

- 02 Vision & Mission Statements
- 03 Fund Information
- 04 Report of the Directors of the Management Company
- 07 Pattern of Holdings (Units) as per the requirement of Code of Corporate Governance
- 08 Report of the Fund Manager
- 14 Report of the Shariah Adviser
- 16 Trustee report to the Unit Holders
- 17 Statement of Compliance with the Best Practices of the Code of Corporate Governance
- 19 Review Report to the Unit Holders on Statement of Compliance with the Best Practices of Code of Corporate Governance
- 20 Independent Auditors' Report to the Unit Holders
- 21 Statement of Assets and Liabilities
- 22 Income Statement
- 23 Distribution Statement
- 24 Statement of Movement in Unit Holders' Fund
- 25 Cash Flow Statement
- 26 Notes to the Financial Statements



Our Vision

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

Our Mission

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

FUND INFORMATION

MANAGEMENT COMPANY

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

BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

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

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. Ariful Islam	Chairman
Mr. P. Ahmed	Member
Mr. Mazhar Sharif	Member

TRUSTEE

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

AUDITORS

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

SHARIAH ADVISER

Meezan Bank Limited

BANKERS TO THE FUND

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

LEGAL ADVISER

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

TRANSFER AGENT

Meezan Bank Limited
SITE Branch
Plot # B/9-C, Estate Avenue,
SITE, Karachi.
Phone: 32062891
Fax: 32552771
Web site: www.meezanbank.com

DISTRIBUTORS

Al Meezan Investment Management Limited
Meezan Bank Limited

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited, the management company of Meezan Islamic Fund (MIF) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2011.

Brief Overview

During the fiscal year 2011, Meezan Islamic Fund (MIF) provided a return of 38.72% to its investors while KSE Meezan Index (KMI-30) appreciated by 43.66% to close at 20,936. The KSE-100 index during the same period closed at the level of 12,496, posting a 28.53% increase.

Economic and Equity Review

Fiscal year 2011 was another challenging year on economic front for Pakistan. Despite persistent pressures from fiscal constraints, energy crisis, vulnerability to commodity price and volatile law and order situation, the country managed to post GDP growth of 2.4% in FY11.

During 1HFY11, the devastating floods posed a significant threat to the country's economic and fiscal position leading to excessive Government borrowing from State Bank of Pakistan (SBP) which peaked at Rs. 1,463 billion in November, 2010. The resultant impact was on CPI inflation which touched a high of 15.7% during 1HFY11. Consequently, the State Bank was forced to adopt a tight monetary stance and raised the discount rate by 150bps in 1HFY11. On the other hand, a major highlight of 2HFY11 was the improvement in external account. During FY11, current account posted a surplus of US\$ 542 million as against deficit of US\$ 3.4 billion in the same period last year. The improvement was primarily attributed to the 29% rise in exports and surge in worker remittances to US\$11.2 billion for the full year. These positive developments helped the country's forex reserves to reach all time of US\$ 17.5 billion and thus kept the rupee stable against the US dollar, depreciating by a mere 0.5%.

Pakistan stock market, posted a double digit return for the second consecutive year in FY11 with KSE-100 rising by 28.5% to close at a level of 12,496. The healthy performance of the KSE-100 index was reflective of improved corporate earnings as well as the continuation of foreign flows. Trading volumes however, remained extremely low due to imposition of Capital Gains Tax (CGT) in July with average daily trading volume in shares and value declining by 66% and 40% to 97 million shares and Rs. 4 billion respectively.

Outlook

Going forward, the key challenge for the Government remains the continuation of IMF standby facility for the release of last two tranches and the implementation of reforms. The mounting circular debt affecting the entire energy chain also continues to pose threat to the overall economy. In line with the Government's commitment to keep SBP borrowing within limits, and as inflation has tapered off from its peak, we are of the view that the Government will continue its 'wait and watch' policy before increasing the discount rate. Although the implementation of CGT has negatively impacted volumes, however, we believe that the introduction of the leverage and derivative products in the market may improve the liquidity position and attract investors back to the equity market. On the basis of earnings multiples and dividend yields, Pakistan remains one of the cheapest markets. Pakistan's stock market is trading at a P/E multiple of 7.2x, which is almost at a 38% discount to other frontier markets. This makes KSE an attractive option for foreign investors.

The management of Al Meezan is fully aware of the challenges that lie ahead and will take all possible measures to proactively deal with them.

Ranking

We are pleased to inform our investors that MIF is ranked at 'MFR 5-Star' for one year and two years and 'MFR 3-Star' for three years performance rankings by JCR-VIS Credit Rating Company Limited.

Further, JCR-VIS Credit Rating Company has also maintained the management quality rating of Al Meezan Investment Management Limited, the management company of the Fund, at AM 2 (AM Two). The rating denotes a high management quality with stable outlook.

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

Trades by		No. of units invested	No. of units redeemed
Mr. Mohammad Shoaib, CFA	CEO & Director	511,175	512,926

- ▶ Pattern of holding of units is given on page no.07 of the financial statements.
- ▶ Financial highlights are given in note no 20 of the financial statements.

Board Meetings

Please refer to note no. 22 provided in the financial statements.

Appointment of Auditors

M/s A. F. Ferguson & Co., Chartered Accountants on the recommendation of Board's Audit Committee, being eligible for re-appointment, have been appointed as auditors of the Fund for the year ending June 30, 2012.

Acknowledgement

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

For and on behalf of the Board

Date: August 16, 2011
Karachi.

Mohammad Shoaib, CFA
Chief Executive

PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2011

Units held by	Units Held	%
Associated Companies		
Al Meezan Investment Management Limited	1,132,717	1.30
Meezan Bank Limited	8,996,011	10.32
Directors		
Mr. Ariful Islam	255,964	0.29
Chief Executive		
Mr. Mohammad Shoaib, CFA	1,751,715	2.01
Executives	182,495	0.21
Public Limited Companies	1,720,415	1.97
Banks and financial institutions	134	0.00
Individuals	42,892,214	49.19
Retirement funds	23,936,270	27.45
Other corporate sector entities	5,544,523	6.35
Non-Profit Organization	794,318	0.91
Total	87,206,775	100

REPORT OF THE FUND MANAGER

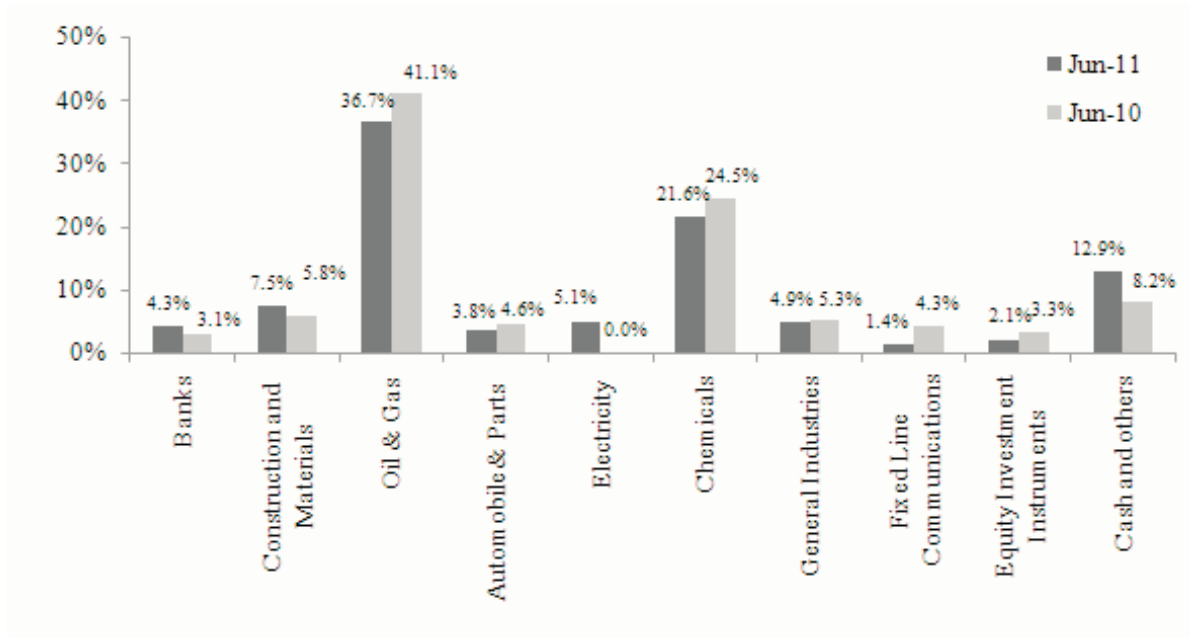
Meezan Islamic Fund (MIF) is an open end equity fund investing in Shariah compliant listed equity securities.

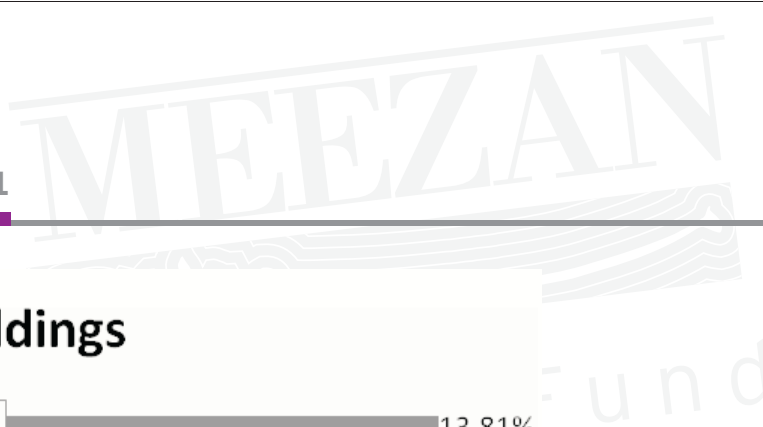
The objective of MIF is to provide total return to the investors from investment in Shariah Compliant investments for the given level of risk, while abiding by all applicable rules and regulations. Total return refers to the returns from capital gains (realized and unrealized), dividend income and other income from Shariah Compliant investments.

Strategy, Investment Policy and Asset Allocation

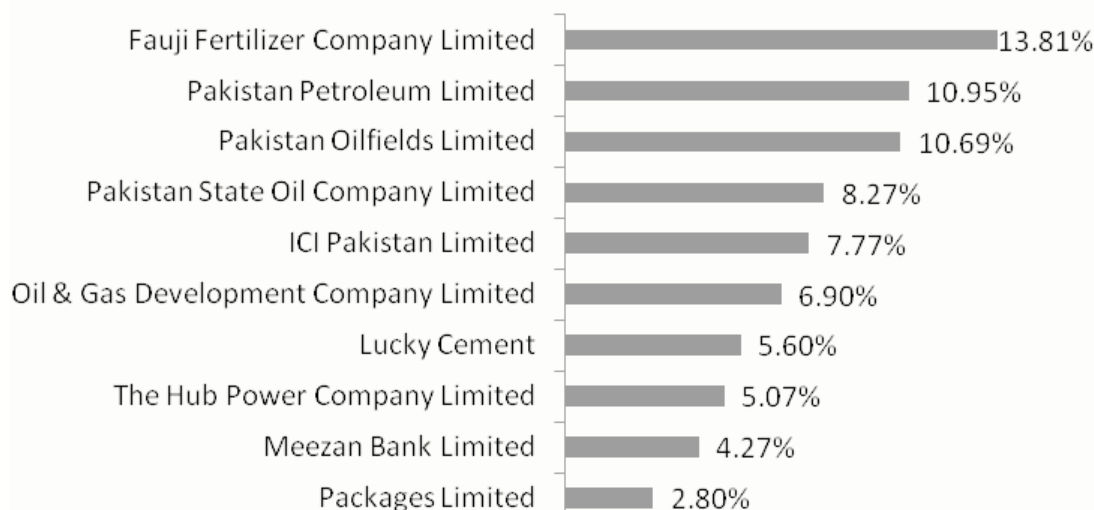
The performance of MIF is linked directly to the performance of equity market. The fund manager, Al Meezan Investment Management Limited, actively manages the fund with an aim to provide maximum risk adjusted total return to the investors. To control risk, the exposure in growth stocks is balanced against that of high dividend stocks. Moreover, the fund manager strives to reduce equity exposure in times when the market is trading above valuations while increasing equity exposures near troughs.

During the year, the fund increased its equity exposure to as high as 94.05% in line with the market trend. However, it maintained an average exposure of 88.29% to equities during the year, while closing the year at 87.42%. The fund maintained heavy exposure to the oil & gas and chemical sectors taking into consideration the profitability of these sectors.





Top Holdings

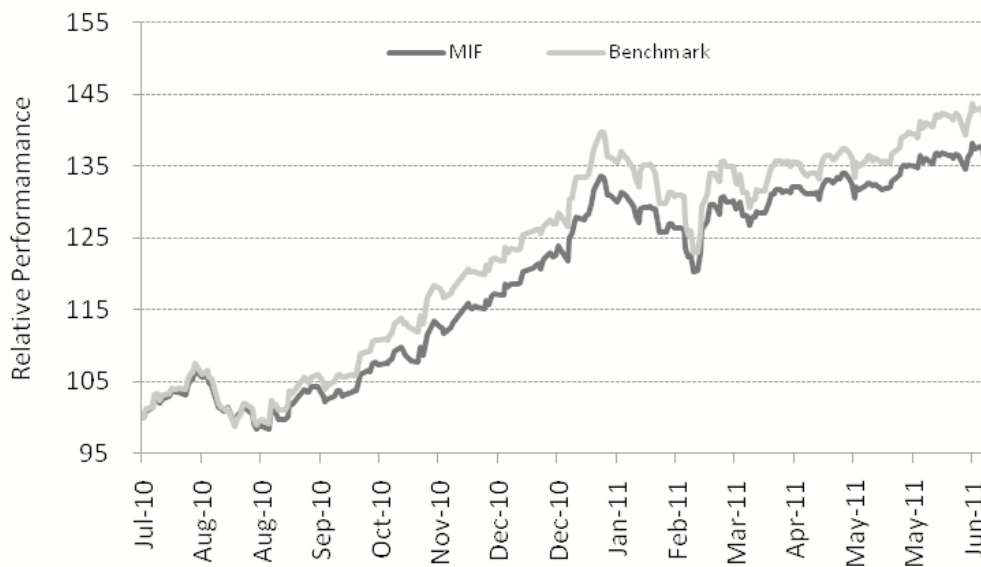


Performance Review

During the fiscal year 2011, Meezan Islamic Fund (MIF) provided a return of 38.72% to its investors while KSE Meezan Index (KMI 30) appreciated by 43.66% to close at 20,936. The KSE 100 index during the same period closed at the level of 12,496, posting a 28.53% increase.

Meezan Islamic Fund posted a total income of Rs. 1,262 million in the fiscal year 2011 as compared to Rs. 1,243 million in the last year. Total income comprise mainly of realized gains and unrealized gain on investments of Rs. 750 million and Rs. 160 million respectively. Dividend income contributed Rs. 291 million to the income, while profit on savings account at banks amounted to Rs. 58 million. After accounting for expenses of Rs. 76 million and an element of loss and capital losses included in prices of units issued and less those in units redeemed of Rs. 109 million, the Fund posted a net profit of Rs. 1,077 million. The net assets of the Fund as at June 30, 2011 were Rs. 4,497 million as compared to Rs. 3,966 million at the end of corresponding year. The net asset value (NAV) per unit appreciated from Rs. 37.17 (ex-dividend) to Rs. 51.57 (39% up) during the fiscal year 2011.

	MIF (Rupees)	KMI - 30 (Index)
Value as on June 30, 2010 (Dividend Adjusted)	37.17	14,574
Value as on June 30, 2011	51.57	20,936
Return During the Period	38.72%	43.66%



Economic Review

Fiscal year 2011 was another challenging year for Pakistan on economic front. Despite persistent pressures from fiscal constraints, energy crisis, vulnerability to commodity price and volatile law and order situation, the country managed to post GDP growth of 2.4%.

During 1HFY11, the devastating floods posed a significant threat to the country's economic and fiscal position leading to excessive Government borrowing from State Bank of Pakistan (SBP) which peaked at Rs. 1,463 billion in November, 2011. The resultant impact was on CPI inflation which touched a high of 15.7% during 1HFY11. Consequently, the State Bank was forced to adopt a tight monetary stance and raised the discount rate by 150bps in first half of FY11.

On the other hand a major highlight of 2HFY11 was the improvement in external account. During FY11, current account posted a surplus of US\$ 542 million as against deficit of US\$ 3.4 billion in the same period last year. The improvement was primarily attributed to i) 29% rise in exports to US\$25 billion on account of favourable cotton prices, ii) 26% surge in worker remittances to US\$11.2 billion for the full year and iii) US\$743 million inflows under Coalition Support Fund (CSF). These positive developments helped the country's forex reserves to reach all time of US\$ 17.5 billion and thus kept the rupee stable against the US dollar. During the year, rupee depreciated by a mere 0.5% to close the year at Rs 86.2 versus US dollar.

In addition, the rebound in agri commodity prices provided a boost to rural income and hence domestic demand, which saw growth momentum revived in the second half of fiscal year. While inflation stood at 13.9% for FY11, the Government was able to retire the excessive borrowing from SBP in earlier part of the year and contain the same to levels agreed with the State Bank. The combination of the above factors provided SBP the comfort to maintain discount rate at 14% during the second half of the fiscal year. During the period under review, the IMF standby arrangement remained virtually suspended due to slow implementation of tax and power sector reforms. With the last two tranches at stake, the Government and IMF team are due to meet tentatively towards the end of July, 2011 to review FY11 performance and FY12 budgetary targets. With an impressive performance on the external account and commitment for power sector reforms, the country's economic managers are targeting a continuation of the IMF standby facility.

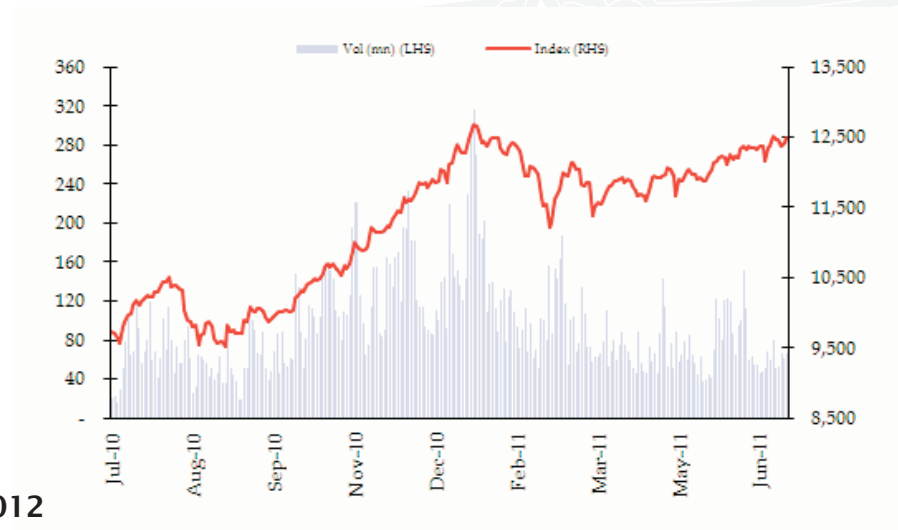
Equity Market Review

Pakistan stock market posted a double digit return for the second consecutive year in FY11 with KSE-100 rising by 28.5% to close at a level of 12,496. The healthy performance of the KSE-100 index was reflective of improved corporate earnings as well as the continuation of foreign flows. Trading volumes however, remained extremely low due to imposition of CGT in July with average daily trading volume in shares and value declining by 66% and 40% to 97 million shares and Rs. 4 billion respectively.

The year started with a positive sentiment where on the back of introduction of CGT, investors anticipated the introduction of Margin Trading System (MTS). This, coupled with investors' expectations of good corporate results helped the market to post phenomenal return of 8.2% for the month of July. However, the euphoria was short lived, ending with the onslaught of the worst floods of the country threatened key macroeconomic targets including downward revision in GDP estimates by 1-2%. To add to the worries, SBP, in an unexpected move, raised the discount rate by 50bps on inflationary concerns in its monetary policy statement of July end. However, even after another 50 bps increase in discount rate in September, the investors shunned macroeconomic concerns and the sentiments remained bullish due to positive foreign flows. Since then the market witnessed a broad-based rally which was extended in the new calendar year as positive developments inched up investors' hopes of good result and payout expectations. Foreigners' net buying position boosted optimism in the market as the third hike in the discount rate of 50bps in this fiscal year did not break the momentum of the market and KSE-100 rallied to the year's peak of 12,768 in mid of January, an appreciation of 3,046 points from June 30, 2010.

The second half of the fiscal year was a period of high volatility which culminated into consolidation. The market underwent a correction of 12% since then and touched a low of 11,200 as profit taking activity was initiated by institutional investors. This was seen due to heightened political noise, strained foreign relations with USA due to the Raymond Davis case, killing of Osama Bin Laden by US forces, uprising in the MENA region and the disastrous earthquake in Japan. On the domestic side, the rally in international crude prices, lukewarm response to MTS, and cumbersome working of capital gain tax kept retail investors on the sidelines leading to one of the lowest volumes in the decade. Subsequently, foreign investment which was the major impetus of the market remained at USD 30.19 million in second half of FY11, slightly narrowing the fiscal year to date inflows to USD 279 million.

Towards the end of the period under review, introduction of Margin Trading System (MTS) coupled with better than expected corporate results gave some support to the market and eventually helped the KSE-100 index to close at 12,496 on June 30, 2011.

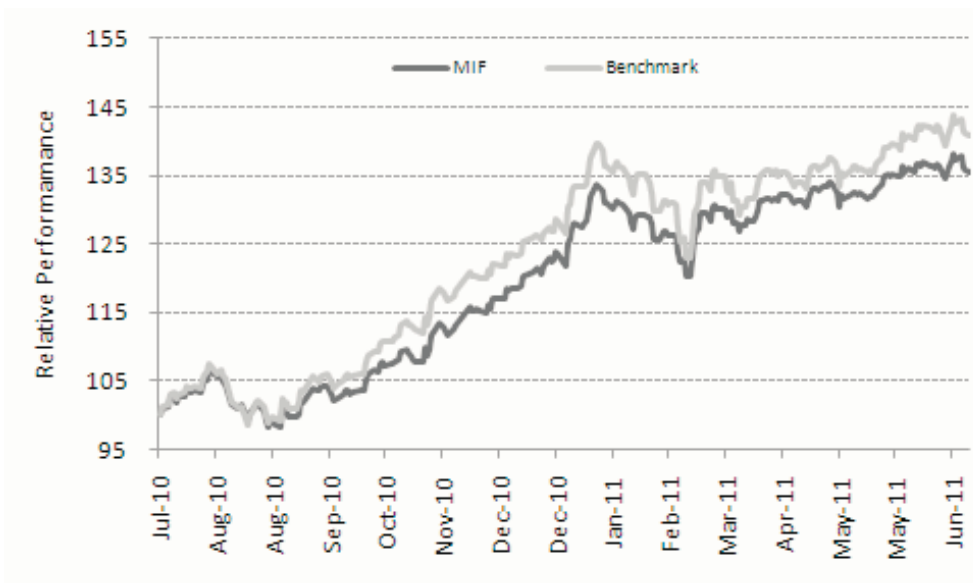


Federal Budget 2012

The market staged a brief rally in the immediate run up to the budget as well as post budget. Despite no relief on CGT in the federal budget on June 3, the reaction remained positive due to absence of new tax measures. In addition, discontinuation of flood surcharge, deduction of FED on cement and no change in corporate tax on banks led to a buying spree in the market.

Foreign flows and Behavior of local investors

All the categories of local investors except banks remained net sellers throughout FY11. Individual and mutual funds sold highest worth of shares amounting to US\$144 million and US\$76 million respectively, followed by NBFC and companies which sold shares worth US\$55 million and US\$33 million respectively. Banks during the period bought shares worth US\$28 million during FY11, while foreigners remained net buyers of US\$279 million during the period.



Charity Statement

According to the Trust Deed of MIF, charity refers to the amount paid by Management Company out of the income of the Trust to a charitable / welfare organization, in consultation with Shariah Advisor, representing income that is Haram. During the year ended June 30, 2011 an amount of Rs. 5.3 million was accrued as charity payable.

Distributions

The Board of Directors in its meeting held on July 7, 2011 approved distribution at the rate of Rs. 10 per unit (20%) out of the profits of the Fund for the year ended June 30, 2011.

Breakdown of unit holdings by size (As on June 30, 2011):

Range of units	Number of investors
1 - 9,999	3,028
10,000 - 49,999	697
50,000 - 99,999	89
100,000 - 499,999	76
500,000 and above	21
	3,911

Outlook

Going forward, the key challenge for the Government remains the continuation of IMF standby facility for the release of last two tranches and the implementation of reforms. The mounting circular debt affecting the entire energy chain also continues to pose threat to the overall economy. In line with the Government's commitment to keep SBP borrowing within limits, and as inflation has tapered off from its peak, we are of the view that the Government will continue its 'wait and watch' policy before increasing the discount rate. Although the implementation of CGT has negatively impacted volumes, however, we believe that the introduction of the leverage and derivative products in the market may improve the liquidity position and attract investors back to the equity market. On the basis of earnings multiples and dividend yields, Pakistan remains one of the cheapest markets. Pakistan's stock market is trading at a P/E multiple of 7.2x, which is almost at a 38% discount to other frontier markets. This makes KSE an attractive option for foreign investors.

The management of Al Meezan is fully aware of the challenges that lie ahead and will take all possible measures to proactively deal with them.



Meezan Bank
The Premier Islamic Bank

Report of the *Shar'iah* Advisor –Meezan Islamic Fund

August 22, 2011/ Ramadan 21, 1432 A.H

In the capacity of *Shar'iah* Advisor, we have prescribed six criteria for *Shar'iah* compliance of equity investments which relate to (i) Nature of business, (ii) Interest bearing debt to total assets, (iii) Investment in non-*Shar'iah* compliant activities to Total assets (iv) *Shar'iah* Non Compliant Income to Gross Revenue (v) Illiquid assets to total assets, and (vi) Net liquid assets per share vs. share price.

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

- i. We have reviewed and approved the modes of investments of MIF in light of *Shar'iah* requirements. Following is the list of investments of MIF as on June 30, 2011 and their evaluation according to the screening criteria established by us. (December 31, 2010 accounts of the Investee companies have been used for the following calculations):

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<40%)	(iii) % of Non- <i>Shar'iah</i> Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>20%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Attock Cement	Cement Manufacturer	0.00%	00.00%	0.95%	94.00%	(18.5)	63.11
DG Khan Cement Co Ltd	Cement Manufacturer	36.92%	3.63%	4.77%	55%	(11.57)	29.33
Fauji Fertilizer Bin Qasim Limited	Manufacturer of Fertilizer	17.03%	4.48%	2.21%	57.00%	(8.46)	31.91
Fauji Fertilizer Company Limited	Manufacturer of Fertilizer	20.82%	6.30%	1.69%	68%	(40.29)	95.28
Lucky Cement	Cement Manufacturer	22.45	0.00%	0.00%	94%	(7.03)	75.79

Meezan Bank Ltd.

Meezan House, C-25, Estate Avenue, SITE, Karachi, Pakistan.
Tel: (92-21) 38103500 Fax: (92-21) 36406049 www.meezanbank.com



Meezan Bank Limited	Islamic Commercial Bank	**					13.95
National Refinery Limited	Oil Refinery & Marketing	0.00%	7.02%	1.18%	40%	(33.78)	273.79
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	5.43%	0.52%	48%	11	169.19
Pak. Telecommunication. Co. Ltd	Provider of Telecommunication Services	10.70%	7.95%	3.77%	79%	(9.29)	17.46
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	5.83%	2.41%	68%	7.56	286.61
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.95	27.28	3.59	38%	38.24	207.08
Pakistan State Oil Company Limited	Distribution of Oil & Gas	6.92%	0.00%	0.41%	30%	(76.26)	286.91
Packages Ltd	General Industries	24.67%	24.06%	1.11%	65%	10.42	125.09

* All interest based debts.

** These ratios are for the calculation of non-Shar'iah Compliant Element in the business and are not relevant for Islamic Banks & Islamic Financial Institutions.

- ii. On the basis of information provided by the management, all operations of MIF for the year ended June 30, 2011 have been in compliance with the *Shar'iah* principles.

In light of the above, we hereby certify that all the provisions of the Scheme and investments made on account of MIF under management of Al Meezan Investment Management Limited (Al Meezan) are *Shar'iah* compliant and in accordance with the criteria established by us.

During the Year a provision of Rupees 3.657 million was created for Charity and an amount of Rupees 1.857 million was provided for available for disbursement.

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

Dr. Muhammad Imran Ashraf Usmani
For and on behalf of Meezan Bank Limited
Shar'iah Advisor

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com

TRUSTEE REPORT TO THE UNIT HOLDERS

MEEZAN ISLAMIC FUND

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

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

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 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 Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi, September 12, 2011

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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

1. The management company encourages representation of independent non-executive directors. At present the board consists of seven directors, including two independent directors, all other directors except the Chief Executive Officer (CEO) are non-executive directors. The management company of the Fund is not listed at any stock exchange and therefore, does not have any minority interest.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the management company.
3. All the existing resident directors of the management company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. During the year a casual vacancy occurred on the BoD. Mr. Salman Sarwar Butt was appointed as an independent director in place of Aliuddin Ansari after an approval from SECP on June 17, 2011 for the remaining term of the board.
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, except for the emergent meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of the board are aware of their responsibilities, an orientation course was held during previous years. The new Directors as and when appointed are provided with all the relevant statutory laws, rules and regulations to keep themselves acquainted.

10. The Board of Directors of the Management Company had, in earlier years, approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary and the Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report relating to the Fund, for the year ended June 30, 2011 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 set up an effective internal audit function headed by the Head of Internal Audit & Compliance. The staff of the Fund is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function of the Fund on a full time basis.
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, 2011 have been placed before the audit committee and approved by the board in its subsequent meetings.
21. We confirm that all other material principles contained in the Code have been complied with.

Syed Owais Wasti
Chief Financial Officer

Karachi.
August 16, 2011

Mohammad Shoab, CFA
Chief Executive



A. F. FERGUSON & CO.

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2011 prepared by the Board of Directors of Al Meezan Investment Management Limited (the management company) of Meezan Islamic Fund (the Fund) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange where the Fund is listed.

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

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

Further, Sub-Regulation (xiii a) of Listing Regulation No. 35 of the Karachi Stock Exchange (Guarantee) Limited 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 the related party transactions by the Board of Directors and placement of such transactions before the audit committee. 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, 2011.

A. Ferguson & Co
Chartered Accountants
Karachi, September 16, 2011

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A. F. FERGUSON & CO.

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Meezan Islamic Fund**, which comprise the statement of assets and liabilities as at June 30, 2011, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management 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 approved accounting standards as applicable in Pakistan, and for such internal control as the Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing 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 financial position of the Fund as at June 30, 2011, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of matter

We draw attention to note 12 to the annexed financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh.

Our opinion is not qualified in respect of the aforementioned matter.

Other matters

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


Chartered Accountants
Karachi, September 16, 2011

Audit Engagement Partner: Saad Kaliya

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**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2011**

	Note	2011 (Rupees in '000)	2010
Assets			
Balances with banks	5	589,166	352,749
Investments	6	3,932,380	3,644,759
Receivable against sale of investments		-	15
Dividend receivable		22,196	18,049
Advances, deposits and other receivables	7	42,485	10,724
Total assets		4,586,227	4,026,296
Liabilities			
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	8	9,524	7,404
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	9	468	427
Payable to Meezan Bank Limited (MBL)		434	79
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	4,063	4,121
Payable on redemption of units		10,627	13,748
Payable against purchase of investments		54,536	1,468
Accrued expenses and other liabilities	11	9,490	33,139
Total liabilities		89,142	60,386
Net assets		4,497,085	3,965,910
Contingency	12		
Unit holders' fund (as per statement attached)		4,497,085	3,965,910
Number of units			
Number of units in issue	13	87,206,775	85,891,040
Rupees			
Net assets value per unit		51.57	46.17

The annexed notes 1 to 27 form an integral part of these financial statements.



Mohammad Shoib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

**INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	2011 (Rupees in '000)	2010
Income			
Net realised gain on sale of investments		750,295	465,660
Dividend income		291,136	320,011
Profit on savings accounts with banks		58,326	23,866
Other income		2,813	1,988
		<u>1,102,570</u>	<u>811,525</u>
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)	6	159,758	431,336
Total income		<u>1,262,328</u>	<u>1,242,861</u>
Expenses			
Remuneration to Al Meezan - management company of the Fund	8.1	85,531	86,748
Remuneration to CDC - trustee of the Fund	9	5,277	5,337
Annual fee to SECP	10	4,063	4,121
Auditors' remuneration	14	618	602
Fees and subscription		40	40
Legal and professional charges		252	775
Brokerage		2,744	4,143
Bank and settlement charges		867	1,042
Printing charges		861	633
(Reversal) / provision of Workers' Welfare Fund	12	(24,242)	24,242
Total expenses		<u>76,011</u>	<u>127,683</u>
Net income from operating activities		<u>1,186,317</u>	<u>1,115,178</u>
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(109,081)	96,912
Net income for the year		<u>1,077,236</u>	<u>1,212,090</u>
Other comprehensive income for the year			
Unrealised gain on available for sale investments (net)		210,400	21,754
Element of loss and capital losses included in prices of units issued less those in units redeemed pertaining to 'available for sale' investments		(49,228)	(3,763)
Total comprehensive income for the year		<u>1,238,408</u>	<u>1,230,081</u>

The annexed notes 1 to 27 form an integral part of these financial statements.



Mohammad Shoab, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

	2011 (Rupees in '000)	2010
Accumulated loss brought forward	(350,397)	(1,558,724)
Less : Final distribution in the form of bonus units @ 18% for the year ended June 30, 2010 (June 30, 2009 @ nil)	(771,783)	-
Less : Final distribution in the form of cash dividend for the year ended June 30, 2010 @ 18% (June 30, 2009 @ nil)	(1,237)	-
Net income for the year	1,077,236	1,212,090
Element of loss and capital losses included in prices of units issued less those in units redeemed pertaining to 'available for sale' investments	(49,228)	(3,763)
Accumulated loss carried forward	<u>(95,409)</u>	<u>(350,397)</u>

The annexed notes 1 to 27 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2011

	2011 (Rupees in '000)	2010
Net assets at the beginning of the year	3,965,910	3,737,293
Issue of 15,345,220 (2010:13,308,998) units	720,089	618,532
Redemption of 34,793,072 (2010: 33,338,275) units	(1,584,394)	(1,526,847)
	(864,305)	(908,315)
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed (net):		
- transferred to income statement	109,081	(96,912)
- transferred to other comprehensive income	49,228	3,763
	158,309	(93,149)
Total comprehensive income for the year less distribution	465,388	1,230,081
Issue of 20,763,587 bonus units for the year ended June 30, 2010 (June 30, 2009: nil bonus units)	771,783	-
Net assets at the end of the year	<u>4,497,085</u>	<u>3,965,910</u>
Net asset value per unit at the beginning of the year - Rupees	<u>46.17</u>	<u>35.28</u>
Net asset value per unit at the end of the year - Rupees	<u>51.57</u>	<u>46.17</u>

The annexed notes 1 to 27 form an integral part of these financial statements.



Mohammad Shoab, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		1,077,236	1,212,090
Adjustments for:			
Dividend income		(291,136)	(320,011)
Profit on savings accounts with banks		(58,326)	(23,866)
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)		(159,758)	(431,336)
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed (net)		109,081	(96,912)
		<u>677,097</u>	<u>339,965</u>
Decrease in assets			
Investments		82,537	377,034
Receivable against sale of investments		15	6,061
Deposits and other receivables		76	-
		<u>82,628</u>	<u>383,095</u>
Increase / (decrease) in liabilities			
Payable to Al Meezan - management company of the Fund		2,120	738
Payable to CDC - trustee of the Fund		41	30
Payable to MBL		355	(1,144)
Payable to SECP		(58)	254
Payable against purchase of investments		53,068	1,463
Accrued expenses and other liabilities		(23,649)	25,275
Cash generated from operations		<u>31,877</u>	<u>26,616</u>
Dividend received		286,989	337,982
Profit received on savings accounts with banks		26,489	22,730
Dividend paid		(1,237)	-
Net cash inflow from operating activities		<u>1,103,843</u>	<u>1,110,388</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from sale of units		720,089	618,532
Payments against redemption of units		(1,587,515)	(1,518,708)
Net cash outflow from financing activities		<u>(867,426)</u>	<u>(900,176)</u>
Net cash inflow during the year		236,417	210,212
Cash and cash equivalents at the beginning of the year		352,749	142,537
Cash and cash equivalents at the end of the year	5	<u>589,166</u>	<u>352,749</u>

The annexed notes 1 to 27 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Islamic Fund (the Fund) was established under a Trust Deed executed between Al Meezan as management company and CDC as trustee. The Trust Deed was executed on June 16, 2003 and was approved by the SECP on June 4, 2003 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations, 2008). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to enable the unit holders to participate in a diversified portfolio of securities, which are shariah compliant. Under the Trust Deed, all the conducts and acts of the Fund are based on shariah. The management company has appointed MBL as its shariah adviser to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 The management company of the Fund has been given quality rating of AM2 by JCR-VIS Credit Rating Company Limited. The Fund is ranked at 'MFR 5-Star' for one year and two years and 'MFR 3-Star' for three years performance rankings by JCR-VIS Credit Rating Company Limited .
- 1.5 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

2. BASIS OF MEASUREMENT

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

3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the 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, 2008 and the directives issued by the SECP.

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

- 3.2 Standards, amendments to published approved accounting standards and interpretations becoming effective in the period ended June 30, 2011 but are not relevant:

There are certain new standards, amendments and IFRIC interpretations that became effective during the period and are mandatory for the Fund's accounting period beginning July 1, 2010 but are considered not to be relevant or have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

- 3.3 Standards, amendments to approved accounting standards and interpretations that are not yet effective and have not been early adopted by the Fund:

There are certain amendments to the standards and interpretations that are mandatory for the Fund's accounting period beginning on or after July 1, 2011 but are considered not to be relevant 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 judgement in the process of applying its accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) Classification and valuation of financial instruments (notes 4.3 and 6)
- b) Impairment of financial instruments (note 4.3.5)

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

4.3 Financial instruments

4.3.1 The Fund classifies its financial instruments in the following categories:

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

- Financial instruments 'held for trading'
These include financial instruments acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit taking exists.
- Financial instruments designated at 'fair value through profit or loss' upon initial recognition. These include investments that are designated as investments at 'fair value through profit or loss upon initial recognition'.

(b) Held to maturity

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

(c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as at 'fair value through profit or loss' or 'available for sale'.

(d) Available for sale

These are non-derivatives financial assets that are either designated in this category or are not classified in any of the other categories mentioned in (a) to (c) above.

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 charged to the income statement 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. The changes in the fair value of instruments classified as 'available for sale' are recognised in other comprehensive income until derecognised or impaired when the accumulated fair value adjustments recognised in other comprehensive income are transferred to income statement.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective yield method, less impairment losses, if any.

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

4.3.4 Fair value measurement principles

"The fair value of shares of listed companies / units of funds is based on their price quoted on the Karachi Stock Exchange at the reporting date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

4.3.5 Impairment

Impairment loss on 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 the income statement is removed from other comprehensive income and recognised in the income statement. However, any decrease in impairment loss on equity securities classified as 'available for sale' is reversed through the income statement but is recognised in other comprehensive income.

4.3.6 Derecognition

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

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

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

4.4 Unit holders' fund

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

4.5 Issue and redemption of units

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

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

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

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

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

4.7 Provisions

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

4.8 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.

4.9 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the period, 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 year as the Fund intends to avail this exemption.

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

Deferred

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

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

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

4.10 Revenue recognition

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

4.11 Expenses

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

4.12 Offsetting of financial instruments

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

4.13 Zakat

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

4.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities 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.

4.15 Dividend and bonus units

Dividend declared (including distribution in the form of bonus units) are recognised in the period in which they are authorised or approved.

	Note	2011 (Rupees in '000)	2010
5. BALANCES WITH BANKS			
On current accounts		3,386	1,648
On savings accounts	5.1	585,780	351,101
		<u>589,166</u>	<u>352,749</u>

5.1 The balances in savings accounts bears expected profit which ranges from 5.66% to 12.9% (2010 : 5% to 11.45%) during the year.

	Note	2011 (Rupees in '000)	2010
6. INVESTMENTS			
Investments at fair value through profit and loss	6.1	828,071	1,987,091
Investments- 'available for sale'	6.2	3,104,309	1,657,668
		<u>3,932,380</u>	<u>3,644,759</u>

6.1 Investments at fair value through profit or loss

Held for trading	6.1.1	625,584	1,763,080
Investments at 'fair value through profit or loss upon initial recognition'	6.1.4	202,487	224,011
		<u>828,071</u>	<u>1,987,091</u>

6.1.1 Held for trading - shares of listed companies

Name of the investee company	As at July 1, 2010	Purchases during the year	Bonus issue	Sales during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain / (loss) as at June 30, 2011	Percentage of total market value of investments
									Number of Shares
Automobile and Parts									
Agriauto Industries Limited (note 6.1.2)	679,200	-	-	70,000	609,200	42,035	42,339	304	1.08
Indus Motor Company Limited	451,135	-	-	45,191	405,944	106,512	89,308	(17,204)	2.27
Pak Suzuki Motor Company Limited	181,163	-	-	131,140	50,023	3,965	3,129	(836)	0.08
									3.43
Chemicals									
Fauji Fertilizer Bin Qasim Limited	2,502,062	-	-	2,502,062	-	-	-	-	-
Fauji Fertilizer Company Limited	5,837,146	-	926,020	6,675,264	87,902	7,249	13,216	5,967	0.34
ICI Pakistan Limited	26,017	-	-	26,017	-	-	-	-	-
									0.34
Construction and Materials									
Attock Cement Pakistan Limited	219,520	-	-	218,926	594	39	29	(10)	-
Lucky Cement Limited	1,135,800	-	-	658,979	476,821	29,630	33,778	4,148	0.86
									0.86
Fixed Line Telecommunication									
Pakistan Telecommunication Company Limited "A"	65,981	-	-	65,981	-	-	-	-	-
General Industrials									
Thal Limited (note 6.1.2)	331,256	-	66,251	111,380	286,127	22,637	28,910	6,273	0.74
Tri-Pack Films Limited	389,300	-	-	10,000	379,300	36,993	64,955	27,962	1.65
									2.39
Oil and gas									
Oil and Gas Development Company Limited	157,077	-	-	157,077	-	-	-	-	-
Pakistan Oilfields Limited	1,355,740	-	-	1,091,817	263,923	56,981	94,751	37,770	2.41
Pakistan Petroleum Limited	1,062,214	-	212,442	805,565	469,091	71,974	97,135	25,161	2.47
Pakistan State Oil Company Limited	951,300	-	-	354,000	597,300	155,417	158,034	2,617	4.02
									8.90
Grand total						533,432	625,584	92,152	
Total cost of investments							519,490		

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

6.1.3 210,000 shares (2010: 210,000 shares) of Oil and Gas Development Company Limited, having market value of Rs 32.128 million (2010: Rs 29.755 million) as at June 30, 2011, have been pledged as collateral in favour of National Clearing Company of Pakistan Limited against exposure margins and mark to market losses.

6.1.4 Investments 'at fair value through profit or loss' upon initial recognition
Shares of listed companies, a bank and a fund.

Name of the investee company	As at July 1, 2010	Purchases during the year	Bonus issue	Sales during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain / (loss) as at June 30, 2011	Percentage of total market value of investments
									Number of Shares
Banks									
Meezan Bank Limited (an associate of the Fund)	6,442,118	-	808,691	1,050,844	6,199,965	78,444	108,316	29,872	2.75
Equity Investment Instruments									
Al Meezan Mutual Fund Limited (an associate of the Fund)	19,570,700	-	-	11,090,510	8,480,190	56,393	94,130	37,737	2.39
General Industrials									
Packages Limited	374	-	-	-	374	44	41	(3)	-
Pharma and Bio Tech									
GlaxoSmithKline Pakistan Limited	1,093	-	-	1,093	-	-	-	-	-
Grand total						134,881	202,487	67,606	
Total cost of Investments							188,400		

6.2 Investments - 'available for sale'
6.2.1 Shares of listed companies

Name of the investee company	As at July 1, 2010	Purchases during the year	Bonus issue	Sales during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain / (loss) as at June 30, 2011	Percentage of total market value of investments
	Number of Shares				Rupees in '000			%	
Automobile and Parts									
Indus Motor Company Limited	5,000	147,168	-	-	152,168	35,342	33,477	(1,865)	0.85
Pak Suzuki Motor Company Limited	-	37,105	-	-	37,105	2,727	2,321	(406)	0.06
									0.91
Banks									
Meezan Bank Limited (an associate of the Fund)	1,906,917	2,497,195	384,619	440	4,788,291	71,317	83,651	12,334	2.13
Chemicals									
Fauji Fertilizer Bin Qasim Limited	4,750,000	-	-	4,646,858	103,142	2,524	4,347	1,823	0.11
Fauji Fertilizer Company Limited	105,000	4,000,000	8,250	72,000	4,041,250	621,591	607,602	(13,989)	15.45
ICI Pakistan Limited	1,400,000	1,108,934	-	206,983	2,301,951	296,357	349,551	53,194	8.89
Lotte Pakistan PTA Limited	-	4,095,000	-	4,095,000	-	-	-	-	-
									24.45
Construction and Materials									
Attock Cement Pakistan Limited	282,631	21,500	-	-	304,131	19,798	14,759	(5,039)	0.38
DG Khan Cement Company Limited	-	3,431,884	-	353,802	3,078,082	75,085	70,765	(4,320)	1.80
Lucky Cement Limited	2,007,720	1,218,918	-	150,000	3,076,638	203,940	217,949	14,009	5.54
									7.72
Electricity									
Hub Power Company Limited	-	6,473,434	-	389,648	6,083,786	223,746	228,142	4,396	5.80
Kot Addu Power Company Limited	-	250,000	-	250,000	-	-	-	-	-
									5.80
Fixed Line Telecommunication									
Pakistan Telecommunication Company Limited "A"	9,440,672	1,195,000	-	6,356,663	4,279,009	76,052	60,848	(15,204)	1.55
General Industrials									
Packages Limited	1,201,745	115,712	-	172,668	1,144,789	137,219	125,927	(11,292)	3.20
Thal Limited (note 6.1.2)	20	-	4	-	24	2	2	-	-
Tri-Pack Films Limited	10	-	-	-	10	1	2	1	-
									3.20
Oil and gas									
National Refinery Limited	404,351	98,247	-	502,598	-	-	-	-	-
Oil and Gas Development Company Limited (note 6.1.3)	1,379,000	1,967,381	-	1,319,423	2,026,958	280,658	310,105	29,447	7.89
Pakistan Oilfields Limited	761,800	592,806	-	280,000	1,074,606	296,408	385,794	89,386	9.81
Pakistan Petroleum Limited	1,347,000	358,000	269,400	65,000	1,909,400	315,811	395,380	79,569	10.05
Pakistan State Oil Company Limited	727,646	115,000	-	35,000	807,646	213,577	213,687	110	5.43
									33.18
Pharma and Bio Tech									
Glaxo Smithkline Pakistan Limited	40,000	-	-	40,000	-	-	-	-	-
Grand total						2,872,155	3,104,309	232,154	
Total cost of Investments						2,872,155			

	Note	2011	2010
		(Rupees in '000)	
7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES			
Advance tax recoverable		-	76
Security deposits		2,600	2,600
Profit receivable on savings accounts with banks		39,885	8,048
		<u>42,485</u>	<u>10,724</u>

**8. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED
(Al Meezan) - management company of the Fund**

Management fee	8.1	7,418	6,607
Sales load payable		2,101	792
Certificate charges payable		5	5
		<u>9,524</u>	<u>7,404</u>

8.1 Under the provisions of NBFC Regulations, 2008, the management company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the management company has been charged at the rate of two percent per annum for the year ended June 30, 2011.

**9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED
(CDC) - trustee of the Fund**

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

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

This represents annual fee at the rate of 0.095% of the average annual net assets of the Fund payable to SECP under regulation 62 read with Schedule II of NBFC Regulations, 2008.

	Note	2011	2010
		(Rupees in '000)	
11. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		405	380
Withholding tax payable		440	291
Charity payable	11.1	7,967	7,197
Printing charges payable		526	594
Workers' Welfare Fund	12	-	24,242
Zakat payable		152	435
		<u>9,490</u>	<u>33,139</u>

11.1 According to the instructions of the shariah adviser, any income earned by the Fund from investments whereby portion of the investment of investee company has been made in shariah non-compliant avenues, such proportion of income of the Fund from those investments should be given away for charitable purposes directly by the Fund. Accordingly, an amount of Rs 7.967 million (2010: Rs 7.197 million) is outstanding in this regard after making charity payments of Rs 4.900 million (2010: Rs 6.200 million) to renowned charitable institutions. None of the directors of the management company of the Fund were interested in any of donees.

12. CONTINGENCY

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, during the year ended June 30, 2010, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

During the year, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Notices of demand have also been issued to several other mutual funds and the matter has been taken up by the mutual fund industry with the FBR for their withdrawal.

On December 14, 2010, the Ministry has filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in the Court.

However, the Management Company believes that the aforementioned constitutional petition pending in the Court has strong grounds for decision in favour of the mutual funds. Accordingly, the management has reversed the liability recognised as at June 30, 2010 amounting to Rs 24.242 million, during the current year. The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs 44.889 million.

There were no other contingencies and commitments outstanding as at June 30, 2011.

13. CLASSES OF UNITS IN ISSUE

13.1 The Fund may issue the following classes of units:

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

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

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

13.3 The units in issue as at June 30, 2011 and 2010 in each class and their par values were as follows:

Class	2011		2010	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
A				
- Growth units	-	-	6,066,004	303,300
B				
- Growth units	87,125,998	4,356,300	79,687,611	3,984,381
- Income units	80,777	4,039	137,425	6,871
Total	<u>87,206,775</u>	<u>4,360,339</u>	<u>85,891,040</u>	<u>4,294,552</u>

14. AUDITORS' REMUNERATION

	2011 (Rupees in '000)	2010 (Rupees in '000)
Audit fee	295	280
Half yearly review	125	125
Other certifications and services	135	125
Out of pocket expenses	63	72
	<u>618</u>	<u>602</u>

15. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the holding company of the management company and Al Meezan Mutual Fund Limited, Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund, Meezan Capital Protected Fund - I, Meezan Capital Protected Fund - II Meezan Sovereign Fund, 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 being the associated company of the management company.

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

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

Details of transactions with connected persons and balances with them for the year ended June 30, 2011 and as of that date alongwith comparatives are as follows:

	2011	2010
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration payable	7,418	6,607
Sales load payable	2,101	792
Certificate charges payable	5	5
Investment of 1,132,717 units (June 30, 2010: 3,674,477 units)	58,414	169,651
Al Meezan Mutual Fund Limited		
Investment in 8,480,190 shares (June 30, 2010: 19,570,700 shares)	94,130	130,145
Meezan Bank Limited		
Bank balance	115,346	18,762
Sales load payable	434	79
Investment in 10,988,256 shares (June 30, 2010: 8,349,035 shares)	191,967	121,479
Investment of 8,996,011 units (June 30, 2010: 7,242,403 units)	463,924	334,382
CDC - trustee of the Fund		
Trustee fee payable	453	413
CDS Charges payable	15	14
Directors and executives of the management company		
Investment of 2,190,174 units (June 30, 2010: 1,726,021 units)	112,948	79,690
	For the year ended June 30,	
	2011	2010
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration for the year	85,531	86,748
Bonus units issued: 889,704 units (2010: nil units)	33,070	-
Units issued: 875,255 units (2010: nil units)	40,000	-
Redemptions: 4,306,719 units (2010: 2,690,965 units)	208,775	127,000

For the year ended
June 30,

Al Meezan Mutual Fund Limited

	2011	2010
Dividend income	11,465	19,571
11,090,510 shares sold during the year (June 30, 2010: nil)	77,663	-

Meezan Bank Limited

	2011	2010
Profit on savings accounts	483	379
Bonus units issued: 1,753,608 units (2010: nil units)	65,182	-
1,193,310 bonus shares received (June 30, 2010: 385,712 shares)	-	-
2,497,195 shares purchased during the year (June 30, 2010: 1,828,017 shares)	41,567	29,608
1,051,284 shares sold during the year (June 30, 2010: 371,710 shares)	18,855	4,254

CDC - trustee of the Fund

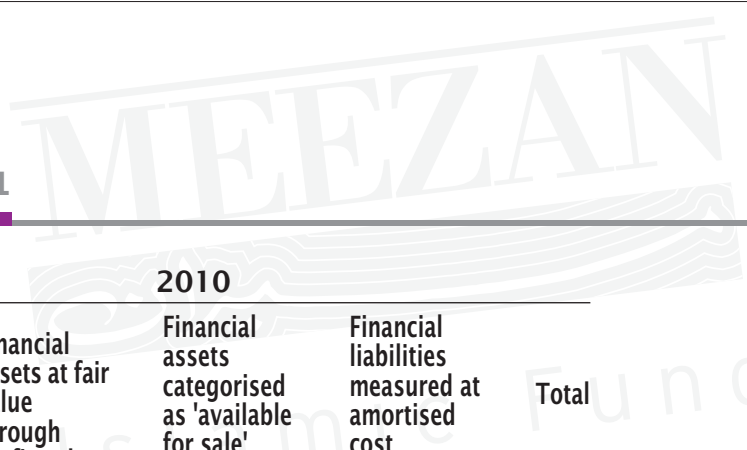
	2011	2010
Trustee fee	5,277	5,337
CDS charges	114	137

Directors and executives of the management company

	2011	2010
Bonus units issued: 417,923 units (2010: nil units)	15,534	-
Units issued: 602,491 units (2010: 74,994 units)	30,491	3,421
Redemptions: 556,261 units (2010: 149,581 units)	27,060	6,799

16. FINANCIAL INSTRUMENTS BY CATEGORY

	2011				
	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost	Total
(Rupees in '000)					
On balance sheet - financial assets					
Balances with banks	589,166	-	-	-	589,166
Investments	-	828,071	3,104,309	-	3,932,380
Dividend receivable	22,196	-	-	-	22,196
Deposits and other receivables	42,485	-	-	-	42,485
	<u>653,847</u>	<u>828,071</u>	<u>3,104,309</u>	<u>-</u>	<u>4,586,227</u>
On balance sheet - financial liabilities					
Payable to Al Meezan					
- management company of the Fund	-	-	-	9,524	9,524
Payable to CDC - trustee of the Fund	-	-	-	468	468
Payable to MBL	-	-	-	434	434
Payable on redemption of units	-	-	-	10,627	10,627
Payable against purchase of investments	-	-	-	54,536	54,536
Accrued expenses and other liabilities	-	-	-	931	931
	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,520</u>	<u>76,520</u>



	2010				
Loans and receivables	Financial assets at fair value through profit or loss	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost	Total	
------(Rupees in '000)-----					
On balance sheet - financial assets					
Balances with banks	352,749	-	-	-	352,749
Investments	-	1,987,091	1,657,668	-	3,644,759
Receivable against sale of investments	15	-	-	-	15
Dividend receivable	18,049	-	-	-	18,049
Deposits and other receivables	10,648	-	-	-	10,648
	<u>381,461</u>	<u>1,987,091</u>	<u>1,657,668</u>	<u>-</u>	<u>4,026,220</u>
On balance sheet - financial liabilities					
Payable to Al Meezan	-	-	-	7,404	7,404
- management company of the Fund	-	-	-	427	427
Payable to CDC - trustee of the Fund	-	-	-	79	79
Payable to MBL	-	-	-	13,748	13,748
Payable on redemption of units	-	-	-	1,468	1,468
Payable against purchase of investments	-	-	-	974	974
Accrued expenses and other liabilities	-	-	-	24,100	24,100
	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,100</u>	<u>24,100</u>

17. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies:

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.

Risks of the Fund 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, 2008 and the directives issued by the SECP.

Risks managed and measured by the Fund are explained below:

17.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted.

Credit risk arises from deposits with banks and financial institutions, credit exposure arising as a result of dividends receivable on equity securities and receivable against sale of investments.

Credit risk arising on financial assets is monitored through a regular analysis of financial position of brokers and other parties. Credit risk on dividend receivable is minimal due to statutory protection. 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 Committee 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, 2011 and 2010 along with comparative is tabulated below:

	2011	2010
	(Rupees in '000)	
FINANCIAL ASSETS		
Balances with banks	589,166	352,749
Receivable against sale of investments	-	15
Dividend receivable	22,196	18,049
Deposits and other receivables	42,485	10,648
	<u>653,847</u>	<u>381,461</u>

17.1.1 The percentage of bank balances along with credit ratings are tabulated below:

	2011	2010
	(%)	
AAA	0.17	0.09
AA+	52.71	93.91
AA	1.83	0.00
AA-	19.64	5.32
A	25.65	0.67
A-	0.00	0.01
	<u>100.00</u>	<u>100.00</u>

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

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

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

In accordance with regulation 58(1)(k) of the NBFC Regulations 2008, the Fund has the ability to borrow funds for meeting the redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen per cent of the net assets which amounts to Rs 674.563 million as on June 30, 2011 (2010: Rs 594.887 million). However, no such borrowing has been obtained during the year.

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

An analysis of the Fund's liabilities into relevant maturity grouping as at June 30, 2011 and 2010 is tabulated below:

	Maturity upto				2011 Total	2010 Total
	Three months	six months	one year	More than one year		
	----- (Rupees in '000) -----					
Payable to Al Meezan						
- management company of the Fund	9,524	-	-	-	9,524	7,404
Payable to CDC - trustee of the Fund	468	-	-	-	468	427
Payable to MBL	434	-	-	-	434	79
Payable on redemption of units	10,627	-	-	-	10,627	13,748
Payable against purchase of investments	54,536	-	-	-	54,536	1,468
Accrued expenses and other liabilities	931	-	-	-	931	974
2011	<u>76,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,520</u>	<u>24,100</u>
2010	<u>24,100</u>	<u>-</u>	<u>-</u>	<u>-</u>		

17.3 Market risk

17.3.1 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 the maximum return to the unit holders from investment in shariah compliant investments for the given level of risks. The Fund's market risk is managed on a daily basis by the Fund manager in accordance with the policies and procedures laid down by the SECP. Further, it is managed by monitoring exposure to marketable securities and by complying with the internal risk management policies and regulations laid down in NBFC Regulations, 2008.

Details of the Fund's investment portfolio exposed to price risk, at the reporting date are disclosed in note 6 to these financial statements. At June 30, the Fund's overall exposure to price risk is limited to the fair value of those positions. The Fund manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weighting to that of the Karachi Meezan Index 30 index (KMI). 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 Rs 3.437 million (2010: increase / decrease approximately Rs. 2.353 million) if the prices of equity vary due to increase / decrease in KMI. This is based on the assumption that the fair value of the Fund's portfolio moves according to their historical correlation with KMI and that KMI increases / decreases by 10 points with all other factors held constant.

The Fund manager uses KMI as a reference point in making investment decisions. However, the Fund manager does not manage the Fund's investment strategy to track KMI or any other index or external benchmark. The sensitivity analysis presented is based upon the portfolio composition as at June 30 and the historical correlation of the securities comprising the portfolio to the KMI. The composition of the Fund's investment portfolio and the correlation thereof to KMI, 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 KMI.

17.3.2 Interest rate risk

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

Cash flow interest rate risk

The fund's interest risk arises from the balances in savings accounts.

During the year ended June 30, 2011, the net income would have increased / (decreased) by Rs 5.858 million (2010: Rs 3.511 million) had the interest rates on profit and loss savings accounts increased / (decreased) by 100 basis points.

18. 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 objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders.

In accordance with NBFC Regulations 2008, the Fund is required to distribute at least ninety percent of its income from sources other than unrealised capital gain as reduced by such expenses as are chargeable to the Fund. Further, the Fund is also prohibited to lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person.

In accordance with risk management policies stated in note 17, 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.

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets (e.g. listed shares) are based on the quoted market prices at the close of trading on the year end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All the financial assets of the Fund are classified under level 1 as at June 30, 2011.

20. PERFORMANCE TABLE

	2011	2010	2009	2008
Net assets (Rs. '000) (ex-distribution)*	4,496,277	3,964,673	3,737,293	6,033,639
Net assets value / redemption price per unit as at June 30 (Rs.) (ex-distribution)*	41.57	37.17	35.28	50.05
Offer price per unit as at June 30 (Rs.) (ex-distribution)*	42.53	38.03	36.09	51.20
Highest offer price per unit (Rs.)	53.85	53.59	49.30	72.73
Lowest offer price per unit (Rs.)	38.31	37.66	22.39	56.03
Highest redemption price per unit (Rs.)	52.64	52.38	48.19	71.10
Lowest redemption price per unit (Rs.)	37.45	36.81	21.89	54.77
Distribution (%)	20.00	18.00	-	20.00
Date of distribution	July 7, 2011	July 7, 2010	-	July 7, 2008
Income distribution (Rupees in '000)	808	1,237	-	829
Growth distribution (Rupees in '000)	871,260	771,783	-	1,004,058
Total return (%)	38.74	30.87	(29.51)	0.27

* The distribution is not accounted for in these financial statements as also explained in note 23.

	One Year	Two Year	Three Year	Four Year
Average annual return as at June 30, 2011	38.74%	34.75%	8.57%	6.44%

Investment portfolio composition of the Fund

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

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate as described in note 17.

21. INVESTMENT COMMITTEE MEMBERS

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

	Designation	Qualification	Experience in years	
1.	Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Twenty-one years
2.	Mr. Muhammad Asad	Chief Investment Officer / Fund Manager	CFA level II / MBA	Fifteen years
3.	Mrs. Sanam Ali Zaib	Head of Research	CFA level II / MBA	Seven years
4.	Miss Madiha Jawed	Manager Research and Product Development	CFA / BBA / FRM	Four years
5.	Mr. Muhammad Ali	AVP Investments	CFA / FRM / MBA / MS	Seventeen years
6.	Mr. M. Farhan Lakhani	Manager Research and Investment	CFA Level 2 / BBA	Two years

21.2 The fund manager of the Fund is Mr. Muhammad Asad. Other funds being managed by the fund manager are as follows:

- Al Meezan Mutual Fund
- Meezan Tahaffuz Pension Fund

22. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present therein					
		July 7, 2010	Aug 17, 2010	Sep 28, 2010	Oct 19, 2010	Jan 24, 2011	April 21, 2011
Mr. Ariful Islam	Chairman	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib, CFA	Chief Executive	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Aliuddin Ansari	Director	No	Yes	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Rana Ahmed Humayun	Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Rizwan Ata	Director	No	No	Yes	No	No	No
Mr. Mazhar Sharif	Director	Yes	Yes	Yes	Yes	Yes	Yes

23. NON ADJUSTING EVENTS

The Board of Directors in its meeting held on July 7, 2011 has announced a payout of 20% of par value (2010: 18%) amounting to Rs 872.068 million (2010: Rs.773.020 million) equivalent to 20,958,864 bonus units (2010: 20,763,587 bonus units) and cash dividend of Rs.0.808 million (2010: Rs.1.237 million). The financial statements for the year ended June 30, 2011 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ended June 30, 2012.

	2011	2010
	Number of units	
The effect of issue of bonus units is as follows:		
Number of units in issue before bonus units	<u>87,206,775</u>	<u>85,891,040</u>
Number of units in issue after bonus units	<u>108,165,639</u>	<u>106,654,627</u>
	Rupees	
Net assets value per unit before distribution	<u>51.57</u>	<u>46.17</u>
Net assets value per unit after distribution	<u>41.57</u>	<u>37.17</u>

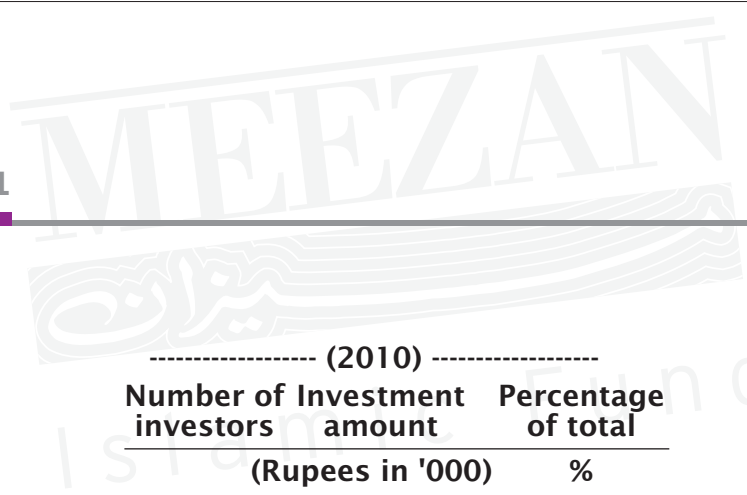
24. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE

Broker's Name	2011 %
1. KASB Securities Limited	13.24
2. Foundation Securities (Private) Limited	10.74
3. Invest and Finance Securities (Private) Limited	9.09
4. Invest Capital Investment Bank Limited	8.43
5. BMA Capital Management Limited	7.90
6. JS Global Capital Limited	6.54
7. Arif Habib Securities Limited	5.94
8. Topline Securities (Pvt.) Limited	5.81
9. Invisor Securities (Private) Limited	5.15
10. Taurus Securities Limited	4.70

Broker's Name	2010 %
1. KASB Securities Limited	17.38
2. Foundation Securities (Private) Limited	13.06
3. Invest and Finance Securities (Private) Limited	12.34
4. Invisor Securities (Private) Limited	7.33
5. Invest Capital Investment Bank Limited	7.28
6. Ample Securities (Private) Limited	6.41
7. BMA Capital Management Limited	5.64
8. JS Global Capital Limited	5.47
9. Standard Capital Securities Limited	3.33
10. Arif Habib Securities Limited	3.08

25. PATTERN OF UNITHOLDING

	----- (2011) -----		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total %
Individuals	3,761	2,211,869	49.18
Associated companies / directors	4	625,851	13.92
Insurance companies	4	292,880	6.51
Banks / DFIs	3	7	0.00
NBFCs	1	2,451	0.05
Retirement funds	98	1,234,347	27.45
Public limited companies	27	88,719	1.98
Others	13	40,961	0.91
Total	3,911	4,497,085	100.00



	----- (2010) -----		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total %
Individuals	3,905	1,937,409	48.85
Associated companies / directors	4	578,769	14.59
Insurance companies	4	191,634	4.83
Banks / DFIs	4	15,599	0.39
NBFCs	1	9,065	0.23
Retirement funds	114	1,135,798	28.64
Public limited companies	28	34,882	0.89
Others	21	62,754	1.58
Total	<u>4,081</u>	<u>3,965,910</u>	<u>100.00</u>

26. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 16, 2011 by the board of directors of the management company.

27. GENERAL

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

Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)

Mazhar Sharif
Director