMENT BASIS

Type of contract	Settlement	Underlying	Notional amount (Rupees in '000)	June 30, 2008 Fair Value	
				(Assets)	(Liabilities)
Deferred sales	July 29, 2008	Equity indices	162,706	2,863	-
			June 30, 2007	4,350	30,720
			Note	2008	2007
				(Rupees in '000)	

## 9. DEPOSITS AND OTHER RECEIVABLES

Deposits	2,600	100
Profit receivable on savings accounts with banks	13,120	11,509
Profit receivable on placements	142,225	18,766
Profit receivable on sukuk certificates	52,702	3,391
	<u>210,647</u>	<u>33,766</u>

## 10. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	2,000	2,500
Less: Amortisation during the year	500	500
	<u>1,500</u>	<u>2,000</u>

## 11. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED – Management company of the fund

Management fee	11.1	4,575	2,112
Sales load		141	174
Preliminary expenses and floatation costs		2,000	2,500
Certificate charges		1	1
		<u>6,717</u>	<u>4,787</u>

11.1 Under the provisions of NBFC Regulations, the Management Company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the Management Company has been charged at the rate of one percent per annum of the average annual net assets of the Fund for the year ended June 30, 2008.

## 12. 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.

**13. PAYABLE TO SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN**

This represents annual fee at the rate of one tenth of one percent of the average annual net assets of the Fund payable to SECP under Regulation 71 of the NBFC Regulations.

**14. PAYABLE TO MEEZAN BANK LIMITED -  
Shariah adviser of the fund**

	Note	2008 (Rupees in '000)	2007
Shariah advisory fee	14.1	300	150
Sales load		28	78
		<u>328</u>	<u>228</u>

14.1 Payable to MBL for providing technical services relating to Shariah matters.

**15. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2008 (Rupees in '000)	2007
Auditors' remuneration	320	192
Tax advisory fee payable	40	-
Zakat payable	207	-
Printing expenses payable	115	-
Fund rating fee payable	-	83
Listing fee payable	-	19
CDS charges payable	12	-
	<u>694</u>	<u>294</u>

**16. CLASSES OF UNITS IN ISSUE**

16.1 The Fund may issue following classes of units:

Class Description

A (Restricted) Note 16.1.1	Units that shall be charged with no sales load.
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 contingent back-end load.

16.1.1 Class A (Restricted) units were issued as initial subscription in the form of seed capital which was received by the Fund during the period December 13, 2006 to Decemeber 15, 2006 with the restriction that these units are not redeembale or transferable for a period of two years from the date of such subscription.

16.2 According to the supplemental offering document dated March 17, 2008, the 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; and
- Income units which shall be entitled to dividend in case of any distribution by the Fund.

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

Class	2008		2007	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
A				
- Growth units	4,503,337	225,167	15,071,891	744,912
- Income units	-	-	-	-
B				
- Growth units	78,304,778	3,915,239	43,764,174	2,258,077
- Income units	25,788,296	1,289,415	-	-
C				
- Growth units	3,095,605	154,780	1,709,649	88,118
- Income units	-	-	-	-
Total	111,692,016	5,584,601	60,545,714	3,091,107

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

## 17. AUDITORS' REMUNERATION

	2008	2007
	(Rupees in '000)	
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.
Audit fee	220	92
Half yearly review	75	-
Other certifications and services	100	100
Out of pocket expenses	47	-
	<u>442</u>	<u>192</u>

## 18. EARNINGS PER UNIT OUTSTANDING - BASIC

Net income for the year	<u>557,957</u>	<u>134,843</u>
	(Number of units)	
Units outstanding as at June 30 - restated	<u>111,692,016</u>	<u>63,208,127</u>
	(Rupees)	
Earnings per unit outstanding - basic - restated	<u>4.99</u>	<u>2.13</u>

18.1 There were no convertible dilutive potential units outstanding on June 30, 2008 and 2007.

## 19. 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, Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund and Meezan Capital Protected Fund - I 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.

	For the year ended June 30,2008	For the period ended June 30,2007
<b>(Rupees in '000)</b>		
<b>Al-Meezan Investment Management Limited - management company of the fund</b>		
Remuneration for the year	57,841	8,881
Sales load for the year	1,082	448
Preliminary expenses and floatation costs	2,000	2,500
Certificate charges	1	1
	<u>60,924</u>	<u>11,830</u>
Payments made during the year	(54,207)	(7,043)
Balance at the end of the year	<u>6,717</u>	<u>4,787</u>
Units issued: 5,970,765 units (2007: 1,241,000 units)	<u>311,720</u>	<u>62,500</u>
Redemptions: 4,405,188 units (2007: 1,241,000 units)	<u>226,000</u>	<u>64,515</u>
Bonus units issued: 324,668 units (2007: nil units)	<u>16,373</u>	<u>-</u>
<b>Meezan Bank Limited - Shariah Adviser of the fund</b>		
Remuneration as the Shariah Advisor	300	150
Sales load for the year	333	133
	<u>633</u>	<u>283</u>
Payments made during the year	(305)	(55)
Balance at the end of the year	<u>328</u>	<u>228</u>
Bank balance in savings account	<u>396,453</u>	<u>33,562</u>
Profit on savings accounts	<u>111,621</u>	<u>4,669</u>
Units issued: 39,346,905 units (2007: 5,400,000 units)	<u>2,061,216</u>	<u>282,042</u>
Redemptions: 26,729,386 units (2007: nil units)	<u>1,419,391</u>	<u>-</u>
Bonus units issued: 237,458 units (2007: nil units)	<u>11,880</u>	<u>-</u>
Cash dividend paid	<u>63,410</u>	<u>-</u>
<b>Central Depository Company of Pakistan Limited - trustee of the fund</b>		
Remuneration for the year	6,787	1,329
CDS Charges for the year	135	146
	<u>6,922</u>	<u>1,475</u>
Payments made during the year	(6,382)	(1,182)
Balance at the end of the year	<u>540</u>	<u>293</u>
Units issued: 555,627 units (2007: 500,000 units)	<u>28,417</u>	<u>26,115</u>
Redemptions: 555,627 units (2007: nil units)	<u>28,276</u>	<u>-</u>
Bonus units issued: 55,627 units (2007: nil units)	<u>2,796</u>	<u>-</u>
<b>Directors and executives</b>		
Units issued: 509,320 units (2007: 468,000 units)	<u>26,432</u>	<u>24,420</u>
Redemptions: 244,218 units (2007: nil units)	<u>12,511</u>	<u>-</u>
Bonus units issued: 71,739 units (2007: nil units)	<u>3,610</u>	<u>-</u>
<b>Pak-Kuwait Investment Company (Private) Limited</b>		
Units issued: nil units (2007: 600,000 units)	<u>-</u>	<u>30,000</u>
Bonus units issued: 66,752 units (2007: nil units)	<u>3,356</u>	<u>-</u>
<b>Sitara Chemical Industries Limited</b>		
Number of sukuk certificates	<u>-</u>	<u>11,040</u>
Investment in sukuk certificates	<u>-</u>	<u>55,200</u>
Profit for the year	<u>-</u>	<u>2,097</u>



## 20. RISK MANAGEMENT

The fund primarily invests in Certificates of investments based on Shariah compliant structures, bank deposits with scheduled Islamic Banks, Shariah compliant spread transactions and Shariah compliant debt securities including Sukuk certificates.

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

### 20.1 Market risk

Market 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 the 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 the 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 Rules.

The Fund's overall market positions are monitored on a monthly basis by the Board of Directors of the management company of the Fund.

Details of the Fund's investment portfolio at the balance sheet date are disclosed in note 7 to these financial statements. All individual investments in debt and equity instruments are disclosed separately.

Details of the nature and terms of derivative financial instruments outstanding at the balance sheet date are set out in note 8 of these financial statements.

### 20.2 Credit risk and concentration of credit risk

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

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

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

### 20.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily creation and cancellation of units and it is therefore exposed to the liquidity risk of meeting unit holder's redemptions at any time. The Fund's investments are considered to be readily realisable as they are all listed on stock exchanges of the country. The Fund manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

## 20.4 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 share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

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

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, 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 20, 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.

## 20.5 Yield / interest rate risk

Yield / interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates.

	Profit rate (%)	Profit/mark-up bearing			Non-Profit/mark-up bearing			Total 2008	Total 2007
		Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total		
----- (Rupees in '000) -----									
<b>Financial assets</b>									
Balances with banks	3 to 9.85	1,154,592	-	1,154,592	906	-	906	1,155,498	638,720
Placements	9.85 to 10.3	2,596,250	-	2,596,250	-	-	-	2,596,250	1,638,970
Investments	10.73 to 14.44	-	1,769,927	1,769,927	157,637	-	157,637	1,927,564	907,293
Receivable against sale of investments		-	-	-	-	-	-	-	225,269
Financial instruments sold on deferred settlement basis		-	-	-	2,863	-	2,863	2,863	4,350
Deposits and other receivables		-	-	-	210,647	-	210,647	210,647	33,766
2008		<u>3,750,842</u>	<u>1,769,927</u>	<u>5,520,769</u>	<u>372,053</u>	<u>-</u>	<u>372,053</u>	<u>5,892,822</u>	<u>3,448,368</u>
2007		<u>2,277,690</u>	<u>155,200</u>	<u>2,432,890</u>	<u>1,015,478</u>	<u>-</u>	<u>1,015,478</u>	<u>3,448,368</u>	
<b>Financial liabilities</b>									
Payable to Al Meezan Investment Management Limited - Management Company of the Fund		-	-	-	6,717	-	6,717	6,717	4,787
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund		-	-	-	540	-	540	540	293
Payable to Meezan Bank Limited- Shariah Adviser and holding company of the Management Company of the Fund		-	-	-	5,784	-	5,784	5,784	228
Payable on redemption of units		-	-	-	56,154	-	56,154	56,154	19,857
Payable against purchase of investments		-	-	-	87,067	-	87,067	87,067	231,331
Accrued expenses and other liabilities		-	-	-	694	-	694	694	294
Financial instruments sold on deferred settlement basis		-	-	-	-	-	-	-	30,720
2008		<u>-</u>	<u>-</u>	<u>-</u>	<u>156,956</u>	<u>-</u>	<u>156,956</u>	<u>156,956</u>	<u>287,510</u>
2007		<u>-</u>	<u>-</u>	<u>-</u>	<u>287,510</u>	<u>-</u>	<u>287,510</u>	<u>287,510</u>	

## 21. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying value of financial assets and liabilities either equal or approximate their fair values.

22. PERFORMANCE TABLE	2008	2007
	(Rupees in '000)	
Net assets (Rs '000) (ex-distribution)	5,702,224	3,162,128
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution)	50.01	50.03
Offer price per unit as at June 30 (Rs) (ex-distribution)	50.26	50.28
<b>Distribution (%)</b>		
- Interim	6.50	-
- Annual	2.70	4.40
Dates of distribution (interim)	April 22, 2008	-
Dates of distribution (annual)	July 7, 2008	July 10, 2007
Income distribution (Rupees in '000)	148,283.18	-
Growth distribution (Rupees in '000)	409,662.75	133,200.57
Highest offer price per unit (Rs)	53.95	52.49
Lowest offer price per unit (Rs)	50.42	50.28
Highest redemption price per unit (Rs)	53.68	52.23
Lowest redemption price per unit (Rs)	50.17	50.03
Total return (%) (June 30, 2007 annualised)	9.15	9.93
Earnings per unit	4.99	2.13
	<b>Two year</b>	<b>One year</b>
Average annual return (%) as at June 30, 2008	9.54%	9.15%
Weighted Average Portfolio Duration (years)	5.66	5.00
Investment portfolio composition of the Fund as described in Note 7.		
Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.		

## 23. INVESTMENT COMMITTEE MEMBERS

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

2008

	Designation	Qualification	Experience in years	
1	Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Eighteen years
2	Mr. Muhammad Asad	Chief Investment Officer/ Fund Manager	MBA	Twelve years
3	Mr. Zaheeruddin Khalid	Head of Research and Product Development Department	CFA / MBA	Six years

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

- Al Meezan Mutual Fund Limited
- Meezan Islamic Fund

## 24. TOP TEN BROKERS BY PERCENTAGE OF COMMISSION PAID

Name of the broker	2008 %
JS Global Capital Limited	37.83
First Capital Equities Limited	28.60
Invest & Finance Securities Limited	7.46
Orix Investment Bank Pakistan Limited	6.04
SC Securities	4.85
Al Falah Securities (Pvt) Limited	4.32
AKD Securities Limited	3.95
Invest Capital & Securities (Pvt) Limited	3.30
Ample Securities (Pvt) Limited	1.84
Foundation Securities (Pvt) Limited	1.65
	<b>2007 %</b>
JS Global Capital Limited	29.96
SC Securities	20.67
First Capital Equities Limited	17.48
AKD Securities Limited	9.27
First National Equity	9.25
Invest Capital & Securities	7.68
Foundation Securities (Pvt) Limited	2.53
Orix Investment Bank Pakistan Limited	1.35
Arif Habib Securities	1.02
Ample Securities (Pvt) Limited	0.45

## 25. PATTERN OF UNITHOLDING

	As at June 30, 2008		
	Number of unit holders	Investment amount	Percentage of total investment
	(Rupees in '000)		
Individuals	1,634	1,497,702	26.10
Associated companies / directors	7	1,173,657	20.46
Insurance companies	4	68,058	1.19
Banks / DFIs	7	1,613,349	28.12
NBFCs	-	-	-
Retirement funds	34	307,242	5.36
Public limited companies	3	168,564	2.94
Others	38	908,466	15.83
<b>Total</b>	<b>1,727</b>	<b>5,737,038</b>	<b>100</b>

As at June 30, 2007			
	Number of unit holders	Investment amount	Percentage of total investment
(Rupees in '000)			
Individuals	1,233	837,414	26.48
Associated companies / directors	8	340,101	10.75
Insurance companies	3	9,999	0.32
Banks / DFIs	7	893,062	28.24
NBFCs	-	-	-
Retirement funds	20	189,585	6.00
Public limited companies	6	299,001	9.46
Others	13	592,966	18.75
<b>Total</b>	<b><u>1,290</u></b>	<b><u>3,162,128</u></b>	<b><u>100</u></b>

## 26. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name / Designation ----- Dates of Board of Directors Meetings and Directors' present therein -----

		July 10, 2007	August 9, 2007	October 22, 2007	December 4, 2007	February 15, 2008	April 22, 2008
Mr. Ariful Islam	Chairman	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib	Chief Executive	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Najmul Hasan**	Director	Yes	No	Yes	No	No	N/A
Mr. Tasnimul Haq Farooqui	Director	Yes	Yes	Yes	Yes	Yes	No
Mr. Muhammad Adrees*	Director	No	No	No	No	No	N/A
Mr. Mazhar Sharif	Director	Yes	Yes	Yes	No	Yes	Yes
Syed Owais Wasti	Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Aliuddin Ansari *	Director	N/A	N/A	N/A	N/A	N/A	No
Mr. Rizwan Ata **	Director	N/A	N/A	N/A	N/A	N/A	Yes

\*Mr. Aliuddin Ansari appointed in place of Mr. Muhammad Adrees to fill in the causal vacancy by the Board on April 9, 2008

\*\*Mr. Rizwan Ata appointed as Director in place of Mr. Najmul Hasan to fill in the casual vacancy by the Board on April 9, 2008

## 27. NON ADJUSTING EVENT

The Board of Directors in its meeting held on July 7, 2008 has announced a final dividend of 2.70% (2007: 4.4%) amounting to Rs 150.78 million (2007: Rs 133.201 million) equivalent to 2,318,937 bonus units (2007: 2,662,414 units) and cash dividend of Rs 34.814 million (2007: Rs Nil). The financial statements for the year ended June 30, 2008 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2008.

	2008	2007
	<b>Number of units</b>	
The effect of issue of bonus units is as follows:		
Number of units in issue before bonus units	<u>111,692,016</u>	<u>60,545,714</u>
Number of units in issue after bonus units	<u>114,010,953</u>	<u>63,208,128</u>
	<b>Rupees</b>	
Net assets value per unit before bonus issue	<u>51.36</u>	<u>52.23</u>
Net assets value per unit after bonus issue	<u>50.01</u>	<u>50.03</u>

## 28. CORRESPONDING FIGURES

The following items have been reclassified for the purpose of better presentation. Accordingly prior year figures have been reclassified.

Reclassification from component	Reclassification to component	(Rupees in thousand)
Fees and subscription	Legal and professional charges	82
Balances with banks	Placements	1,638,970
Profit on deposit accounts with banks	Profit on placements	23,886

## 29. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on August 07, 2008 by the Board of Directors of the Management Company.

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

**Chief Executive**

**Director**