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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) 3563 0722-6, 111-MEEZAN
Fax: (9221) 3567 6143, 3563 0808
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 OF THE MANAGEMENT COMPANY

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

TRUSTEE

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block B, S.M.C.H.S.
Main Shahrah-e-Faisal, Karachi-74400

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)
Allied Bank Limited - Islamic Banking
Askari Bank Limited - Islamic Banking
Bank Alfalah Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking
Bank Islami Pakistan Limited
Dawood Islamic Bank Limited
Dubai Islamic Bank Pakistan Limited
Emirates Global Islamic Bank Limited
Habib Bank Limited - Islamic Banking
Habib Metropolitan Bank Limited - Islamic Banking
MCB Bank Limited - Islamic Banking
Meezan Bank Limited
Royal Bank of Scotland - Islamic Banking
Soneri Bank Limited - Islamic Banking
Standard Chartered Bank (Pakistan) Limited - Islamic Banking
UBL Ameen Islamic Banking

LEGAL ADVISER

Bawaney & Partners
404, 4th Floor, Beaumont Plaza, 6-CL-10
Beaumont Road, Civil Lines
Karachi - 75530
Phone: (9221) 3565 7658-59
Fax: (9221) 3565 7673
E-mail: bawaney@cyber.net.pk

TRANSFER AGENT

Meezan Bank Limited
SITE Branch
Plot # B/9-C, Estate Avenue,
SITE, Karachi.
Phone: 3206 2891
Fax: 3255 2771
Web site: www.meezanbank.com

DISTRIBUTORS

Al Meezan Investment Management Limited
Meezan Bank Limited

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited, the management company of Meezan Islamic Income Fund (MIIF) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2009.

Economic and Money Market Review

The fiscal year 2009 was one of the most volatile for global economy with challenges involving sub-prime default, financial market crisis, stock market crashes and souring commodity prices including food inflation. The economic fundamental for Pakistan were also negatively impacted by global economic downturn and led to various economic imbalances including growing fiscal and trade deficit, rising inflation, declining foreign exchange reserves etc. In all, Pakistan managed an economic growth of 2% as against a target of 5%.

To stabilize the economy, government administered measures like subsidy removal, fiscal deficit management, monetary tightening and making forex market regulations more stringent. These steps along with a reversal in global commodity prices helped in bringing down current account deficit and inflationary pressure. Moreover, Stand-By Arrangement with IMF and strong remittance inflows of US\$ 7.8 billion, the highest ever, helped in reserve replenishment which reached US\$11.84 billion at the close of the year. Rupee remained under pressure vis-à-vis the dollar and closed at about Rs. 81.5, depreciating 16% during the period under review.

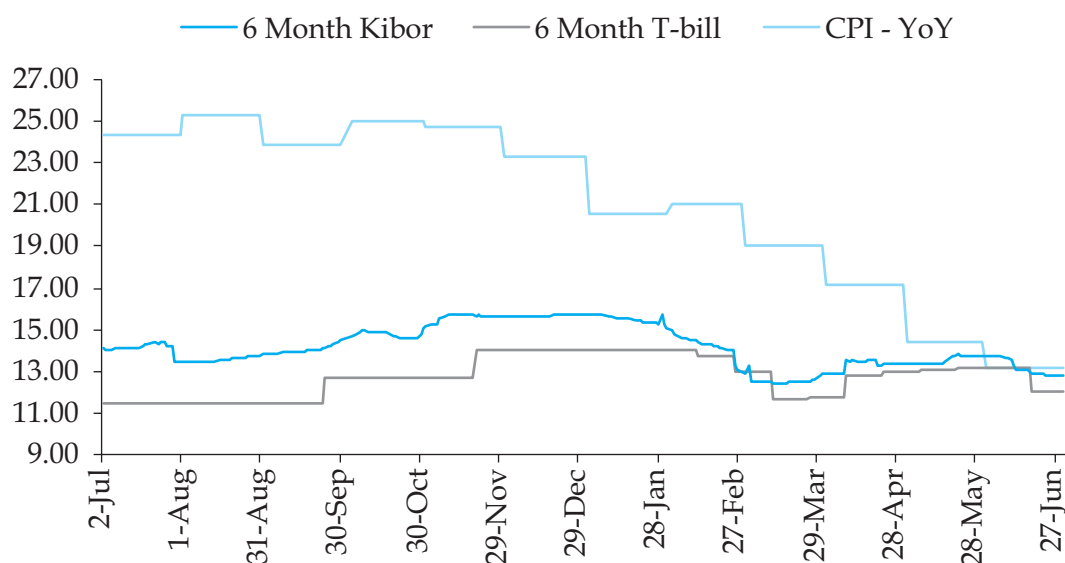
On the fiscal front, the Government of Pakistan did not succeed in meeting its tax collection target of Rs. 1.3 trillion and collected Rs. 1.15 trillion for the fiscal year 2009. The government has once again set an ambitious target of Rs. 1.37 trillion for fiscal year 2010 for which Federal Board of Revenue is actively bringing about tax administration reforms.

Monetary Diligence

In order to arrest unabated inflation, which had reached an alarming level of 25% in first four months of fiscal year 2009, and to meet IMF conditions, State Bank of Pakistan (SBP) continued its policy of monetary tightening and raised the discount rate in November to 15%. The tight monetary stance resulted in six month KIBOR and T-bill rates to peak at 15.71% and 14.01% respectively.

Later, with some corrective measures by SBP included reducing Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) for commercial banks helped to ease off liquidity crunch in the economy. With the beginning of the new calendar year, as the inflation began easing off, the SBP also reversed its stance of monetary tightening when it reduced the discount rates by 100bps to 14% in April 2009.

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



To reduce government borrowing from SBP and promote Islamic mode of financing, SBP conducted three auctions of Ijara sukuk, three year Islamic bonds, in which it sold Rs. 27.5 billion worth of sukuk against a target of Rs. 30 billion.

Liquidity crisis and its impact on income and money market funds

The Income and money market funds category, contributing around 46% to the total open end mutual fund industry, enjoyed substantial growth since 2004. However, during fiscal year 2009, amid liquidity crunch in the market, the size of income and money market funds category declined to Rs. 79 billion, down 44% from Rs. 140 billion in June 2008. Moreover, with the rising interest rate environment, the yields on the sukuk increased by 300-400bps which arrested the growth of new issues (unlike in fiscal year 2008 when the sukuk market grew by 54% to over Rs. 100 billion).

In the second quarter of fiscal year 2009, consistent monetary tightening by central bank led to a negative growth of 1.8% in money supply (M2), as compared to a growth of 1.3% during the same period last year, creating a severe liquidity crunch in the economy. This was a major blow to income and money market funds as it resulted in excessive redemptions. This situation was further aggravated when SECP issued a circular, applying a discount of 5% to 30% on face value of TFCs/Sukuk held by mutual funds, thus discounting NAVs of income and money market funds up to 24% depending on the composition of TFCs/Sukuk in their portfolio.

Though MIIF was also affected temporarily by this downward revision in sukuk valuation, recording a valuation loss of Rs. 294 million, it did not face any liquidity problem and hence did not make any distress selling of its sukuk portfolio. Moreover, MIIF did not suspend collections and redemptions even for a single day, which was a rare exception in the entire mutual fund industry. This was possible due to prudent and effective management of liquidity and quality aspects of the fund. Subsequently, the liquidity situation improved and a new methodology for debt instruments valuation was introduced by SECP, the unit price of MIIF steadily improved and as of June 30, 2009, the valuation loss was reduced to Rs. 105 million. During fiscal year 2009, MIIF was able to provide an annualized return of 10.14% against an average annualized return of negative 4.7% for income and money market funds.

Mutual Fund Association of Pakistan (MUFAP) and Securities and Exchange Commission of Pakistan (SECP) are working together to further improve trading practices and valuation methodology of debt securities. For this purpose, Bond Automated Trading System (BATS) will soon be introduced at KSE.

Outlook

Going forward, it is expected that a decline in inflation rate will ease the pressure on interest rates. A further cut of 100 to 150 bps in the SBP discount rate is expected in the next monetary policy statement which will help in easing off the liquidity situation. Hence, we expect the interest rates to ease off further in future. Moreover, with strict regulatory control, new categorization of fixed income funds and development of trading terminal for fixed income securities, income funds are expected to be valued efficiently and hence create a wider market for themselves.

Fundamentals of Islamic Mutual fund industry will continue to remain strong. With over Rs. 15 billion assets under management and a large, expanding and untapped market, there are likely to be considerable opportunities for Islamic Fund in the future and Al Meezan Investments being the only Islamic asset management company in Pakistan, is posed to benefit from this growth.

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 holder's fund.
- The Fund has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- International Accounting Standards and International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.
- The Board of Directors and employees of the management company have signed "Statement of Ethics and Business Practices".
- The sale and repurchase of units of the Fund carried out by the Directors, CEO, CFO and Company Secretary of the management company including their spouses and their minor children are as under:

Trades by		No. of units invested	No. of units redeemed
Mr. Arif ul Islam	Chairman	637,302	874,623
Mr. Mohammad Shoaib, CFA	Chief Executive Officer	2,926,388	2,754,646
Syed Owais Wasti	Company Secretary	8,348	8,560
Mr. Rizwan Ata	Director	19,406	4,395
Mr. Tasnimul Haq Farooqui	Director	6,109	4,486
Mr. Muhammad Aliuddin Ansari	Director	394,244	112,324
Mr. Mazhar Sharif	Director	8,360	955

- Pattern of holding of units is given on page no. 08 of the financial statements.
- Financial highlights since inception are given in note no. 23 of the financial statements.

Board Meetings

Please refer to note no. 27 provided in the financial statements.

Appointment of Auditors

M/s A.F. Ferguson & Co. Chartered Accountants retire and being eligible offers themselves as the auditors of the Fund for fiscal year 2010. The Board of Directors of the management company has approved their re-appointment.

Acknowledgement

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments and making it the largest Shariah Compliant asset management company. We also thank the regulator, Securities and Exchange Commission of Pakistan, Central Depository Company of Pakistan and management of Karachi Stock Exchange for all their support and guidance. We also take this opportunity to thank the members of the Shariah Supervisory Board of Meezan Bank for their continued guidance and support on shariah aspects of fund management.

For and behalf of the Board

Date: August 20, 2009
Karachi.

Mohammad Shoaib, CFA
Chief Executive

PATTERN OF HOLDING OF UNITS AS AT JUNE 30, 2009

Held by	Units Held	%
Associated Companies		
- Al Meezan Investment Management Limited	1,719,056	1.83
- Meezan Bank Limited	23,466,113	25.00
- Pakistan Kuwait Investment Company (Private) Limited	-	-
Directors		
- Mr. Rizwan Ata	19,789	0.02
- Mr. Tasnimul Haq Farooqui	6,289	0.01
- Mr. Muhammad Aliuddin Ansari	289,596	0.31
- Mr. Mazhar Sharif	7,675	0.01
Chief Executive		
- Mr. Mohammad Shoaib, CFA	768,753	0.82
Executives	85,657	0.09
Public Limited Companies	4,236,574	4.51
Banks and financial institutions	11,217,390	11.95
Individuals	38,966,325	41.52
Retirement funds	4,331,200	4.61
Other corporate sector entities	7,706,959	8.21
Non-Profit Organization	1,039,255	1.11
Total	93,860,629	100.00

REPORT OF THE FUND MANAGER

Meezan Islamic Income Fund (MIIF) is Pakistan's first Shariah Compliant open end mutual fund which falls under 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. A secondary objective is to take advantage of opportunities to realize capital appreciation. The Fund shall seek to provide the investors with a rate of total return consistent with a broadly diversified portfolio of long, medium and short term high quality Islamic income instruments.

Strategy 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 Sukuk (Islamic Bonds), Musharaka and Murabaha instruments; Shariah compliant spread transactions, Certificate of Islamic Investments, Islamic bank deposits, and other Islamic income products.

Brief Overview

The fiscal year 2009 was one of the most volatile for global economy with challenges involving sub-prime default, financial market crisis, stock market crashes and souring commodity prices including food inflation. The economic fundamental for Pakistan were also negatively impacted by global economic downturn and led to various economic imbalances including growing fiscal and trade deficit, rising inflation, declining foreign exchange reserves etc. In all, Pakistan managed an economic growth of 2% as against a target of 5%.

Subsequently, tight monetary stance adopted by SBP and lower commodity prices helped in easing pressure and economic recovery steadily progressed. Lower commodity prices have continued to ease pressure on external accounts, which alongwith a 23-month US\$ 7.6 billion Stand-By Arrangement by IMF and other inflows, have lent some degree of stability to the economy. Moreover, rescinding inflation paved the way for decline in interest rates which helped in bringing overall stability.

Economic and Money Market Review

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

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

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

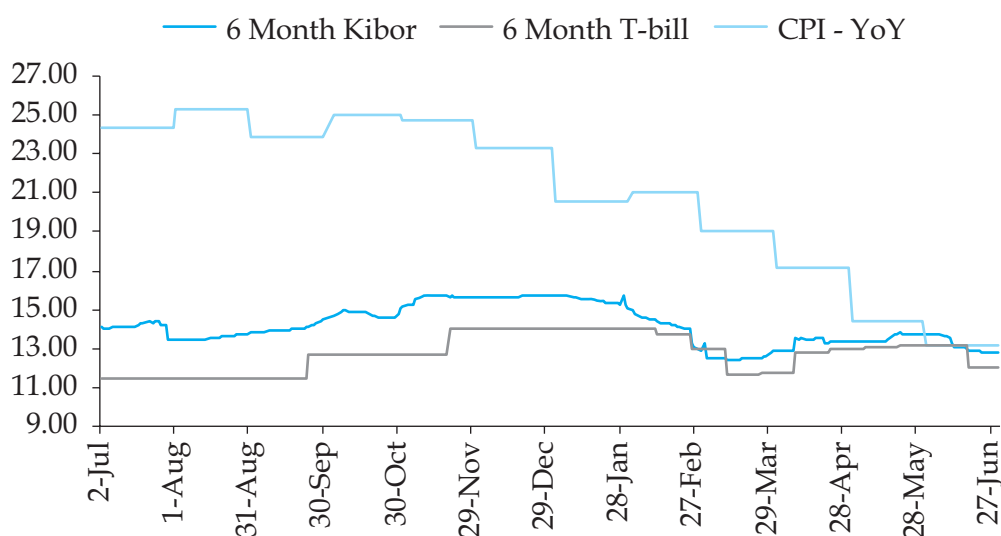
Monetary Diligence

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

Later, some corrective measures by SBP included reducing Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) for commercial banks helped to ease off the liquidity crunch in the market. Subsequently, in the monetary policy statement in January 2009, SBP stopped further monetary tightening which helped to improve the liquidity position and hence interest rates reversed their increasing trend. As a result, overnight rates declined to 10-11%.

In March 2009, the SBP further provided monetary easing by reducing the discount rate by 100bps to 14%. The effect of these measures was also reflected in the six month KIBOR and T-bill rates which dropped from their peak by 245bps and 200bps to close at 12.76% and 12.01% respectively on June 30, 2009.

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



New Developments

To reduce government borrowing from SBP and promote Islamic mode of financing, SBP conducted three auctions of Ijara sukuks, three year Islamic bonds, in which it sold Rs. 27.5 billion worth of sukuks against the target of Rs. 30 billion. Moreover, SECP, with the assistance of Mutual Fund Association of Pakistan (MUFAP), has introduced new method of valuation of fixed income securities. According to this method, prices of the instruments are revised on a fortnightly basis using yield matrix. Moreover, Bond Automated Trading System (BATS) will soon be introduced at KSE which will help in efficient trading of the fixed income instruments in the secondary market.

Initiatives

Al Meezan Investments launched MIIF-based monthly income plan - Meezan Mahana Kharch Account (MMK) with the aim to provide a stable and Halal regular Income along with long-term capital preservation. The investors of MMK are also provided with free takaful coverage. Takaful coverage protects the investors and their family against any financial difficulty that may arise out of any unforeseen event resulting in disability or death of the investor. Meezan Mahana Kharch account is the first income plan of its kind which is providing Natural Death coverage besides Accidental Death, Permanent Total Disability and Medical coverage in case of Accident. In June, Al Meezan launched the first Shariah compliant money market fund, Meezan Cash Fund (MCF).

Fixed Income Mutual Fund Industry

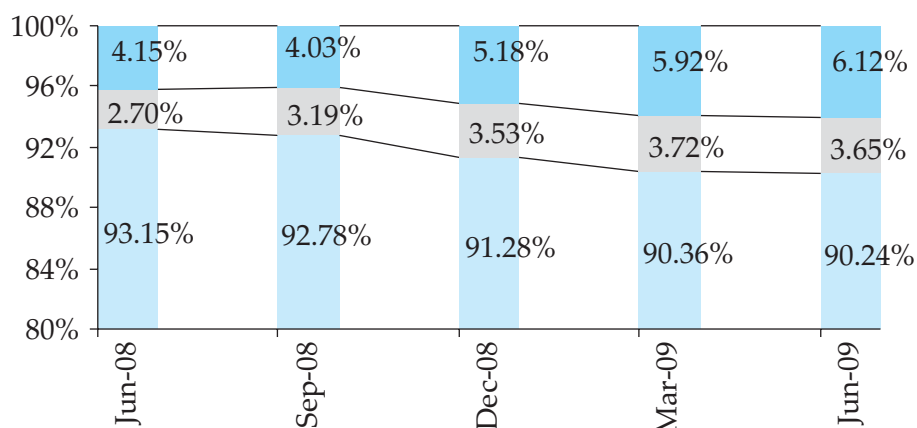
Strategy Implementation - Strategic and tactical Asset Allocation

The Income and money market funds category, contributing around 46% to the total open ended mutual fund industry, had been enjoying substantial growth since 2004. However, during fiscal year 2009, amid liquidity crunch in the market, the income and money market funds category reached Rs. 79 billion, showing a decline of 44% from Rs. 140 billion in June 2008. Moreover, with the rising interest rates environment, the yields on the sukuks increased by 300-400bps which arrested the growth of new issues of sukuks (unlike in fiscal year 2008 when the sukuks grew by 54% to around Rs. 100 billion).

In the second quarter of fiscal year 2009, consistent monetary tightening by central bank led to a negative growth of 1.8% in money supply (M2), as compared to a growth of 1.3% during the same period last year, creating a severe liquidity crunch in the economy. This was a major blow to income and money market funds as it resulted in excessive redemptions. This situation was further aggravated when SECP issued a circular, applying a discount of 5% to 30% on face value of TFCs/Sukuks held by mutual funds, thus discounting NAVs of income and money market funds up to 24% depending on the composition of TFCs/Sukuks in their portfolio.

Though MIIF was also affected temporarily by this downward revision in sukuk valuation, recording a valuation loss of Rs. 294 million, it did not face any liquidity problem and hence did not make any distress selling of its sukuk portfolio. Moreover MIIF did not suspend collections and redemptions even for a single day, which was a rare exception in the entire mutual fund industry. This has been possible due to prudent and effective management of liquidity of the fund. A sizable portion of fund portfolio was invested in cash, cash equivalents and short term deposits with Islamic banks. The rest of the investment portfolio (around 43% of net assets as on November 2008) comprised of good quality Islamic income instruments (sukuks). This compared very favorably with other Islamic Income Funds where sukuk portfolio was around 70% to 85% of net assets. Hence, MIIF was better placed to meet redemption requests and maintained fund size intact. Later, as the liquidity situation eased out and new methodology for fixed income instruments revaluation was introduced by SECP, the unit price of MIIF steadily improved and as of June 30, 2009, the valuation loss was Rs. 105 million. During fiscal year 2009, MIIF was able to provide an annualized return of 10.14% against an average annualized return of negative 4.7% for fixed income and money market funds.

■ Conventional Income Funds ■ Other Islamic Income Funds ■ Income Funds (Meezan)



Performance Review

The Fund, during the year under review earned a total income of Rs. 539 million. The un-realized loss on investments at fair value for the year was Rs. 105 million. Major components of Income are composed of:

	(Rupees in million)
Profit on placements with Islamic Banks	206
Profit on savings accounts with Islamic banks	135
Profit on Sukuk certificates	286
Other Income	17

After accounting for expenses of Rs. 62 million and element of income and capital gains, included in prices of units issued, less those in units redeemed of Rs. 17 million, net income for the year was Rs. 493 million, which translates into the earning of Rs. 5.25 per outstanding unit as at June 30, 2009.

The net assets of the fund as at June 30, 2009 were Rs. 4,873 million, a decline of Rs. 864 million (15%) from last year balance of Rs. 5,737 million. Before final payout, the net asset value of the fund as at June 30, 2009 was Rs. 51.91 per unit. The fund provided a total return of 10.14% for the year, thereby outperforming benchmark by 3.57%. The Board of Directors of Management Company approved final payout of 3.5% to the unit holders in addition to three interim dividends totaling Rs. 3.02 per unit paid earlier.

	MIIF	Islamic Bank Deposits (benchmark)
Value as on June 30, 2008	50.01	
Value as on June 30, 2009	51.91	
Return During the Period -- Gross	11.15%	6.58%
Return During the Period -- Net	10.15%	
Outperformance -- Gross	4.57%	
Outperformance -- Net	3.57%	

During the year under review, units amounting to Rs. 8,243 million were issued and units amounting to Rs. 9,433 million were redeemed, resulting in net outflow of Rs. 1,190 million from the Fund.

Distributions:

During fiscal year 2009, MIIF paid a total dividend of Rs. 4.77 to Unit holders.

September 2008:	Rs. 1.27 per unit
February 2009:	Rs. 0.75 per unit
March 2009:	Rs. 1.00 per unit
June 2009:	Rs. 1.75 per unit

Breakdown of unit holdings by size

(As on June 30, 2009)

Range of units	Number of unitholders
Upto 10,000	3,437
Between 10,001 to 50,000	513
Between 50,001 to 100,000	90
Between 100,001 to 500,000	93
From 500,001 and above	21
Total	4,154

REPORT OF THE SHARIAH ADVISER - MEEZAN ISLAMIC INCOME FUND

Karachi

August 11, 2009

Alhamdulillah, the period from July 01, 2008 to June 30, 2009 was the third year of operations of Meezan Islamic Income Fund (MIIF). We Meezan Bank Limited are the Shari'ah adviser of the Fund and are issuing the 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 in light of the Shar'iah 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, 2009 have been in compliance with Shariah principles.

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

Dr. Muhammad Imran Ashraf Usmani
Shariah Adviser

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

We have performed our independent assurance engagement of Meezan Islamic 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, 2009.

Management company's responsibility

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

Responsibility of independent assurance providers

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

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

Conclusion

In our opinion, the Fund was, in all material respect, in compliance with the Shariah guidelines issued by the Shariah Adviser of the Fund for the year ended June 30, 2009.

A. F. Ferguson & Co.
Chartered Accountants
Karachi, September 12, 2009

TRUSTEE REPORT TO THE UNIT HOLDERS MEEZAN ISLAMIC INCOME FUND

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

Meezan Islamic Income Fund (the 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, 2009 in accordance with the provisions of the following:

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

Muhammad Hanif

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi, September 15, 2009

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 (now 35) of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The board of directors (the Board) of Al-Meezan Investment Management Limited, the management company, which is an unlisted public company, manages the affairs of Meezan Islamic 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 NBFIL. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. No casual vacancy occurred during the year on the Board of the management company of the Fund.
5. The Board has formulated a Statement of Ethics and Business Practices for the management company, which has been signed by the existing directors and employees of the management company.
6. The Board of the management company has developed a vision and mission statement. The investment policy of the Fund has been disclosed in the offering document, while other significant policies have also been formalized and have been adopted by the Board.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO of the management company, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The orientation course for the directors of the management company was arranged during the year ended June 30, 2007.
10. The Board has approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary of the management company.

11. The directors' report relating to the Fund, for the year ended June 30, 2009 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by the CEO and the CFO of the management company before approval by the Board.
13. The interest of the CEO, Directors and the Executives in the units of the Fund is disclosed in the pattern of unit holdings.
14. The management company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It comprises of three non-executive directors of the management company as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the Board of the management company and advised to the committee for compliance.
17. The Board has outsourced the internal audit function of the Fund to a firm of Chartered Accountant.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the management company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions entered during the year ended June 30, 2009 have been placed before the audit committee and approved by the board of directors in their respective meetings held on August 19 and 20, 2009 instead of at each of their meetings held since January 19, 2009.
21. We confirm that all other material principles contained in the Code have been complied with.

Syed Owais Wasti
Chief Financial Officer

Mohammad Shoaib, CFA
Chief Executive

Karachi.
August 20, 2009

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Al Meezan Investment Management Limited (the management company) of Meezan Islamic Income Fund (the Fund) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange where the Fund is listed.

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

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

Further, Sub-Regulation (xiii a) of Listing Regulation 37 (now Regulation 35) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required to check the approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee which were done in their respective meetings held on August 20 and 19, 2009. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the management company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2009.

A. F. Ferguson & Co.
Chartered Accountants
Karachi, September 12, 2009

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, 2009, and the related income statement, distribution statement, statement of movement in unitholders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

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

Other matters

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

A. F. Ferguson & Co.
Chartered Accountants
Karachi, September 12, 2009

Audit Engagement Partner: Saad Kaliya

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2009

	Note	2009 (Rupees in '000)	2008
Assets			
Balances with banks	5	1,301,480	1,155,498
Placements	6	1,335,500	2,596,250
Investments	7	2,143,085	1,927,564
Financial instruments sold on deferred settlement basis	8	-	2,863
Deposits and other receivables	9	168,776	210,647
Preliminary expenses and floatation costs	10	1,000	1,500
Total assets		4,949,841	5,894,322
Liabilities			
Payable to Al Meezan Investment Management Limited - management company of the Fund	11	5,924	6,717
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund	12	491	540
Payable to Securities and Exchange Commission of Pakistan	13	4,259	5,784
Payable to Meezan Bank Limited - shariah adviser of the Fund	14	601	328
Payable on redemption of units		65,169	56,154
Payable against purchase of investments		-	87,067
Accrued expenses and other liabilities	15	789	694
Total liabilities		77,233	157,284
Net assets		4,872,608	5,737,038
Commitments	8		
Unitholders' funds (as per statement attached)		4,872,608	5,737,038
		Number of units	
Number of units in issue	16	93,860,629	111,692,016
		Rupees	
Net asset value per unit		51.91	51.36

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, 2009

	Note	2009 (Rupees in '000)	2008
Income			
Profit on savings accounts with banks		134,791	69,249
Profit on placements		206,438	333,750
Profit on sukuk certificates		285,917	130,714
Profit on diminishing musharaka certificates		27,763	2,922
Realised income on sale of securities on deferred settlement basis		8,344	18,753
Realised loss on sale of sukuk certificates		<u>(19,130)</u>	-
		644,123	555,388
Unrealised (loss) / gain on re-measurement of investments at fair value through profit or loss (net)		(102,304)	9,813
(Loss) / gain on re-measurement of financial instruments sold on deferred settlement basis (net)		(2,863)	29,233
		<u>(105,167)</u>	<u>39,046</u>
Total income		538,956	594,434
Expenses			
Remuneration to Al Meezan Investment Management Limited - management company of the Fund	11.1	49,917	57,841
Remuneration to Central Depository Company of Pakistan Limited - trustee of the Fund		5,992	6,787
Annual fee to Securities and Exchange Commission of Pakistan	14.1	4,259	5,784
Remuneration to Meezan Bank Limited - Shariah adviser of the Fund		220	300
Auditors' remuneration	17	475	442
Fees and subscription		225	16
Legal and professional charges		-	133
Amortisation of preliminary expenses and floatation costs	10	500	500
Brokerage		243	3,422
Bank and settlement charges		163	1,094
Financial cost against murabaha		-	104
Printing expense		315	334
Total expenses		<u>62,309</u>	<u>76,757</u>
Net income from operating activities		476,647	517,677
Element of income and capital gains included in prices of units sold less those in units redeemed (net)		<u>16,570</u>	<u>40,280</u>
Net income		<u>493,217</u>	<u>557,957</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, 2009

	2009			2008		
	Unrealised Gains / (Losses)	Realised	Total	Unrealised Gains / (Losses)	Realised	Total
	----- (Rupees in '000) -----					
Undistributed income brought forward	12,676	139,761	152,437	1,212	133,631	134,843
Net income for the year	(102,304)	595,521	493,217	12,676	545,281	557,957
Less: Final distribution for the year ended June 30, 2008 on July 7, 2008						
- bonus units @ 2.7%	-	(115,970)	(115,970)	-	(133,201)	(133,201)
- cash dividend @ 2.7%	-	(34,814)	(34,814)	-	-	-
Less: Interim distribution on September 30, 2008						
- bonus units @ 2.54%	-	(83,468)	(83,468)	-	-	-
- cash dividend @ 2.54%	-	(47,658)	(47,658)	-	-	-
Less: Interim distribution on February 23, 2009						
- bonus units @ 1.5%	-	(44,428)	(44,428)	-	-	-
- cash dividend @ 1.5%	-	(25,020)	(25,020)	-	-	-
Less: Interim distribution on April 15, 2009						
- bonus units @ 2% (2008: 6.5%)	-	(71,595)	(71,595)	-	(293,693)	(293,693)
- cash dividend @ 2% (2008: 6.5%)	-	(33,048)	(33,048)	-	(113,469)	(113,469)
Element of income and capital gains included in the prices of units sold less those in units redeemed (net)	-	(179)	(179)	-	-	-
Gains / (losses) realised						
- on disposal	3,503	(3,503)	-	(27,582)	27,582	-
- on settlement of derivative financial instrument	(2,863)	2,863	-	26,370	(26,370)	-
- on principal repayment	(132)	132	-	-	-	-
	508	(508)	-	(1,212)	1,212	-
Undistributed income carried forward	(89,120)	278,594	189,474	12,676	139,761	152,437

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, 2009

	2009 (Rupees in '000)	2008
Net assets at the beginning of the year	5,737,038	3,162,128
Issue of 162,859,309 units (June 30, 2008: 277,206,735 units)	8,242,628	14,392,981
Redemption of 186,971,213 units (June 30, 2008: 234,546,618 units)	(9,433,267) (1,190,639)	(12,222,279) 2,170,702
Element of income and capital gains included in prices of units sold less those in units redeemed (net)		
- transferred to income statement	(16,570)	(40,280)
- transferred directly to distribution statement	179	-
	(16,391)	(40,280)
Unrealised loss on available for sale	(9,898)	-
Net income for the year	493,217	557,957
Element of income and capital gains included in prices of units sold less those in units redeemed (net)	(179)	-
Cash distribution during the year	(140,540)	(113,469)
Issue of bonus units during the year	(315,461)	(426,894)
Net income for the year less distribution	37,037	17,594
Issue of 2,318,937 bonus units for the year ended June 30, 2008	115,970	133,201
Issue of 1,669,026 bonus units for the quarter ended September 30, 2008	83,468	-
Issue of 880,991 bonus units for the period ended December 31, 2009	44,428	-
Issue of 1,411,563 bonus units for the period ended March 31, 2009	71,595	293,693
Net assets at the end of the year	<u>4,872,608</u>	<u>5,737,038</u>
Net asset value per unit as at the beginning of the year	<u>51.36</u>	<u>52.23</u>
Net asset value per unit as at the end of the year	<u>51.91</u>	<u>51.36</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

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 (Rupees in '000)	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		493,217	557,957
Adjustments for non-cash items			
Profit on savings accounts with banks		(134,791)	(69,249)
Profit on placements		(206,438)	(333,750)
Profit on sukuk certificates		(285,917)	(130,714)
Profit on diminishing musharaka certificates		(27,763)	(2,922)
Unrealised loss / (gain) on re-measurement of investments at fair value through profit or loss (net)		102,304	(9,813)
Loss / (gain) on re-measurement of financial instruments sold on deferred settlement basis (net)		2,863	(29,233)
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 (net)		(16,570)	(40,280)
		<u>(565,812)</u>	<u>(615,461)</u>
Decrease / (increase) in assets			
Placements		2,496,250	(957,280)
Investments		(330,645)	(1,007,536)
Receivable against sale of investments		-	225,269
Deposits and other receivables		-	(2,500)
		<u>2,165,605</u>	<u>(1,742,047)</u>
(Increase) / decrease in liabilities			
Payable to Al Meezan Investment Management Limited - management company of the Fund		(793)	1,930
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund		(49)	247
Payable to Securities and Exchange Commission of Pakistan		(1,525)	5,054
Payable to Meezan Bank Limited - Shariah adviser of the Fund		273	100
Payable on redemption of units		9,015	36,297
Payable against purchase of investments		(87,067)	(144,264)
Accrued expenses and other liabilities		95	400
		<u>(80,051)</u>	<u>(100,236)</u>
Profit received on savings accounts with banks		91,939	67,638
Profit received on placements		316,771	210,291
Profit received on diminishing musharaka		26,587	-
Profit received on sukuk certificates		264,405	81,403
Net cash inflow / (outflow) from operating activities		<u>2,712,661</u>	<u>(1,540,455)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from sale of units		8,242,628	14,392,981
Payments against redemption of units		(9,433,267)	(12,222,279)
Dividend paid		(140,540)	(113,469)
Net cash (outflow) / inflow from financing activities		<u>(1,331,179)</u>	<u>2,057,233</u>
Net cash inflow during the year		<u>1,381,482</u>	<u>516,778</u>
Cash and cash equivalents at the beginning of the year		<u>1,155,498</u>	<u>638,720</u>
Cash and cash equivalents at the end of the year	18	<u>2,536,980</u>	<u>1,155,498</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, 2009

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, 2007) were notified which are now superseded by the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations, 2008) issued through S.R.O. 1203(I)/2008 on November 21, 2008. The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah- e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to provide the unit holders 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 of time. Under the trust deed all 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-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 stability rating of the Fund is A+(f) given by JCR-VIS Credit Rating Company Limited. The management company of the Fund has been given quality rating of AM2- and credit rating of A by JCR - VIS.
- 1.4 Title to the assets of the Fund are on 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 aforementioned guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations, 2007, NBFC Regulations, 2008 and the directives issued by the SECP.

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

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

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

- (a) the significance of financial instruments for the entity's financial position and performance;
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. Such disclosures have been set out in note 20 to these financial statements.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Accounting convention

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

4.2 Critical accounting estimates and 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 main areas where assumption and estimates are significant to the financial statements is classification and valuation of financial instruments and 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) impairment of financial instruments (note 4.3.5)
- (c) recognition of 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 The Fund classifies its financial instruments in the following categories:

(a) Investments 'at fair value through profit or loss'

- Financial instruments 'held-for-trading'

These include financial instruments acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit taking exists.

- Financial instruments designated 'at fair value through profit or loss upon initial recognition'

These include investments that are designated as investments 'at fair value through profit or loss upon initial recognition'.

(b) Held to maturity

These are securities acquired by the Fund with the intention and ability to hold them upto maturity.

(c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund at 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 debt securities were determined as follows:

- Based on their prices quoted by Mutual Funds Association of Pakistan (MUFAP) during the period from July 1, 2008 upto November 4, 2008 without any deduction for estimated future selling costs.
- The SECP through its circular No. 26/2008 dated November 5, 2008 has directed that for valuation of debt securities a fixed discount rate be applied on the face value of the securities based on the security / entity rating. Accordingly, subsequent to the date of the aforementioned circular (i.e. November 5, 2008) to January 9, 2009 valuation of debt securities was based on the discounted value.
- Effective January 10, 2009 the carrying value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in circular No. 1/2009 dated January 6, 2009 issued by the SECP.
- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further the reversal of provisions are also made in accordance with the said circulars and subsequent clarifications.

The fair value of shares of listed companies / units of fund, 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 value.

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.

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

4.5 Financial instruments sold on deferred settlement basis

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

4.6 Unitholders' fund

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

4.7 Issue and redemption of units

Units issued are recorded at the offer price, determined by the management company for the applications received by the distributors during business hours of the day when the application is received. The offer price represents the net assets value of the units as of the close of that business day plus the allowable sales load, provision of duties and charges and provision for transaction costs, if applicable. The sales load is payable to the 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 issued less those in units redeemed' is set up in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit holder's Funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in 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) Consistent with prior years, unrealised gains / (losses) arising on revaluation of securities classified as 'available for sale' are included in the statement of movement in unit holders' fund in the period in which they arise.
- (iv) Gains / (losses) arising on the revaluation of the derivatives to the fair value are taken to the income statement.
- (v) Dividend income is recognised when the Fund's right to receive dividend is established.
- (vi) 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 Cash and cash equivalents

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

4.18 Dividend and bonus units

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

	Note	2009 (Rupees in '000)	2008
5. BALANCES WITH BANKS			
In saving accounts	5.1	1,298,976	1,154,592
In current accounts		<u>2,504</u>	<u>906</u>
		<u>1,301,480</u>	<u>1,155,498</u>
5.1	The balance in saving accounts bears expected profit which ranges from 4.97% to 16% per annum (2008: 3% to 9.85% per annum)		
6. PLACEMENTS			
Placements have expected profit rates ranging from 9.85 percent per annum to 16.50 percent per annum (June 30, 2008: 9.85 percent per annum to 10.3 percent per annum) and are due to mature from July 9, 2009 to October 20, 2009.			
7. INVESTMENTS			
Investments at fair value through profit or loss	7.1	1,952,983	1,724,642
Investments - available for sale	7.2 & 7.3	190,102	-
Loans and receivables - originated by the enterprise	7.3	-	202,922
	7.4	<u>2,143,085</u>	<u>1,927,564</u>
7.1	Investments at fair value through profit or loss		
- Held for trading	7.1.1	300,000	195,527
- Investments at fair value through profit or loss upon initial recognition	7.1.2	<u>1,652,983</u>	<u>1,529,115</u>
		<u>1,952,983</u>	<u>1,724,642</u>
7.1.1	Held for trading		
Shares of listed companies	7.1.1.1	-	157,637
Sukuk certificates	7.1.1.3	<u>300,000</u>	<u>37,890</u>
		<u>300,000</u>	<u>195,527</u>

7.1.1.1 Shares of listed companies

Name of the investee company	As at July 1, 2008	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Market value as at June 30, 2009	Percentage of total investment
	----- Number of shares -----					-- (Rupees in '000) --		

Securities sold under deferred settlement basis

Textile Composite								
Nishat Mills Limited	131,000	732,000	-	863,000	-	-	-	-
Cement								
D G Khan Cement Company Limited	265,500	485,500	-	751,000	-	-	-	-
Technology and communication								
Pakistan Telecommunication Company Limited 'A'	1,030,000	1,020,000	-	2,050,000	-	-	-	-
Oil and gas exploration companies								
Oil and Gas Development Company Limited	-	13,000	-	13,000	-	-	-	-
Pakistan Oilfields Limited	130,500	3,000	-	133,500	-	-	-	-
Pakistan Petroleum Limited	-	36,000	-	36,000	-	-	-	-
Oil and gas marketing companies								
Pakistan State Oil Company Limited	-	122,500	-	122,500	-	-	-	-
Fertilizer								
Engro Chemical Pakistan Limited	146,500	334,000	-	480,500	-	-	-	-
Grand total						<u>-</u>	<u>-</u>	
Total cost of investments							<u>-</u>	

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

7.1.1.3 Sukuk certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2008	Purchases during the year	Sales / redemptions during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Market value as at June 30, 2009	Unrealised Gain / (Loss)	Percentage of market value of investment
			----- Number of certificates -----			-- (Rupees in '000) --				

Secured

WAPDA First Sukuk Certificates (note 7.1.1.4)	October 22, 2012	6 months Kibor plus base rate of 0.35%	7,500	36,000	43,500	-	-	-	-	-
GoP Ijarah Sukuk Certificates (note 7.1.1.4)	March 11, 2012	12.96%	-	3,150	150	3,000	300,000	300,000	-	14.00
							<u>300,000</u>	<u>300,000</u>	-	
Total cost of investments							<u>300,000</u>	<u>300,000</u>		

7.1.1.4 The nominal value of the sukuk certificates of WAPDA is Rs. 5,000 each and that of GoP Ijarah is Rs. 100,000 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, 2008	Purchases during the year	Sales / redemptions during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Market value as at June 30, 2009	Unrealised Gain / (Loss)	Percentage of market value of investment
			----- Number of certificates -----			-- (Rupees in '000) --				
Secured										
Arzoo Textile Mills Limited (note 7.1.2.2)	April 15, 2014	6 months Kibor plus base rate of 2%	14,000	-	-	14,000	70,700	52,500	(18,200)	2.45
Century Paper & Board Mills Limited (note 7.1.2.2)	September 25, 2014	6 months Kibor plus base rate of 1.35%	5,000	13,940	-	18,940	93,402	92,380	(1,022)	4.31
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	-	-	-	-	-
Eden Builders Limited (note 7.1.2.2)	March 8, 2014	3 months Kibor plus base rate of 2.3%	-	9,600	-	9,600	48,000	48,070	70	2.24
Eden Housing Limited (note 7.1.2.2)	April 2, 2013	6 months Kibor plus base rate of 2.5%	59,400	-	-	59,400	300,267	283,369	(16,898)	13.22
Engro Chemical Pakistan Limited (note 7.1.2.2)	September 1, 2015	6 months Kibor plus base rate of 1.5%	60,000	500	-	60,500	309,010	297,236	(11,774)	13.87
Karachi Shipyard & Engineering Works (note 7.1.2.2)	November 2, 2015	6 months Kibor plus base rate of 0.4%	-	36,000	24,000	12,000	59,715	59,330	(385)	2.77
Karachi Shipyard & Engineering Works II (note 7.1.2.2)	February 4, 2016	6 months Kibor plus base rate of 0.4%	-	160,200	106,800	53,400	265,732	261,798	(3,934)	12.21
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	321,856	282,404	(39,452)	13.18
Security Leasing Corporation Limited II (note 7.1.2.2)	September 19, 2012	6 months Kibor plus base rate of 1.95%	10,000	-	1,250	8,750	43,925	39,340	(4,585)	1.84
Shahmurad Sugar Mills Limited (note 7.1.2.4)	September 30, 2012	6 months Kibor plus base rate of 2.25%	73	-	-	73	72,912	67,550	(5,362)	3.15
Sitara Chemical Industries Limited II (note 7.1.2.2)	December 17, 2011	3 months Kibor plus base rate of 1.7%	9,660	-	2,760	6,900	34,768	34,040	(728)	1.59
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	134,966	(34)	6.30
Grand Total							1,755,287	1,652,983	(102,304)	
Total cost of investments								1,742,103		

7.1.2.2 The nominal value of these sukuk certificates is Rs. 5,000 each.

7.1.2.3 The nominal value of the sukuk certificates is Rs. 50,000 each.

7.1.2.4 The nominal value of the sukuk certificates is Rs. 1,000,000 each.

7.2 Investments - available for sale

7.2.1 Diminishing musharaka certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2008	Purchases during the year	Sales / redemptions during the year	As at June 30, 2009	Carrying value as at June 30, 2009	Market value as at June 30, 2009	Unrealised Loss	Percentage of market value of investment
			----- Number of certificates -----			-- (Rupees in '000) --				
Secured										
D.G Khan Cement Company Limited.	May 8, 2010	6 months Kibor plus base rate of 0.5%	2,000	-	-	2,000	200,000	190,102	(9,898)	8.87
Total cost of investments								200,000		

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

7.3 During the year the Fund has reclassified an investment from loans and receivables - originated by the enterprise to 'available for sale' category as such investment is now quoted and its fair value is available on the Mutual Fund Association of Pakistan (MUFAP). The investment is now valued at fair value and all gains or losses arising from change in the fair value of this investment are recognised in the statement of movement in unit holders' fund except for impairment losses until the financial asset is derecognised in which case these would be taken to the Fund's income statement.

Due to such reclassification, the profit receivable on those securities, which was previously included as a part of the amortised cost of those securities, has now been presented separately as 'profit receivable on diminishing musharaka' in note 9 'Deposits and other receivables'.

7.4 During the year the SECP issued a circular 1 of 2009 dated January 6, 2009 which provides the asset manager the discretion to apply a mark up / mark down, within the available limits, to yield of any specific security used by MUFAP. The Fund has applied discretionary discounts by increasing the yield used by MUFAP in accordance with the available limit. Consequently, the unrealised loss for the year ended June 30, 2009 have increased and the value of investments subject to discretionary discount as of that date have decreased by approximately Rs. 12 million.

8. FINANCIAL INSTRUMENTS SOLD ON DEFERRED SETTLEMENT BASIS

Financial Instruments sold on deferred settlement basis outstanding as at June 30, 2009 amounted to Rs. Nil (June 30, 2008: Rs. 2.863 million).

Note	2009 (Rupees in '000)	2008
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9. DEPOSITS AND OTHER RECEIVABLES

Deposits		2,600	2,600
Profit receivable on savings accounts with banks		55,972	13,120
Profit receivable on placements		31,892	142,225
Profit receivable on sukuk certificates		74,214	52,702
Profit receivable on diminishing musharaka	7.3	4,098	-
		<u>168,776</u>	<u>210,647</u>

	Note	2009 (Rupees in '000)	2008
10. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Preliminary expenses and floatation costs		1,500	2,000
Less: Amortisation during the year		500	500
		<u>1,000</u>	<u>1,500</u>

**11. PAYABLE TO AL MEEZAN INVESTMENT
MANAGEMENT LIMITED – Management
company of the Fund**

Management fee	11.1	4,089	4,575
Sales load		334	141
Preliminary expenses and floatation costs		1,500	2,000
Certificate charges		1	1
		<u>5,924</u>	<u>6,717</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 year 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, 2009.

**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 payable to SECP. Under regulation 71 of NBFC Regulations, 2007, fee at the rate of one tenth of one percent of the average annual net assets of the fund is payable to SECP. Subsequent to the notification of NBFC Regulations, 2008 on November 21, 2008, fee at the rate of 0.075 percent of the average annual net assets of the fund is payable to SECP under regulation 62 read with Schedule II of the NBFC Regulations, 2008.

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

Shariah advisory fee	14.1	520	300
Sales load		81	28
		<u>601</u>	<u>328</u>

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

2009 **2008**
(Rupees in '000)

15. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	345	320
Tax advisory fee payable	-	40
Zakat payable	88	207
Printing expenses payable	-	115
CDS charges payable	-	12
Withholding tax payable	32	-
Other payable	324	-
	<u>789</u>	<u>694</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 December 15, 2006 with the restriction that these units are not redeemable 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, 2009 and 2008 in each class and their par values were as follows:

Class	2009		2008	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
A				
- Growth units	1,924,936	96,247	4,503,337	225,167
- Income units	-	-	-	-
B				
- Growth units	57,016,330	2,850,816	78,304,778	3,915,239
- Income units	33,037,532	1,651,877	25,788,296	1,289,415
C				
- Growth units	1,881,831	94,091	3,095,605	154,780
- Income units	-	-	-	-
Total	<u>93,860,629</u>	<u>4,693,031</u>	<u>111,692,016</u>	<u>5,584,601</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.

17. AUDITORS' REMUNERATION

2009
2008
(Rupees in '000)

Audit fee	220	220
Half yearly review	75	75
Other certifications and services	125	100
Out of pocket expenses	55	47
	<u>475</u>	<u>442</u>

18. CASH AND CASH EQUIVALENTS

Balances with banks	1,301,480	1,155,498
Placements - maturity upto three months	1,235,500	-
	<u>2,536,980</u>	<u>1,155,498</u>

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 and Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Capital Protected Fund - I, Meezan Cash Fund and Meezan Balanced Fund being the Funds under the common management of the management company and Pakistan Kuwait Investment Company (Private) Limited.

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

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

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

	2009	2008
	(Rupees in '000)	
Al-Meezan Investment Management Limited - management company of the Fund		
Remuneration for the year	49,917	57,841
Sales load for the year	1,442	1,082
Preliminary expenses and floatation costs	1,500	2,000
Certificate charges	1	1
	<u>52,860</u>	<u>60,924</u>
Payments made during the year	(46,936)	(54,207)
Balance at the end of the year	<u>5,924</u>	<u>6,717</u>
Units issued: 4,089,622 units (June 30, 2008: 5,970,765 units)	<u>207,000</u>	<u>311,720</u>
Redemptions: 4,425,018 units (June 30, 2008: 4,405,188 units)	<u>224,206</u>	<u>226,000</u>
Bonus units issued: 164,206 units (June 30, 2008: 324,668 units)	<u>4,750</u>	<u>16,373</u>
Investments as at June 30, 2009: 1,719,056 units (June 30, 2008: 1,890,246 units)	<u>89,236</u>	<u>97,083</u>
Meezan Bank Limited - Shariah Adviser of the Fund		
Remuneration as the Shariah Adviser	220	300
Sales load for the year	541	333
	<u>761</u>	<u>633</u>
Payments made during the year	(488)	(305)
Balance at the beginning of the year	328	-
Balance at the end of the year	<u>601</u>	<u>328</u>
Bank balance in savings account	54,595	396,453
Profit on savings accounts	<u>13,448</u>	<u>111,621</u>
Units issued: 3,953,746 units (June 30, 2008: 39,346,905 units)	<u>200,000</u>	<u>2,061,216</u>
Redemptions: Nil units (June 30, 2008: 26,729,386 units)	-	<u>1,419,391</u>
Bonus units issued: Nil units (June 30, 2008: 237,458 units)	-	<u>11,880</u>
Cash dividend paid	<u>97,209</u>	<u>63,410</u>
Investments as at June 30, 2009: 23,466,113 units (June 30, 2008: 19,512,367 units)	<u>1,218,126</u>	<u>1,002,155</u>
Central Depository Company of Pakistan Limited - trustee of the Fund		
Remuneration for the year	5,992	6,787
CDS Charges for the year	25	135
	<u>6,017</u>	<u>6,922</u>
Payments made during the year	(5,526)	(6,382)
Balance at the end of the year	<u>491</u>	<u>540</u>
Units issued: 532,649 units (June 30, 2008: 555,627 units)	<u>27,000</u>	<u>28,417</u>
Redemptions: 1,131,293 units (June 30, 2008: 555,627 units)	<u>55,971</u>	<u>28,276</u>
Bonus units issued: 43,017 units (June 30, 2008: 55,627 units)	<u>2,151</u>	<u>2,796</u>
Investments as at June 30, 2009: nil units (June 30, 2008: 555,627 units)	-	<u>28,537</u>

	2009	2008
	(Rupees in '000)	
Directors and executives		
Units issued: 4,139,460 units (June 30, 2008: 509,320 units)	<u>206,427</u>	<u>26,432</u>
Redemptions: 3,860,511 units (June 30, 2008: 244,218 units)	<u>193,162</u>	<u>12,511</u>
Bonus units issued: 81,551 units (June 30, 2008: 71,739 units)	<u>4,100</u>	<u>3,610</u>
Investments as at June 30, 2009: 1,177,758 units (June 30, 2008: 817,258 units)	<u>61,137</u>	<u>41,974</u>

Pakistan Kuwait Investment Company (Private) Limited

Units issued: nil units (June 30, 2008: nil units)	<u>-</u>	<u>-</u>
Redemptions: 726,632 units (June 30, 2008: nil units)	<u>37,719</u>	<u>-</u>
Bonus units issued: 59,880 units (June 30, 2008: 66,752 units)	<u>3,009</u>	<u>3,356</u>
Investments as at June 30, 2009: nil units (June 30, 2008: 666,752 units)	<u>-</u>	<u>34,244</u>

20. FINANCIAL RISK

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

Risk of the funds are being managed by the fund manager in accordance with the approved policies of the Investment Committee which provides broad guidelines for management of risk pertaining to market risks (including price risk and interest rate risk), credit risk and liquidity risk. Further, the overall exposure of the Fund complies with the NBFC Regulations and the directives issued by SECP.

Risks managed and measured by the Fund are explained below:

20.1 Market risk

20.1.1 Price Risk

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

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The primary objective of the Fund is to provide maximum return to the unit holders from investment in shariah compliant investments for the given level of risks. The Fund's market risk is managed on a daily basis by the fund manager in accordance with the policies and procedures laid down by SECP. The Funds are allocated among various asset classes based on the attractiveness of the particular asset class. The allocation among these is dependent on the time horizon for investments and liquidity requirements of the portfolio. The market risk is managed by monitoring exposure to marketable securities and by complying with the internal risk management policies and regulations laid down in NBFC Regulations 2007 and NBFC Regulations 2008.

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

Details of the Fund's investment portfolio exposed to price risk, at the balance sheet date are disclosed in note 7.1.1.1 to these financial statements. Further, the 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. At June 30, the Fund's overall exposure to price risk is limited to the fair value of those positions. The Fund manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weighting to that of the Dow Jones - JS Pakistan Islamic Index (DJIMP). The Fund's policy is to concentrate the investment portfolio in sectors where management believe the Fund can maximise the returns derived for the level of risk to which the Fund is exposed.

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

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

20.1.2 Interest Rate Risk

The interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates which effects cashflows pertaining to debt instruments and their fair values.

Cash flow interest rate risk

During the year ended June 30, 2009, the net assets of the Fund will increase / decrease by approximately Rs. 15 million (2008: approximately Rs. 6 million) had the interest rates on sukuks and musharaka certificate increase / decrease by five percent.

Fair value interest rate risk

The investment portfolio of the Fund includes non-traded sukuks which are being valued by discounting cash flows using interest rate in accordance with the methodology prescribed by the SECP. The net assets of the Fund will increase / decrease approximately by Rs. 6 million if the interest rate used to determine the fair value of such securities decrease / increase by five percents. This is based on the assumption that all other variable remain constant.

20.2 Credit Risk

Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The Fund receives a monthly rating update, against which investments are reviewed. The Fund, however, also invests in unrated instruments based on internal ratings assigned by the fund manager using an approach that is consistent with the approach used by the rating agencies. The credit rating wise analysis of investments in debt instruments have been tabulated below:

	2009	2008
	%	
Government guaranteed	28.98	2.14
AA	13.87	17.32
AA-	12.20	11.82
A+	-	18.18
A	15.47	16.96
A-	16.33	-
BBB+	-	2.84
BBB	-	4.12
BBB-	1.83	-
Non-rated	11.32	26.62
	<u>100.00</u>	<u>100.00</u>

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

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

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

	2009	2008
	(Rupees in '000)	
Financial assets		
Balances with banks	1,301,480	1,155,498
Placements	1,335,500	2,596,250
Investments	2,143,085	1,927,564
Financial instruments sold on deferred settlement basis	-	2,863
Deposits and other receivables	168,776	210,647
	<u>4,948,841</u>	<u>5,892,822</u>

The Fund does not have any collateral against any of the aforementioned assets. The issuer of the sukuk, however, pledge security to the investment agent in trust for the benefit of Sukuk holders.

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

In accordance with the regulation 58(1)(k) of the NBFC Regulation, 2008, the Fund has the ability to borrow funds for meeting redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen percent of its net assets which amounts to Rs. 730.891 million as on June 30, 2009 (2008: Rs. 860.556 million).

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

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

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

	Maturity upto				Total	2008
	Three months	Six months	One year	More than one year		
	----- (Rupees in '000) -----					
Payable to Al Meezan Investment Management Limited - management company of the Fund	4,924	-	-	1,000	5,924	6,717
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund	491	-	-	-	491	540
Payable to Meezan Bank Limited - Shariah Adviser	601	-	-	-	601	328
Payable on redemption of units	65,169	-	-	-	65,169	56,154
Payable against purchase of investments	-	-	-	-	-	87,067
Accrued expenses and other liabilities	669	-	-	-	669	487
	<u>71,854</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>72,854</u>	<u>151,293</u>
2008	<u>149,793</u>	<u>-</u>	<u>-</u>	<u>1,500</u>		

21. CAPITAL RISK MANAGEMENT

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

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

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

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

In accordance with risk management policies stated in note 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.

22. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

23. PERFORMANCE TABLE

	2009	2008	2007
	(Rupees in '000)		
Net assets (Rs. '000) (ex-distribution)	4,814,792	5,702,224	3,162,128
Net assets value / redemption price per unit			
as at June 30 (Rs.) (ex-distribution)	50.16	50.01	50.03
Offer price per unit as at June 30 (Rs.) (ex-distribution)	50.41	50.26	50.28
Distribution (%)			
- Interim			
- First quarter	2.54	-	-
- Second quarter	1.50	-	-
- Third quarter	2.00	6.50	-
- Annual	3.50	2.70	4.40
Dates of distribution (interim)			
- First quarter	September 30, 2008	-	-
- Second quarter	February 23, 2009	-	-
- Third quarter	April 15, 2009	April 22, 2008	-
Dates of distribution (annual)	July 6, 2009	July 7, 2008	July 10, 2007
Income distribution (Rupees in '000)	163,542	148,283	-
Growth distribution (Rupees in '000)	305,931	409,663	133,201
Highest offer price per unit (Rs.)	52.17	53.95	52.49
Lowest offer price per unit (Rs.)	47.06	50.42	50.28
Highest redemption price per unit (Rs.)	51.91	53.68	52.23
Lowest redemption price per unit (Rs.)	46.82	50.17	50.03
Total return (%)	10.14	9.15	9.93
Weighted Average Portfolio Duration (years)	4.24	5.66	5.00
	One year	Two year	Three year
Average annual return (%) as at June 30, 2009	10.14%	9.64%	9.74%

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.

24. INVESTMENT COMMITTEE MEMBERS

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

		2009		
	<u>Designation</u>	<u>Qualification</u>	<u>Experience</u>	
1	Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Nineteen years
2	Mr. Muhammad Asad	Chief Investment Officer / Fund Manager	CFA level 2 / MBA	Thirteen years
3	Ms. Sanam Ali Zaib	Head of Research	CFA level 2 / MBA	Five years

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

- Al Meezan Mutual Fund Limited
- Meezan Islamic Fund

25. TOP TEN BROKERS BY PERCENTAGE OF COMMISSION PAID

Name of the broker	2009
	%
JS Global Capital Limited	58.21
First Capital Equities Limited	13.05
Al Falah Securities (Private) Limited	12.13
Elixir Securities (Private) Limited	10.27
Global Securities (Private) Limited	4.05
Invest & Finance Securities Limited	2.26
Ample Securities (Private) Limited	0.03
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 (Private) Limited	4.32
AKD Securities Limited	3.95
Invest Capital & Securities (Private) Limited	3.30
Ample Securities (Private) Limited	1.84
Foundation Securities (Private) Limited	1.65

26. PATTERN OF UNITHOLDING

As at June 30, 2009			
	Number of unit holders	Investment amount	Percentage of total investment
(Rupees in '000)			
Individuals	3,977	2,027,188	41.60
Associated companies / directors	7	1,364,053	27.99
Insurance companies	7	92,535	1.90
Banks / DFIs	20	582,295	11.95
NBFCs	-	-	-
Retirement funds	60	224,833	4.61
Public limited companies	13	219,921	4.52
Others	70	361,783	7.43
Total	4,154	4,872,608	100.00

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
Total	1,727	5,737,038	100.00

27. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	---Dates of Board of Directors Meetings and Directors' present therein---					
		July 7, 2008	August 7, 2008	September 30, 2008	October 22, 2008	February 23, 2009	April 15, 2009
Mr. Ariful Islam	Chairman	Yes	Yes	No	Yes	No	Yes
Mr. Mohammad Shoaib	Chief Executive	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Aliuddin Ansari *	Director	No	Yes	Yes	No	Yes	Yes
Mr. Tasnimul Haq Farooqui	Director	Yes	Yes	Yes	Yes	Yes	No
Mr. Mazhar Sharif	Director	Yes	Yes	No	Yes	Yes	Yes
Mr. Rizwan Ata	Director	Yes	Yes	Yes	Yes	Yes	No
Syed Owais Wasti	Director	Yes	Yes	Yes	Yes	Yes	Yes

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

28. NON ADJUSTING EVENT

The Board of Directors in its meeting held on July 6, 2009 has announced a final dividend of 3.5% (2008: 2.7%) amounting to Rs. 164.256 million (2008: Rs. 150.784 million) which includes 2,122,018 bonus units (2008: 2,318,937 units) and cash dividend of Rs. 57.816 million (2008: Rs. 34.814 million). The financial statements for the year ended June 30, 2009 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2009.

	2009	2008
	Number of units	
The effect of issue of bonus units is as follows:		
Number of units in issue before bonus units	<u>93,860,629</u>	<u>111,692,016</u>
Number of units in issue after bonus units	<u>95,982,647</u>	<u>114,010,953</u>
	Rupees	
Net assets value per unit before distribution	<u>51.91</u>	<u>51.36</u>
Net assets value per unit after distribution	<u>50.16</u>	<u>50.01</u>

29. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 20, 2009 by the Board of Directors of the Management Company.

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

Chief Executive

Director