

Annual Report 2012

Meezan Islamic
Fund (MIF)

Al Meezan Mutual
Fund (AMMF)

KSE-Meezan Index
Fund (KMIF)

Meezan Islamic
Income Fund (MIIF)

Meezan Sovereign
Fund (MSF)

Meezan Cash Fund
(MCF)

Meezan Capital Protected
Fund (MCPF-II)



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VISION

"To promote professional fund management through development and implementation of Shariah compliant investment products, policies and practices designed to meet the investment objectives of the investors".

MISSION

"To be the leading Shariah compliant asset management company providing quality service to institutional and individual investors utilizing modern techniques of portfolio management, proactive asset allocation and prudent security selection while maintaining high standards of ethical and professional conduct".

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited is pleased to present the audited annual financial statements of the following open end funds for the year ended June 30, 2012:

Open End Funds

Equity Funds

- Meezan Islamic Fund
- Al Meezan Mutual Fund
- KSE-Meezan Index Fund

Income/ Money Market and Capital Protected Funds

- Meezan Islamic Income Fund
- Meezan Sovereign Fund
- Meezan Cash Fund
- Meezan Capital Protected Fund -II

Economic Review

Amid rising macroeconomic challenges, the outgoing fiscal year 2012 continued to be marred with energy crisis, structural weakness and heightened security environment. Various challenges namely floods, rising fuel and commodity prices, global recessionary trends and weak inflows restricted country's economic output. Despite these challenges, the country managed to post GDP growth of 3.7% slightly below the envisioned target of 4.2% but is a slight improvement from 3.0% reported in FY11. But on a flip side, it compares unfavorably with last 10-years average GDP growth of 4.8% and last 65-years GDP growth of 5.0%. Overall, last 4-years average GDP growth stood at 2.9% which is the lowest 4-yearly average economic growth in the history of Pakistan.

Positivity was added as inflation for the entire year remained within the government target and this is attributable to the government's smart tactic of rebasing the year. Average CPI inflation in FY12 stood at 11.0% as against 13.7% last year. As a result, SBP slashed the discount rate by 200 bps in two phases (first half of FY12) with hopes of witnessing an upward momentum in private sector credit off-take. But much to the despair, things did not turn out as expected and government borrowing for the year touched the peaks of Rs. 1.2 trillion. But in the latter half of fiscal year, slippages on fiscal side and heavy government borrowing posed a key challenge to the liquidity position, thereby limiting further reduction in the discount rate, and therefore the policy rate was kept unchanged. Despite these structural weaknesses, record level of revenue collection was made during the year, showcasing a growth of 23% with amount clocking in at Rs. 1,910 billion, missing the target by a mere Rs. 42 billion.

Like the previous year, risk to macroeconomic stability came from financing the rising external and fiscal account deficit. Slowdown in global economy along with adverse commodity price movement (increase in international crude oil prices coupled with decline in cotton prices) further weakened country's external account, which was already facing the risk of reduced support from financial account. During FY12, country's current account deficit stood at US\$4.5bn as against a surplus of US\$214mn last year, with imports depicting a growth of 12% to US\$40.0bn while exports declined by 3% to US\$24.6bn. Remittances turned out to be the sole factor supporting the worsening current account and posted record high growth of 17% at US\$ 13 billion.

While the magnitude of current account deficit was manageable compared to historical highs, subdued foreign investment along with the daunting task of IMF loan repayments amounting to US\$1 billion dragged down foreign exchange reserves which declined to US\$ 15 billion from all time high levels of US\$18.3bn in July 2011. This was also reflected in sharp currency move as rupee lost 10% during the fiscal year to close in Rs. 94.65/USD.

On the fiscal side, structural weaknesses continued to escalate the deficit with government reporting a revised estimate of 7.4% of GDP or (Rs1.5tn) in the Federal Budget FY13. In addition, below than envisioned non tax revenue collection due to non materialization of CSF (Coalition Support Fund) and 3G auction, higher subsidy payments and budget deficit instead of budget surplus also played their part in the role. Going forward we expect that the country will witness some respite in FY13 on the external front. The situation is expected to improve in FY13 on the back of receipt of funds in the tune of US\$ 1.2 billion with regards to coalition support funds (CSF) post re-opening of NATO supplies, along with a recent decline in international crude prices. The most daunting task which the country will face during the year pertains to the hefty repayments to be made to IMF under the SBA agreement and they could pose a serious threat to the forex reserve and Pakistani rupee if the foreign inflows don't materialize.

Equity Market Review

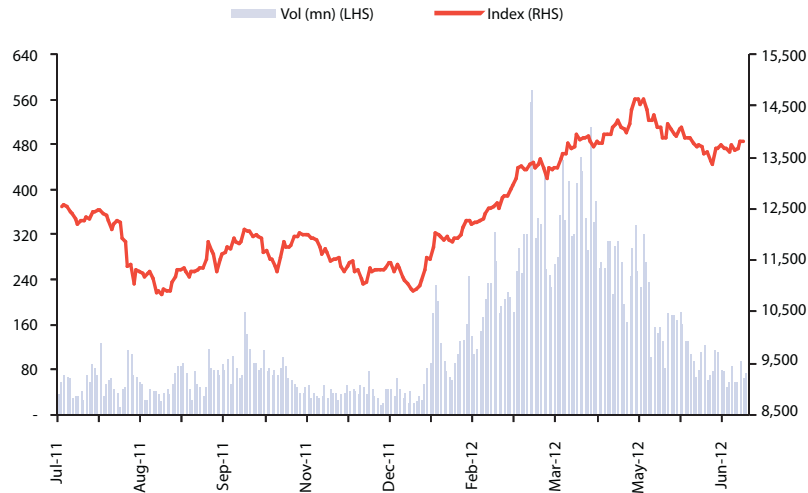
During the outgoing fiscal year June 2012 KSE 100 index witnessed a modest return of 10.5% to close at the level of 13,801. Economic slowdown, turmoil in global financial markets, political uncertainty and strained US relations remained the major factors behind lower than historical gains during FY12. The performance, however, was completely skewed towards the second half of FY 12. First half of the year (July to December) was marked by slowdown and the index lost over 9%. However, a spectacular rally in second half (January to June) yielded gain of 20%. The market was able to recoup the loss of 9.2% of first half and still gain 10% on account of potential changes in CGT regime. This also helped in improvement in average daily volumes which slightly improved to 128mn shares during FY12 as compared to 95mn shares during FY11. KSE Meezan Islamic Index (KMI 30), on other hand, appreciated by 13.6% during the fiscal year FY12 to close at the level of 23,776.

The fiscal year started with the continuation of concerns over CGT issue combined with the lack of leverage product. This pushed the market into a dull phase in the first half of the fiscal year where the market slumped by 9% and the average daily traded volume declining to a paltry 60mn shares a day. But a revival in fortunes was witnessed with the start of the calendar year when the Finance Minister announced the relief measures on CGT during mid January, accepting all proposals of the SECP in this regard. The proposals included 1) no questions on source of funds invested in the stock market till Jun 2014; 2) freezing of CGT rates at current levels; 3) abolishing withholding tax on sale transactions; and 4) centralized collection and calculation of CGT (shielding individual investors from hassle of paperwork and interaction with tax authorities). In the midst of rising oil prices and noisy politics (both on the domestic and international front) the market rallied on the back of favorable CGT proposal and hence remained immune with KSE-100 index making a high of 14,617 in early part of May 2012.

However, the vibrancy started to fade away towards the end of the fiscal year, due to 1) disqualification of the Prime Minister of Pakistan by the Supreme Court for not writing a letter to Swiss authorities for the re-opening of graft cases against President; 2) a delay in re-setting of ties with the US, where the re-opening of NATO supply routes remained elusive, casting doubts over the outlook for expected sovereign flows and 3) dwindling macros most reflected in the currency weakness witnessed toward the end of the year. This resulted in KSE 100 index to go down below the 14,000 psychological barrier and closed at the level of 13,801 for the year, thereby posting an overall return of 10.5% in FY12.

Sector Performance

The sectors that remained in limelight during the fiscal year were cement sector followed by fertilizer sector with the exception of Engro where the company's new plant continued to face the brunt of gas shortage. Oil sector was the major underperformer where all the first tier stocks failed to generate investors' interest on account of various international and domestic issues. In light of these factors, third tier scripts remained in public eye as the preferred stocks to generate market activity.



Regional Performance & Foreign Flows

Having to grapple with the Euro zone crisis at home, foreign managers quit the emerging market; however, the performance of Karachi bourse was better as compared to other markets. Amongst 12 countries in Asian Emerging and Frontier markets, Pakistan was 3rd best performing market in FY12.

The impressive performance also saw a revival in foreign interest where decent flows were witnessed in FY12 from offshore clients. Foreigners bought shares worth US\$730mn and sold US\$920mn with net selling amounting to US\$190mn. This also includes the Hubco block sale of US\$129mn by two of its foreign sponsors, Xenel and International Power.

All the categories of local investors except mutual funds remained net buyers throughout FY12. Individuals bought highest worth of shares amounting to US\$166 million, followed by banks and others which bought shares worth US\$39 million and US\$23 million respectively. Mutual Funds during the period sold shares worth US\$70 million, while foreigners remained net sellers of US\$190 million during the period.

Money Market Review

In FY 12, the money market remained highly illiquid. To normalize the liquidity situation, State Bank of Pakistan (SBP) regularly conducted open market operations (OMOs). During the period, SBP conducted twenty six T-Bill auctions, nine PIB auctions and four Ijarah Sukuk auctions. Cumulatively, SBP accepted Rs 3,086 billion and Rs 209 billion in T-Bills and PIBs respectively. In the Ijarah Sukuk auction, SBP accepted Rs 187 billion at par against the total participation of Rs 248 billion.

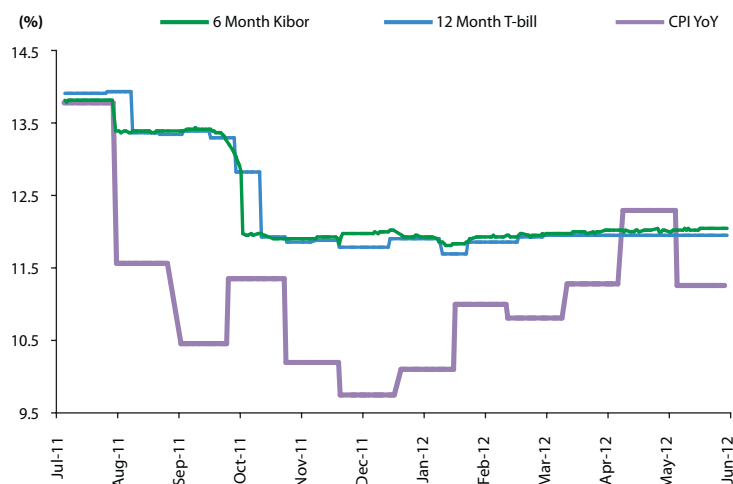
Moreover, lower inflation figures owing to the rebasing of year enabled the State Bank to adopt a softer monetary stance, with discount rate witnessing a reduction of 200 basis points, in two phases. As a result, the cutoff rates of T-Bill (six months paper) and PIBs (10 year bond) declined by 182 basis points and 70 basis points respectively to close at 11.94% and 13.38% in the FY 2012. In line with that, six month KIBOR also declined by 174 basis points to close at 12.06%.

On the forex front, Rupee remained under immense pressure as it depreciated massively against dollar both in interbank and Kerb market by Rs 8.67 (10.08%) and Rs 9.70 (11.27%) respectively. Rupee also touched an all time low against dollar, both in the interbank and open market at Rs 94.65 and Rs 96.60 per US dollar respectively.

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



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Mutual Fund Industry Review

A growth of over 46.22% was witnessed in the open end mutual fund industry since June 2011, which reached a size of Rs. 410.2 billion for the fiscal year ending June 2012. Islamic mutual funds on the other hand grew at a rate of 32.69% during the period under review.

Major growth was witnessed in Sovereign, and Money Market funds, as well as in Shariah Compliant equity funds. Sovereign Funds posted the most growth, more than doubling from Rs. 32.3 billion in June 2011 to Rs. 88.5 billion in June 2012, translating into a growth of 173.98%. Money market funds meanwhile grew from Rs. 66.5 billion to Rs. 125.8 billion. The predominant reason for this increase was banks investing in the funds of their subsidiary AMCs.

Conventional equity funds remained more or less stagnant during the period and increased by 1.53% since July 2011 while Islamic equity funds grew at a steep 52.16% in comparison during the same period. It may be noted that KSE-100 index and KMI-30 index grew by 10.5% and 13.6% respectively.

Operational Review

Please refer to respective fund management reports for operational reviews.

Auditors

The present auditors, Messers A.F. Ferguson & Co., Chartered Accountants retire and in compliance of the recently promulgated Code of Corporate Governance, the Board of Directors on recommendation of the audit committee has appointed Messers KPMG Taseer Hadi & Co., Chartered Accountants, as the statutory auditors of the aforementioned Funds for the year ending June 30, 2013.

Outlook

The market eagerly awaits June end results on grounds that it is usually pay-out laden. However, politics will also play a role in driving the markets, with a stand-off between Supreme Court and Government and any indication of early elections holds utmost interest. This will also clarify the trade-off between pre-election considerations versus timing of a potential IMF re-entry and the impact it can have on interest rates. Re- opening of NATO supply routes led to improved relationship with US which will have a positive impact on the economy. Decline in international commodity prices specifically oil, will provide relief with reduced trade deficit.

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, SBP has decreased discount rate by 150 bps in its monetary policy in August, 2012. Although the implementation of capital gain tax 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 6.3x, which is almost at a 42% discount to other regional markets. This makes KSE an attractive option for foreign investors. The decline in interest rates should also lead to more inflows from domestic investors chasing for higher yields.

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.
- 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:

Meezan Islamic Fund

Trades by	Designation	No. of units Invested	No. of units redeemed
Mr. Tasnim ul Haq Farooqui	Director	683	-
Mr. Mohammad Shoaib, CFA	CEO	557,145	91,366

Meezan Islamic Income Fund

Trades by	Designation	No. of units Invested	No. of units redeemed
Mr. Mazhar Sharif	Director	-	11,408
Syed Amir Ali	Director	9,709	-
Mr. Salman Sarwar Butt	Director	5,048	-

Meezan Cash Fund

Trades by	Designation	No. of units Invested	No. of units redeemed
Mr. Mazhar Sharif	Director	-	290,030
Syed Amir Ali	Director	1,334	1,394
Mr. Mohammad Shoaib, CFA	CEO	199,521	199,442
Mr. Tasnimul Haq Farooqui	Director	36,687	-



Meezan Sovereign Fund

Trades by	Designation	No. of Units Invested	No. of Units Redeemed
Mr. Ariful Islam	Chairman	566,814	39,386
Mr. Mohammad Shoaib, CFA	CEO	505,817	714,762
Syed Owais Wasti	CFO	18,435	987
Mr. Mazhar Sharif	Director	457,036	10,407
Mr. Tasnim ul Haq Farooqi	Director	10,049	-
Syed Amir Ali	Director	66,251	9,852

Al Meezan Mutual Fund

Trades by	Designation	No. of Units Invested	No. of Units Redeemed
Mr. Mohammad Shoaib, CFA	CEO	1,234,159	-

KSE Meezan Index Fund

Trades by	Designation	No. of units Invested	No. of units redeemed
Mr. Mohammad Shoaib, CFA	CEO	20,000	-

Meezan Capital Protected Fund - II

Nil

- Pattern of holding of units is given at the end of report of respective Fund.
- Financial highlights are given in notes to the financial statements of respective Fund.

Board of Directors and Board Committee Meetings

Detail of Board meetings and attendance therein is provided in the financial statements.

Details of meetings and attendance of members in Board Audit Committee meeting during the year is as follows:

Names	Designation	August 16, 2011	September 28, 2011	October 24, 2011	February 22, 2012	April 26, 2012
Mr. Ariful Islam*	Chairman	No	Yes	Yes	No	No
Mr. P. Ahmed*	Member / Chairman	Yes	Yes	No	Yes	Yes
Mr. Mazhar Sharif	Member	Yes	Yes	Yes	Yes	Yes
Syed Amir Ali*	Member	No	No	No	Yes	Yes

* Mr. Ariful Islam resigned from the audit committee as Chairman and the member. In his place, Mr. P. Ahmed was appointed as Chairman and Syed Amir Ali as the member of the audit committee.



During the year, the Board in its meeting held on February 23, 2012 formed Human Resource & Remuneration Committee to comply with the requirements of Code of Corporate Governance. Mr. Salman Sarwar Butt was appointed as Chairman while Mr. Tasnim ul Haq Farooqi and Mr. Mazhar Sharif were appointed as members of the Committee.

Furthermore, the Board in its meeting held on April 27, 2012 also appointed Mr. Mohammad Shoaib, CFA, Chief Executive Officer as member of the Committee. Two meetings were held on March 21, 2012 and April 27, 2012 in which all the members of the Committee were present.

Acknowledgement

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments and making it one of 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: September 21, 2012
Karachi.**

**Mohammad Shoaib, CFA
Chief Executive**



Annual Report 2012



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. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoaib, CFA	Chief Executive

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, CFA	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

Allied Bank Limited	Askari Bank Limited - Islamic Banking
Al Baraka Islamic Bank B.S.C (E.C)	Bank Alfalah Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking	Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited - Islamic Banking	Habib Bank Limited - Islamic Banking
Habib Metropolitan Bank Limited - Islamic Banking	MCB Bank Limited
Meezan Bank Limited	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 FUND MANAGER

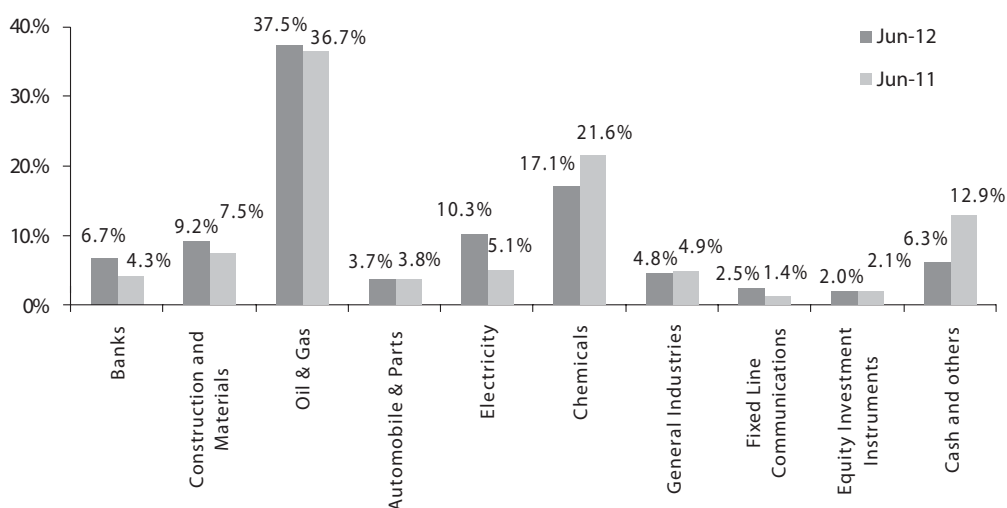
Meezan Islamic Fund (MIF) is an open end equity fund investing in Shariah compliant listed equity securities.

The objective of MIF is to provide the maximum total return to the unit holders from investment in "Shariah Compliant" investments for the given level of risk, while abiding by the Non-Banking Finance Companies Rules, 2003 and any other prevailing rules and regulations. Total return refers to returns from capital gains, realized and unrealized, and dividend income and other Shariah Compliant investments.

Strategy, Investment Policy and Asset Allocation

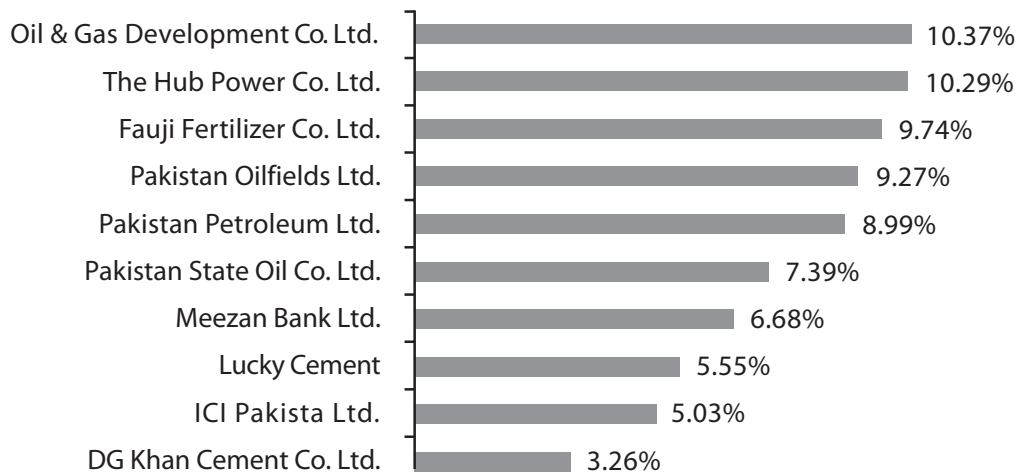
The performance of MIF is linked directly to the performance of equity market. The fund manager, Al Meezan Investment Management Limited, actively manages the fund with an aim to provide maximum risk adjusted total return to the investors. To control risk, the exposure in growth stocks is balanced against 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 fiscal year, the fund increased its equity exposure to as high as 98.25% in line with the market trend. However, it maintained an average exposure of 94.56% to equities during the year, while closing the year at 96.58%. The fund maintained heavy exposure to the oil & gas and chemical sectors taking into consideration the profitability of these sectors. The fund increased exposure in Construction and Electricity sectors.





Top Holdings



Performance Review

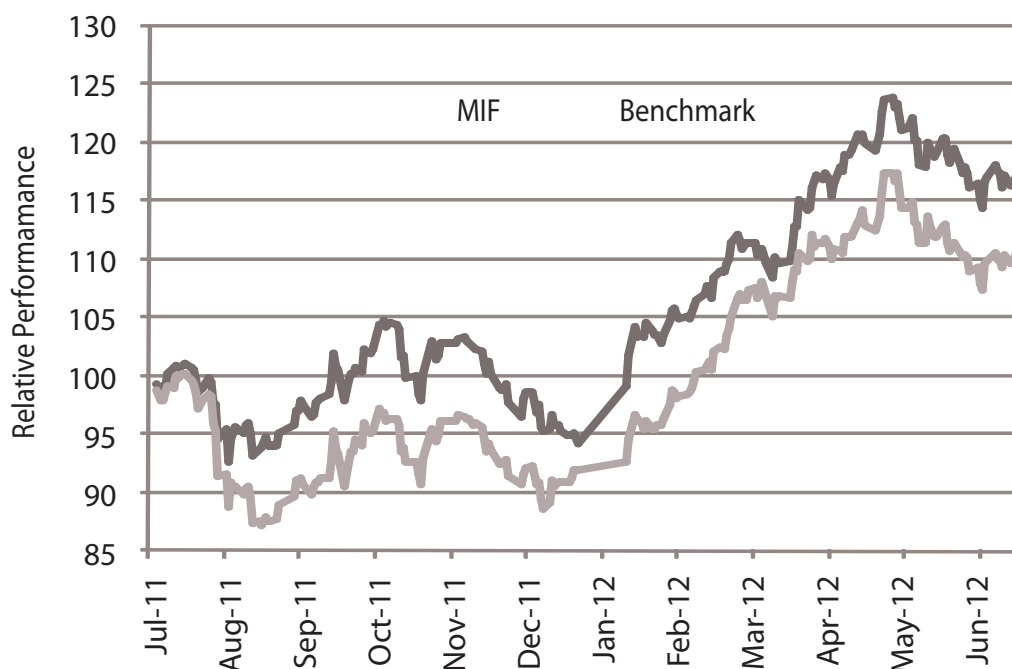
During fiscal year 2012, Meezan Islamic Fund (MIF) provided a return of 19.46% to its investors while KSE Meezan Index (KMI 30) appreciated by 13.6% to close at 23,776. The KSE 100 index during the same period closed at the level of 13,801, posting a 10.5% increase.

Meezan Islamic Fund posted a total comprehensive income of Rs. 870 million in the fiscal year 2012 as compared to Rs. 1,238 million in the last year. Total income comprised of realized gains and unrealized gain on investments of Rs. 767 million and Rs. 117 million respectively. Dividend income contributed Rs. 313 million to the income, while profit on savings account at banks amounted to Rs. 34 million. After accounting for expenses of Rs. 131 million and an element of loss and capital losses included in prices of units issued and less those in units redeemed of Rs. 3 million, the Fund posted a net profit of Rs. 1,015 million. The net assets of the Fund as at June 30, 2012 were Rs. 5,343 million as compared to Rs. 4,497 million at the end of corresponding year. The net asset value (NAV) per unit appreciated from Rs. 41.57 (dividend adjusted) to Rs. 49.66 (19.46% up) during the fiscal year 2012.

Distributions

The Board of Directors in its meeting held on July 9, 2012 approved distribution at the rate of Rs. 8.25 per unit (16.50%) out of the profits of the Fund for the year ended June 30, 2012.

	MIF	KMI-30
Opening Net Asset Value (NAV) (Dividend Adjusted) (Rupees)	41.57	20,936
Net Asset Value (NAV) as on June 30, 2012 (Rupees)	49.66	23,776
Return During the Period	19.46%	13.57%



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, 2012 an amount of Rs.5.9 million was accrued as charity payable.

Breakdown of unit holdings by size:

Range (Units)	No. of investors
1 - 9,999	3,208
10,000 - 49,999	871
50,000 - 99,999	125
100,000 - 499,999	95
500,000 and above	21
Total	4,320

Fund Rating

JCR-VIS Credit Rating Company has assigned the 'MFR 3-Star' rating to Meezan Islamic Fund.



Meezan Bank
The Premier Islamic Bank

Report of the Shar'iah Advisor –Meezan Islamic Fund

September 28, 2012/ Ziqā'ad 10, 1433

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 equity investments of MIF in light of *Shar'iah* requirements. Following is the list of investments of MIF as on June 30, 2012 and their evaluation according to the screening criteria established by us. (December 31, 2011 accounts of the Investee companies have been used).

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<37%)	(iii) % of Non-Shar'iah Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>25%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Agriauto Industries Ltd.	Automobile and Parts	0.05%	31.83%	4.86%	44%	38.14	57.50
Al Meezan Mutual Fund Ltd.	Islamic Mutual Fund			**			
Attock Cement Ltd.	Construction and Materials (Cement)	0.00%	3.63%	0.29%	89%	(18.7)	51.00
Attock Petroleum Ltd.	Oil and Gas	0.00%	4.02%	1.23%	26%	48	412.5
Bank Islami Pakistan Ltd.	Islamic Commercial Bank			**			
D.G. Khan Cement Company Ltd.	Construction and Materials (Cement)	33.52%	3.22%	4.85%	71%	(15.76)	19.03
Engro Foods Ltd.	Food Producers	34.85%	7.78%	0.01%	81%	(92.4)	22.60
Fauji Fertilizer Bin Qasim Ltd.	Chemicals	20.73%	22.00%	2.14%	56%	(9.47)	42.43
Fauji Fertilizer Company Ltd.	Chemicals	24.89%	30.55%	1.64%	56%	(24.41)	149.54

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Meezan Bank Ltd.

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



Hub Power Company Ltd.	Electricity	32.75%	0.00%	0.05%	37%	(41.87)	34.20
ICI Pakistan Ltd.	Chemicals	0.00%	0.00%	0.57%	67%	2.49	120.27
Indus Motors Company Ltd.	Automobile and Parts	0.00%	15.28%	2.18%	47%	29.90	204.80
Lucky Cement Ltd.	Construction and Materials (Cement)	16.00%	0.00%	0.00%	94%	(31.19)	75.04
Meezan Bank Ltd.	Islamic Commercial Bank	**					
Millat Tractors Ltd.	Engineering	0.04%	10.46%	0.69%	66%	3.20	365.21
National Refinery Ltd.	Oil and Gas	0.00%	1.53%	1.05%	46%	(38.82)	242.69
Oil & Gas Development Company Ltd.	Oil and Gas	0.00%	18.49%	4.24%	41%	23.88	151.62
Packages Ltd.	General Industrials	27.33%	30.40%	3.29%	61%	26.66	82.72
Pak Suzuki Motor Company Ltd.	Automobile and Parts	13.49%	0.00%	0.84%	75%	(26.76)	59.03
Pak. Telecommunication Co. Ltd.	Fixed Line Telecommunication	7.41%	2.87%	1.22%	79%	(9.25)	10.39
Pakistan Oilfields Ltd.	Oil and Gas	0.00%	3.33%	4.09%	69%	2.10	346.45
Pakistan Petroleum Ltd.	Oil and Gas	0.12%	32.60%	4.68%	35%	50.64	168.32
Pakistan State Oil Company Ltd.	Oil and Gas	5.09%	0.00%	0.27%	33%	(316.41)	227.21
Thal Ltd.	General Industrials	14.43%	2.88%	2.40%	83%	(78.43)	81.80
Tripak Films Ltd.	General Industrials	26.50%	4.24%	0.16%	70%	(69.73)	160.30
Unilever Pakistan	Food Producers	2.02%	0.97%	0.08%	78%	(625.22)	5,565.0

* All interest based debts.

** These ratios are for the calculation of non-*Shar'iah* Compliant elements 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, 2012 have been in compliance with the *Shar'iah* principles.

During the year a provision of Rupees 4.463 million was created and an amount of Rupees 5.521 million was disbursed into charity.

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.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400. Pakistan.
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URL: www.cdcpakistan.com
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ISO 27001 Certified

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

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Islamic Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 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.

A handwritten signature in black ink, appearing to read 'Muhammad Hanif Jakhura', is written over the printed name.

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

Karachi, October 05, 2012



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

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 management company has applied the principles contained in the CCG in the following manner:

1. The management company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed Mr. Salman Sarwar Butt
Executive Director	Mr. Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies including the management company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the 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 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on February 16, 2012 was filled up by the directors within 30 days.
5. The Management Company has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the management company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors of the Company is pursuing the 'Directors Training Certification' and such certification shall be completed in the ensuing year.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.



11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including the CEO, all other members are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Fund, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Mohammad Shoaib, CFA
Chief Executive

Karachi
September 21, 2012



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, 2012 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

Further, regulation (x) of the Listing Regulations No. 35 notified by 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 and have ensured compliance of requirement to the extent of approval of 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 prices 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 status of the Management Company's compliance for and on behalf of the Fund, 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, 2012.

A. Ferguson & Co.
Chartered Accountants
Karachi, October 19, 2012

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INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Meezan Islamic Fund**, which comprise the statement of assets and liabilities as at June 30, 2012, 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, 2012, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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, October 19, 2012

Audit Engagement Partner: Saad Kaliya

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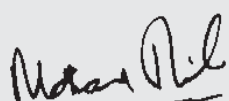
*Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Shahr-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872
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Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320*

STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
Assets			
Balances with banks	5	185,660	589,166
Investments	6	5,163,955	3,932,380
Receivable against sale of investments		2,307	-
Dividend receivable		10,212	22,196
Deposits and other receivables	7	12,646	42,485
Total assets		5,374,780	4,586,227
Liabilities			
Payable to Al Meezan Investment Management Limited (Al Meezan)- management company of the Fund	8	15,155	9,524
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	9	612	468
Payable to Meezan Bank Limited (MBL)		67	434
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	4,599	4,063
Payable on redemption of units		2,128	10,627
Payable against purchase of investments		-	54,536
Accrued expenses and other liabilities	11	9,060	9,490
Total liabilities		31,621	89,142
Net assets		5,343,159	4,497,085
Contingency	12		
Unit holders' fund (as per statement attached)		5,343,159	4,497,085
Number of units			
Number of units in issue	13	107,597,536	87,206,775
Rupees			
Net assets value per unit		49.66	51.57

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



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
Income			
Net realised gain on sale of investments		766,633	750,295
Dividend income - net of charity		313,199	291,136
Profit on savings accounts with banks		34,336	58,326
Other income		4,047	2,813
		<u>1,118,215</u>	<u>1,102,570</u>
Unrealised gain on re-measurement of investments - 'fair value through profit or loss' (net)	6.1	117,085	159,758
Impairment loss on 'available for sale' investments	6.2.2	(87,089)	-
		<u>29,996</u>	<u>159,758</u>
Total income		1,148,211	1,262,328
Expenses			
Remuneration to Al Meezan - management company of the Fund	8.1	96,812	85,531
Sindh sales tax on management fee	8.2	15,490	-
Remuneration to CDC - trustee of the Fund	9	5,843	5,277
Annual fee to SECP	10	4,599	4,063
Auditors' remuneration	14	635	618
Fees and subscription		40	40
Legal and professional charges		186	252
Securities transaction costs		5,679	2,744
Bank and settlement charges		524	867
Printing charges		715	861
Reversal for Workers' Welfare Fund (WWF)	12	-	(24,242)
Total expenses		130,523	76,011
Net income from operating activities		1,017,688	1,186,317
Element of loss and capital losses included in prices of units issued less those in units redeemed (net)		(2,867)	(109,081)
Net income for the year		1,014,821	1,077,236
Other comprehensive income for the year			
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available for sale'		(146,447)	210,400
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed pertaining to 'available for sale' investments		2,124	(49,228)
Total comprehensive income for the year		870,498	1,238,408

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



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

	2012 (Rupees in '000)	2011
Accumulated loss brought forward	(95,409)	(350,397)
Final distribution in the form of bonus units @ 20% for the year ended June 30, 2011 (June 30, 2010 @ 18%)	(871,260)	(771,783)
Final distribution in the form of cash dividend @ 20% for the year ended June 30, 2011 (June 30, 2010 @ 18%)	(808)	(1,237)
Net income for the year	1,014,821	1,077,236
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed pertaining to 'available for sale' investments	2,124	(49,228)
Accumulated income / (loss) carried forward	<u>49,468</u>	<u>(95,409)</u>

The annexed notes 1 to 28 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, 2012

	2012 (Rupees in '000)	2011
Net assets at the beginning of the year	4,497,085	3,965,910
Issue of 34,223,636 (2011 :15,345,220) units	1,549,279	720,089
Redemption of 34,791,739 (2011: 34,793,072) units	(1,573,638)	(1,584,394)
	(24,359)	(864,305)
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed (net):		
- transferred to income statement	2,867	109,081
- transferred to distribution statement	(2,124)	49,228
	743	158,309
Unrealised (diminution) / appreciation in the value of investments	(116,451)	370,158
Net realised gain on sale of investments	766,633	750,295
Total other comprehensive income for the year less distribution	(651,752)	(655,065)
Issue of 20,958,864 bonus units for the year ended June 30, 2011 (June 30, 2010: 20,763,587 bonus units)	871,260	771,783
Net assets at the end of the year	5,343,159	4,497,085
Net asset value per unit at the beginning of the year - Rupees	51.57	46.17
Net asset value per unit at the end of the year - Rupees	49.66	51.57

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



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



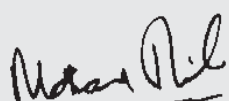
Mazhar Sharif
Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	2012 (Rupees in '000)	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	1,014,821	1,077,236
Adjustments for:		
Net realised gain on sale of investments	(766,633)	(750,295)
Dividend income	(318,720)	(296,422)
Charity expense	5,521	5,286
Profit on savings accounts with banks	(34,336)	(58,326)
Unrealised gain on re-measurement of investments - 'fair value through profit or loss' (net)	(117,085)	(159,758)
Impairment loss on 'available for sale' investments	87,089	-
Element of loss and capital losses included in prices of units issued less those in units redeemed (net)	2,867	109,081
	(126,476)	(73,198)
(Increase) / decrease in assets		
Investments (net)	(581,393)	832,832
Receivable against sale of investments	(2,307)	15
Deposits and other receivables	-	76
	(583,700)	832,923
(Decrease) / increase in liabilities		
Payable to AI Meezan - management company of the Fund	5,631	2,120
Payable to CDC - trustee of the Fund	144	41
Payable to MBL	(367)	355
Payable to SECP	536	(58)
Payable against purchase of investments	(54,536)	53,068
Accrued expenses and other liabilities	(213)	(24,419)
Cash (utilised in) / generated from operating activities	(48,805)	31,107
Dividend received	330,704	292,275
Charity paid	(6,017)	(4,900)
Profit received on savings accounts with banks	64,175	26,489
Profit received on bank account relating to charity payable	279	384
Dividend paid	(808)	(1,237)
Net cash (outflow) / inflow from operating activities	(370,648)	1,103,843
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuance of units	1,549,279	720,089
Payments against redemption of units	(1,582,137)	(1,587,515)
Net cash outflow from financing activities	(32,858)	(867,426)
Net cash (outflow) / inflow during the year	(403,506)	236,417
Cash and cash equivalents at the beginning of the year	589,166	352,749
Cash and cash equivalents at the end of the year	185,660	589,166

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



Mohammad Shoaib, CFA
Chief Executive

For AI Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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 the management company and CDC as the 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 advisor 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 a quality rating of AM2 by JCR-VIS Credit Rating Company Limited. The Fund is ranked at 'MFR 3-Star' for one year, two years and 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 advisor 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, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following standards, amendments and interpretation to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures'. This amendment is effective from January 1, 2011. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements.
- b) IFRS 7, 'Financial instruments: Disclosures'. This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Presentation of financial statements' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments - Presentation' (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management company is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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



4.1 Accounting Convention

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

4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of critical accounting estimates. It also requires the management company to exercise its 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); and
- c) recognition of provision for current and deferred taxation (note 4.10).

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 transferred 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

During the year, the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, the element is recognised in the income statement to the extent that it is represented by income earned during the year and unrealised appreciation / (diminution) arising during the year on 'available for sale' securities is included in the distribution statement. In the prior years, the element was recognised based on cumulative values of undistributed income and unrealised gain / (loss) on available for sale securities present in the net asset value of units.

In the opinion of the management company of the Fund, the revised methodology would ensure that existing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology:

- Income for the year would have been lower by Rs 205.806 million; and
- amount taken to the distribution statement would have been lower by Rs 171.894 million.

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 Preliminary expenses and floatation costs

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

4.9 Net assets value per unit

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

4.10 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.

4.11 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 other comprehensive income 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 are recorded on an accrual basis.
- (vi) Transaction costs are recognised as income as and when the units are issued.

**4.12 Expenses**

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

4.13 Offsetting of financial instruments

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

4.14 Zakat

Units held by resident Pakistani unit holders 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.

4.15 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.

4.16 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.

5. BALANCES WITH BANKS

	Note	2012 (Rupees in '000)	2011
On current accounts	5.2	2,385	3,386
On savings accounts	5.1 & 5.2	183,275	585,780
		<u>185,660</u>	<u>589,166</u>

5.1 The balances in savings accounts bears expected profit which ranges from 5.04% to 12.10% (2011 : 5.66% to 12.90%) during the year.

5.2 The balance includes Rs 21.176 million (2011: Rs 115.344 million) with related party, Meezan Bank Limited, on which return is earned at 5.65% (2011: 5.66%) per annum.

	Note	2012 (Rupees in '000)	2011
Investments- 'fair value through profit and loss'	6.1	4,302,165	828,071
Investments- 'available for sale'	6.2	861,790	3,104,309
		<u>5,163,955</u>	<u>3,932,380</u>

6.1 Investments- 'fair value through profit or loss'

Held for trading	6.1.1	3,992,711	625,584
Investments- 'fair value through profit or loss upon initial recognition	6.1.4	309,454	202,487
		<u>4,302,165</u>	<u>828,071</u>

6.1.1 Held for trading - shares of listed companies

Name of the investee company	As at July 1, 2011	Purchases during the year	Bonus issue	Sales during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage of market value of total investments
	Number of Shares				Rupees in '000			%	
Automobile and parts									
Agriauto Industries Limited (note 6.1.2)	609,200	-	-	-	609,200	42,339	49,345	7,006	0.96
Indus Motor Company Limited	405,944	-	-	-	405,944	89,308	99,489	10,181	1.93
Pak Suzuki Motor Company Limited	50,023	21,799	-	-	71,822	4,639	6,876	2,237	0.13
									3.02
Chemicals									
Fauji Fertilizer Bin Qasim Limited	-	2,900,000	-	-	2,900,000	117,412	118,378	966	2.29
Fauji Fertilizer Company Limited	87,902	4,620,000	-	87,902	4,620,000	519,327	513,050	(6,277)	12.23
Construction and materials									
Attock Cement Pakistan Limited	594	-	-	-	594	29	48	19	-
DG Khan Cement Company Limited	-	6,015,634	-	1,600,000	4,415,634	179,972	173,888	(6,084)	3.37
Lucky Cement Limited	476,821	3,271,817	-	1,214,797	2,533,841	300,338	292,380	(7,958)	5.66
									9.03
Fixed line telecommunication									
Pakistan Telecommunication Company Limited "A"	-	9,850,000	-	-	9,850,000	135,210	134,847	(363)	2.61
General industrials									
Thal Limited (note 6.1.2)	286,127	-	57,225	-	343,352	28,910	31,932	3,022	0.62
Packages Limited	-	1,400,000	-	-	1,400,000	145,684	139,580	(6,104)	2.70
Tri-Pack Films Limited	379,300	350,000	-	-	729,300	76,509	79,649	3,140	1.54
									4.86
Oil and gas									
Oil and Gas Development Company Limited (note 6.1.3)	-	3,430,000	-	-	3,430,000	536,764	550,309	13,545	10.66
Pakistan Oilfields Limited	263,923	1,233,000	-	191,064	1,305,859	470,401	479,172	8,771	9.28
Pakistan Petroleum Limited	469,091	2,040,000	46,909	84,000	2,472,000	464,641	465,453	812	9.01
National Refinery Limited	-	55,305	-	-	55,305	14,451	12,797	(1,654)	0.25
Pakistan State Oil Company Limited	597,300	150,000	-	63,005	684,295	178,789	161,384	(17,405)	3.13
									32.33
Food producers									
Engro Foods Limited	-	2,088,000	-	38,216	2,049,784	128,989	132,109	3,120	2.56
Unilever Pakistan Limited (note 6.1.2)	-	996	-	2	994	7,153	7,036	(117)	0.14
									2.70
Electricity									
The Hub Power Company Limited	-	13,010,000	-	-	13,010,000	541,731	544,989	3,258	10.54
Grand total						3,982,596	3,992,711	10,115	
Total cost of investments							3,925,953		

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 and Unilever Pakistan Limited which have a face value of Rs 50 each.

6.1.3 439,500 shares (2011: 210,000 shares) of Oil and Gas Development Company Limited, having market value of Rs 70.513 million (2011: Rs 32.128 million) as at June 30, 2012, 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 - 'fair value through profit or loss upon initial recognition'

Shares of a listed company, a bank and units of a fund

Name of the investee company	As at July 1, 2011	Purchases during the year	Bonus issue	Sales during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage of market value of total investments
	Number of Shares				Rupees in '000			%	
Banks									
Meezan Bank Limited (an associate of the Fund)	6,199,965	-	775,114	-	6,975,079	108,313	201,719	93,406	3.91
Open-end mutual fund									
Al Meezan Mutual Fund (AMMF) (an associate of the Fund)	8,480,190	-	-	-	8,480,190	94,130	107,698	13,568	2.08
General industrials									
Packages Limited	374	-	-	-	374	41	37	(4)	-
Grand total						202,484	309,454	106,970	
Total cost of Investments							188,400		

6.2 Investments categorised as 'available for sale'

6.2.1 Shares of listed companies, unquoted company and banks

Name of the investee company	As at July 01, 2011	Purchases during the year	Bonus / rights issue	Demerger Effect / (Adjustment)	Sales during the year	As at June 30, 2012	Carrying value as at June 30, 2012 (before impairment)	Impairment during the year (note 6.2.3)	Carrying value as at June 30, 2012 (after impairment)	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage of market value of total investment
	-----Number of shares-----						----- (Rupees in '000) -----					%
Automobile and parts												
Indus Motor Company Limited	152,168	20,000	-	-	19,100	153,068	35,089	-	35,089	37,514	2,425	0.73
Millat Tractors Company Limited	-	25,985	-	-	-	25,985	11,244	-	11,244	12,547	1,303	0.24
Pak Suzuki Motor Company Limited	37,105	20,000	-	-	-	57,105	4,167	-	4,167	5,467	1,300	0.11
												1.08
Banks												
Meezan Bank Limited (an associate of the Fund)	4,788,291	750,000	647,410	-	802,011	5,383,690	74,283	-	74,283	155,696	81,413	3.02
BankIslami Pakistan Limited	-	500	-	-	-	500	2	-	2	5	3	-
												3.02
Chemicals												
Fauji Fertilizer Bin Qasim Limited (note 6.2.2)	103,142	2,257,039	-	-	2,173,932	186,249	13,398	5,495	7,903	7,603	(300)	0.15
Fauji Fertilizer Company Limited	4,041,250	193,000	1,356,886	-	5,520,477	70,659	7,250	-	7,250	7,847	597	0.15
ICI Pakistan Limited (note 6.2.3)	2,301,951	126,000	-	(686,151)	377,292	1,364,508	177,356	-	177,356	178,846	1,490	3.46
												3.76
Construction and materials												
Attock Cement Pakistan Limited	304,131	-	-	-	70,000	234,131	15,241	-	15,241	19,068	3,827	0.37
DG Khan Cement Company Limited	3,078,082	5,575,738	-	-	8,638,232	15,588	364	-	364	614	250	0.01
Lucky Cement Limited	3,076,638	540,000	-	-	3,579,700	36,938	2,524	-	2,524	4,262	1,738	0.08
												0.46
Electricity												
The Hub Power Company Limited	6,083,786	8,462,434	-	-	14,421,504	124,716	4,622	-	4,622	5,224	602	0.10
Fixed line telecommunication												
Pakistan Telecommunication Company Limited "A" (note 6.2.2)	4,279,009	14,325,565	-	-	18,585,037	19,537	36,840	36,637	203	267	64	0.01
General industrials												
Packages Limited (note 6.2.2)	1,144,789	1,720,769	-	-	2,832,779	32,779	47,668	44,957	2,711	3,268	557	0.06
Thal Limited (note 6.1.2)	24	-	4	-	-	28	2	-	2	3	1	-
Tri-Pack Films Limited	10	-	-	-	-	10	1	-	1	2	1	-
												0.06
Oil and gas												
National Refinery Limited	-	215,956	-	-	80,205	135,751	33,141	-	33,141	31,411	(1,730)	0.61
Oil and Gas Development Company Limited (note 6.1.3)	2,026,958	1,451,063	-	-	3,450,827	27,194	3,854	-	3,854	4,363	509	0.08
Pakistan Oilfields Limited	1,074,606	101,450	-	-	1,131,868	44,188	12,512	-	12,512	16,214	3,702	0.31
Pakistan Petroleum Limited	1,909,400	1,012,021	190,940	-	3,032,861	79,500	12,103	-	12,103	14,969	2,866	0.29
Attock Petroleum Limited	-	95,366	-	-	26,000	69,366	26,944	-	26,944	32,905	5,961	0.64
Pakistan State Oil Company Limited	807,646	467,898	-	-	284,359	991,185	255,383	-	255,383	233,761	(21,622)	4.53
												6.46
Personal goods												
Nishat Mills Limited	-	1,107,103	-	-	1,107,103	-	-	-	-	-	-	-
Unquoted company												
AkzoNobel Pakistan Limited (note 6.2.3)	-	-	-	686,151	-	686,151	89,184	-	89,184	89,934	750	1.74
Grand total							863,172	87,089	776,083	861,790	85,707	
Total cost of Investments												776,083

6.2.2 As per IAS 39 'Financial Instruments', where the investment is classified as 'available for sale', a significant or prolonged decline in the fair value of an investment in an equity instrument below its carrying value is an objective evidence of impairment. The recoverable amount of the aforementioned securities had significantly declined as at June 30, 2012. Accordingly, the cumulative losses measured as the difference between the carrying cost and the current fair value has been reclassified from other comprehensive income to the income statement as an impairment loss.

6.2.3 The demerger of the Paints Business of ICI Pakistan Limited and its vesting into AkzoNobel Pakistan Limited had resulted in the split of the share capital in the ratio 66.54 : 33.46 as of June 27, 2012. Subsequent to the year ended June 30, 2012, AkzoNobel Pakistan Limited has been listed on the Karachi Stock Exchange and the trading of its shares has started on the ready board of the Karachi Stock Exchange from July 13, 2012.

7. DEPOSITS AND OTHER RECEIVABLES	2012	2011
	(Rupees in '000)	
Security deposits	2,600	2,600
Profit receivable on savings accounts with banks	10,046	39,885
	12,646	42,485

8. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - management company of the Fund	Note	2012	2011
		(Rupees in '000)	
Management fee payable	8.1	8,727	7,418
Sindh sales tax on management fee payable	8.2	1,396	-
Sales load payable		4,905	2,101
Sindh sales tax on sales load payable	8.2	122	-
Certificate charges payable		5	5
		15,155	9,524

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, 2012.

8.2 During the current year, the Sindh Provincial Government levied Sindh Sales Tax at the rate of 16 percent on the remuneration of the management company and sales load through Sindh Sales Tax on Services Act 2011 effective from July 1, 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 average daily net assets value of the Fund.

The remuneration of the trustee for the year ended June 30, 2012 and 2011 has been calculated as per the following applicable tariff:

Net assets	Tariff
From Rs 1 million to Rs 1,000 million	Rs 0.7 million or 0.20% per annum of NAV, whichever is higher
On amount exceeding Rs 1,000 million	Rs 2 million plus 0.10% per annum of NAV, on amount exceeding Rs 1,000 million

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.

11. ACCRUED EXPENSES AND OTHER LIABILITIES	Note	2012	2011
		(Rupees in '000)	
Auditors' remuneration		432	405
Withholding tax payable		-	440
Charity payable	11.1	7,750	7,967
Printing charges payable		719	526
Zakat payable		159	152
		9,060	9,490



- 11.1 According to the instructions of the shariah advisor, 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 7.750 million (2011: Rs 7.967 million) is outstanding in this regard after making charity payments of Rs 6.017 million (2011: Rs 4.900 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 ended June 30, 2011, 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.

During the current year, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional. The management company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

However, a fund under the common management of the management company has received a notice of demand under section 137 of the Income Tax Ordinance, 2001 for the payment of levy of WWF for the period ended June 30, 2009. The management company has filed an appeal against such notice of demand to the Commission Inland Revenue (Appeals) which is pending adjudication.

During the year ended June 30, 2011, the management company had reversed the liability as at June 30, 2010 amounting to Rs 24.242 million. 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 not recognised WWF charge upto June 30, 2012 amounting to Rs 64.787 million which includes Rs 19.898 million pertaining to the current year. Had the same been made, the net asset value per unit of the Fund would have been lower by Rs 0.60 (1.21%).

There were no other contingencies and commitments outstanding as at June 30, 2012.

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 The management company of the Fund may issue the following classes of units:

- Growth units which shall be entitled to bonus units in case of any distribution by the Fund. Bonus units issued to growth unit holders shall also be the growth units.
- 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, 2012 and 2011 and their par values were as follows:

Class	2012		2011	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
Growth units	107,485,181	5,374,259	87,125,998	4,356,300
Income units	112,355	5,618	80,777	4,039
Total	107,597,536	5,379,877	87,206,775	4,360,339

2012 2011
(Rupees in '000)

14. AUDITORS' REMUNERATION

Audit fee	322	295
Half yearly review	125	125
Other certifications and services	110	135
Out of pocket expenses	78	63
	635	618

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, Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund, Meezan Capital Protected Fund - II Meezan Sovereign Fund, Meezan Cash Fund, Meezan Balanced Fund and KSE Meezan Index 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, 2012 and as of that date alongwith comparatives are as follows:

	2012	2011
	(Rupees in '000)	
AI Meezan - management company of the Fund		
Remuneration payable	<u>8,727</u>	<u>7,418</u>
Sindh sales tax on management fee payable	<u>1,396</u>	<u>-</u>
Sales load payable	<u>4,905</u>	<u>2,101</u>
Sindh sales tax on sales load payable	<u>122</u>	<u>-</u>
Certificate charges payable	<u>5</u>	<u>5</u>
Investment of nil units (June 30, 2011: 1,132,717 units)	<u>-</u>	<u>58,414</u>
AI Meezan Mutual Fund		
Investment in 8,480,190 units (June 30, 2011: 8,480,190 shares)*	<u>107,698</u>	<u>94,130</u>
MBL		
Bank balance	<u>21,176</u>	<u>115,346</u>
Sales load payable	<u>67</u>	<u>434</u>
Investment in 12,358,769 shares (June 30, 2011: 10,988,256 shares)	<u>357,415</u>	<u>191,967</u>
Investment of 11,160,074 units (June 30, 2011: 8,996,011 units)	<u>554,209</u>	<u>463,924</u>
CDC - trustee of the Fund		
trustee fee payable	<u>519</u>	<u>453</u>
CDS Charges payable	<u>93</u>	<u>15</u>
Deposits	<u>100</u>	<u>100</u>
Directors and executives of the management company		
Investment of 3,224,438 units (June 30, 2011: 2,190,174 units)	<u>160,126</u>	<u>112,948</u>
	For the year ended June 30,	
	2012	2011
	(Rupees in '000)	
AI Meezan - management company of the Fund		
Remuneration for the year	<u>96,812</u>	<u>85,531</u>
Sindh sales tax on management fee	<u>15,490</u>	<u>-</u>
Bonus units issued: 272,484 units (2011: 889,704 units)	<u>11,327</u>	<u>33,070</u>
Units issued: nil units (2011: 875,255 units)	<u>-</u>	<u>40,000</u>
Redemptions: 1,405,201 units (2011: 4,306,719 units)	<u>58,413</u>	<u>208,775</u>

	For the year ended June 30,	
	2012	2011
	(Rupees in '000)	
Al Meezan Mutual Fund		
Dividend income	14,840	11,465
Redemptions: Nil units (June 30, 2011: Disposal of 11,090,510 shares)*	-	77,663
MBL		
Profit on savings accounts	564	483
Bonus units issued: 2,164,063 units (2011: 1,753,608 units)	89,960	65,182
1,422,524 bonus shares received (2011: 1,193,310 shares)	-	-
750,000 shares purchased during the year (June 30, 2011: 2,497,195 shares)	14,625	41,567
802,011 shares disposed off during the year (2011: 1,051,284 shares)	19,645	18,855
CDC - trustee of the Fund		
Ttrustee fee	5,843	5,277
CDS charges	161	114
Directors and executives of the management company		
Bonus units issued: 526,864 units (2011: 417,923 units)	21,902	15,534
Units issued: 704,525 units (2011: 602,491 units)	31,173	30,491
Redemptions: 197,125 units (2011: 556,261 units)	7,322	27,060

* During the year due to the conversion of Al Meezan Mutual Fund Limited (AMMFL) to Al Meezan Mutual Fund (AMMF), an open end scheme, the equity instruments (shares) of AMMFL have been converted into units of AMMF in the ratio of 1:1 as per the scheme of arrangement for constitution of AMMF.

16. FINANCIAL INSTRUMENTS BY CATEGORY

	2012				Total
	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	
	----- (Rupees in '000) -----				
On balance sheet - financial assets					
Balances with banks	185,660	-	-	-	185,660
Investments	-	4,302,165	861,790	-	5,163,955
Receivable against sale of investments	2,307	-	-	-	2,307
Dividend receivable	10,212	-	-	-	10,212
Deposits and other receivables	12,646	-	-	-	12,646
	210,825	4,302,165	861,790	-	5,374,780
On balance sheet - financial liabilities					
Payable to Al Meezan					
- management company of the Fund	-	-	-	13,637	13,637
Payable to CDC - trustee of the Fund	-	-	-	612	612
Payable to MBL	-	-	-	67	67
Payable on redemption of units	-	-	-	2,128	2,128
Accrued expenses and other liabilities	-	-	-	1,151	1,151
	-	-	-	17,595	17,595



	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>

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, profit receivable on bank deposits, 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, 2012 along with comparative is tabulated below:

	2012	2011
	(Rupees in '000)	
FINANCIAL ASSETS		
Balances with banks	185,660	589,166
Receivable against sale of investments	2,307	-
Dividend receivable	10,212	22,196
Deposits and other receivables	12,646	42,485
	<u>210,825</u>	<u>653,847</u>

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

	2012	2011
 (%)	
AAA	0.54	0.17
AA+	87.08	52.71
AA	0.49	1.83
AA-	11.41	19.64
A	0.48	25.65
	<u>100.00</u>	<u>100.00</u>

The Fund does not have any collateral against any of the aforementioned assets. Due to the Fund's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, the Fund does not expect non-performance by these counter parties on their obligations to the Fund.

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 801.474 million as on June 30, 2012 (2011: Rs 674.563 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 financial liabilities into relevant maturity grouping as at June 30, 2012 and 2011 is tabulated below:

	2012 Maturity upto				Total	2011
	Three months	six months	one year	More than one year		
	------(Rupees in '000)-----					
Payable to Al Meezan - management company of the Fund	13,637	-	-	-	13,637	9,524
Payable to CDC - trustee of the Fund	612	-	-	-	612	468
Payable to MBL	67	-	-	-	67	434
Payable on redemption of units	2,128	-	-	-	2,128	10,627
Payable against purchase of investments	-	-	-	-	-	54,536
Accrued expenses and other liabilities	1,151	-	-	-	1,151	931
2012	<u>17,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,595</u>	<u>76,520</u>
June 30, 2011	<u>76,520</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.

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

Details of the Fund's investment portfolio exposed to price risk, at the reporting date are disclosed in note 6 to these financial statements. As 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 KSE Meezan Index (KMI-30). 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 1.595 million (2011: increase / (decrease) approximately by Rs 1.326 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, 2012, the net income would have increased / (decreased) by Rs 1.833 million (2011: Rs 5.858 million) had the interest rates on savings accounts with banks increased / (decreased) by 100 basis points.

Fair value interest rate risk

Since the Fund does not have investment in fixed rate security, therefore, is not exposed to fair value interest rate risk.

17.3.3 Currency risk

Currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pakistani Rupees.

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

In accordance with 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, 2012.

20. PERFORMANCE TABLE

	2012	2011	2010	2009
Net assets (Rs. '000) (ex-distribution)*	5,342,232	4,496,277	3,964,673	3,737,293
Net assets value / redemption price per unit as at June 30 (Rs.) (ex-distribution)*	41.41	41.57	37.17	35.28
Offer price per unit as at June 30 (Rs.) (ex-distribution)*	42.36	42.53	38.03	36.09
Highest offer price per unit (Rs.)	53.60	53.85	53.59	49.30
Lowest offer price per unit (Rs.)	40.10	38.31	37.66	22.39
Highest redemption price per unit (Rs.)	52.39	52.64	52.38	48.19
Lowest redemption price per unit (Rs.)	39.20	37.45	36.81	21.89
Distribution (%)	16.50	20.00	18.00	-
Date of distribution	July 9, 2012	July 7, 2011	July 7, 2010	-
Income distribution (Rupees in '000)	927	808	1,237	-
Growth distribution (Rupees in '000)	886,753	871,260	771,783	-
Total return (%)	19.46	38.74	30.87	(29.51)

* The distribution for the year ended is made subsequent to the year end, therefore, 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, 2012	19.46%	28.74%	29.45%	11.20%

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 Shoab	Chief Executive Officer	CFA / MBA	Twenty two years
2. Mr. Muhammad Asad	Chief Investment Officer / Fund Manager	CFA level II / MBA	Sixteen years
3. Mrs. Sanam Ali Zaib	Head of Research	CFA / MBA	Eight years
4. Mr. Muhammad Ali	AVP Investments	CFA / FRM / MBA / MS	Eighteen years
5. Mr. M. Farhan Lakhani	Manager Research and Investments	CFA / BBA	Three years
6. Ms. Bushra Tariq	Senior Manager	BBA	Three years
7. Mr. Shakil Ahmed	Senior Manager	CFA / MBA	Five years

21.2 The Fund manager of the Fund is Mr. Muhammad Asad. Other Fund being managed by the Fund manager is 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, 2011	Aug 16, 2011	Sep 28, 2011	Oct 24, 2011	Feb 23, 2012	April 27, 2012
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib, CFA	Chief Executive	No	Yes	Yes	Yes	Yes	Yes
Mr. Salman Sarwar Butt	Independent Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Independent Director	No	Yes	Yes	No	Yes	No
Mr. Rana Ahmed Humayun	Nominee Director	Yes	Yes	Yes	No	Yes	-
Mr. Rizwan Ata***	Nominee Director	Yes	Yes	Yes	No	-	-
Mr. Mazhar Sharif	Nominee Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Tasnimul Haq Farooqui*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali Zaidi**	Nominee Director	-	-	-	-	-	Yes

* Appointed in December, 2011

** Appointed in place of Mr. Rana Ahmed Humayun

*** Resigned in December, 2011

23. NON ADJUSTING EVENTS

The Board of Directors in its meeting held on July 9, 2012 has announced a payout of 16.50% of par value (2011: 20%) amounting to Rs 887.680 million (2011: Rs 872.068 million) equivalent to 21,413,976 bonus units (2011: 20,958,864 bonus units) and cash dividend of Rs 0.927 million (2011: Rs.0.808 million). The financial statements for the year ended June 30, 2012 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ended June 30, 2013.

	2012	2011
	Number of units	
The effect of issue of bonus units is as follows:		
Number of units in issue before bonus units	<u>107,597,536</u>	<u>87,206,775</u>
Number of units in issue after bonus units	<u>129,011,512</u>	<u>108,165,639</u>
	Rupees	
Net assets value per unit before distribution	<u>49.66</u>	<u>51.57</u>
Net assets value per unit after distribution	<u>41.41</u>	<u>41.57</u>

24. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE

	2012
	%
Broker's Name	
1. Elixir Securities Pakistan (Private) Limited	12.39
2. JS Global Capital Limited	10.21
3. KASB Securities Limited	9.54
4. BMA Capital Management Limited	7.59
5. Foundation Securities (Private) Limited	7.58
6. Top Line Securities (Private) Limited	6.62
7. AKD Securities Limited	6.48
8. Invest Capital Markets Limited	6.06
9. Optimus Capital Management (Private) Limited (formerly Invisor Securities (Private) Limited)	4.96
10. Global Securities Pakistan Limited	4.86
	2011
	%
Broker's Name	
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 (Private) Limited	5.81
9. Invisor Securities (Private) Limited	5.15
10. Taurus Securities Limited	4.70

25. PATTERN OF UNITHOLDING

	----- (2012) -----		
	Number of investors	Investment amount	Percentage of total investment
		(Rupees in '000)	%
Individuals	4,162	2,695,538	50.45
Associated companies / directors	4	703,315	13.16
Insurance companies	5	376,999	7.06
Banks / DFIs	1	8	-
Retirement funds	90	1,244,995	23.30
Public limited companies	1	29,923	0.56
Others	57	292,381	5.47
Total	4,320	5,343,159	100.00



	----- (2011) -----		
	Number of investors	Investment amount	Percentage of total investment
	(Rupees in '000)		%
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

26. CORRESPONDING FIGURES

For better presentation:

- i) Securities transaction cost is now presented on the face of the income statement. Previously transaction costs were bifurcated into 'brokerage' and 'settlement charges' on the face of the income statement;
- ii) the following are now presented on the face of the cash flow statement:
 - Net realised gain on the sale of investments
 - Gross dividend income for the year
 - Charity expense for the year
 - Profit received on bank account relating to charity payable; and
- iii) the following are now presented on the face of the statement of movement in unit holders' fund:
 - Unrealised (diminution) / appreciation in the value of investments
 - Net realised gain on sale of investments
 - Total other comprehensive income for the year less distribution.

Accordingly, the corresponding amounts for the year ended June 30, 2011 have been reclassified. As the reclassifications are not considered to be material, therefore, the Fund has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. July 1, 2010).

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the Board of Directors of the management company.

28. 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

PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2012

Units held by	Units Held	%
Associated Companies		
Al Meezan Investment Management Limited	-	0.00
Meezan Bank Limited	11,160,074	10.37
Directors		
Mr. Mazhar Sharif	46,423	0.04
Mr. Ariful Islam	317,538	0.30
Chief Executive		
Mr. Mohammad Shoaib, CFA	2,638,885	2.45
Executives	221,593	0.21
Public Limited Companies	602,573	0.56
Banks and financial institutions	166	0.00
Individuals	54,059,666	50.25
Retirement funds	25,071,020	23.30
Other corporate sector entities	5,202,039	4.83
Insurance Companies	7,591,797	7.06
Non-Profit Organization	685,763	0.64
Total	107,597,536	100



Annual Report 2012



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. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoaib, CFA	Chief Executive

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, CFA	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

AlBaraka Islamic Bank	Bank Alfalah Limited
Habib Metropolitan Bank Limited	Meezan Bank Limited

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 FUND MANAGER

Al Meezan Mutual Fund (AMMF) is an open end equity fund investing in Shariah compliant listed equity securities.

The objective of AMMF is to provide the maximum total return to the Unit Holders from investment in "Shariah Compliant" equity investments for the given level of risk, while abiding by the Regulations and any other prevailing rules and regulations.

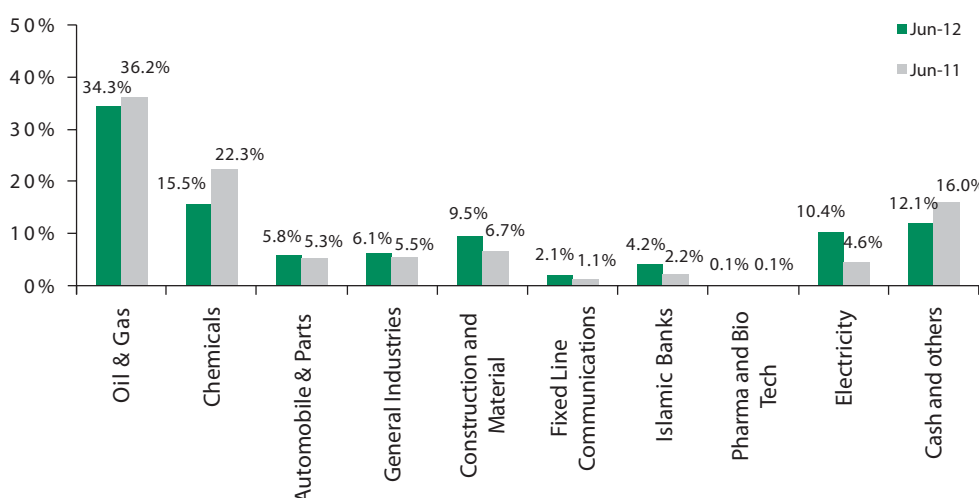
Conversion into an open end fund

Al Meezan Mutual Fund (AMMF) has been converted from a closed end to an open end fund with effect from August 05, 2011. The key objective of this conversion is to protect the interest of investors who will be getting units prices based on net asset value instead of prevailing discounted market price of AMMF shares on the stock exchange. The conversion of AMMF will offer investors the ability to switch freely between Al Meezan's equity, income and money market funds.

Strategy, Investment Policy and Asset Allocation

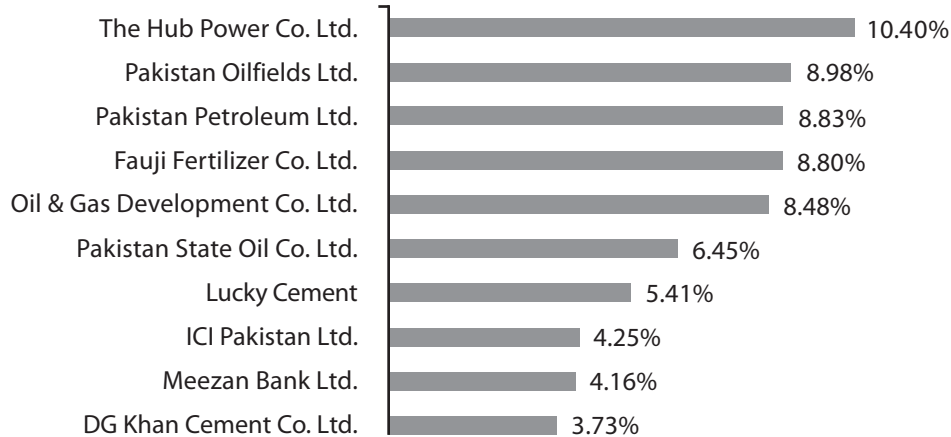
Performance of AMMF is directly linked to the performance of the equity market. The fund manager, Al Meezan Investment Management Limited, actively manages the fund with an aim to provide maximum risk adjusted total return to the investors. To control risk, the exposure in growth stocks is balanced against 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 exposure near troughs.

AMMF remained on average 93.04% invested in equities. Beginning and ending exposures were 83.66% and 89.90% respectively. Although allocation remained diversified across sectors, major holdings remain concentrated in Oil & Gas and Chemical sectors. The fund increased exposure in Construction and Electricity sectors during the period while in Chemical Sector we reduced exposure at the end of the period,





Top Holdings



Performance Review

During the period under review, Al Meezan Mutual Fund Limited (AMMF) provided a return of 20.28% to its investors while the KSE Meezan Index (KMI 30) appreciated by 19.1% to close at 23,776. The KSE 100 index during the same period closed at the level of 13,801, posting a 23.1% increase.

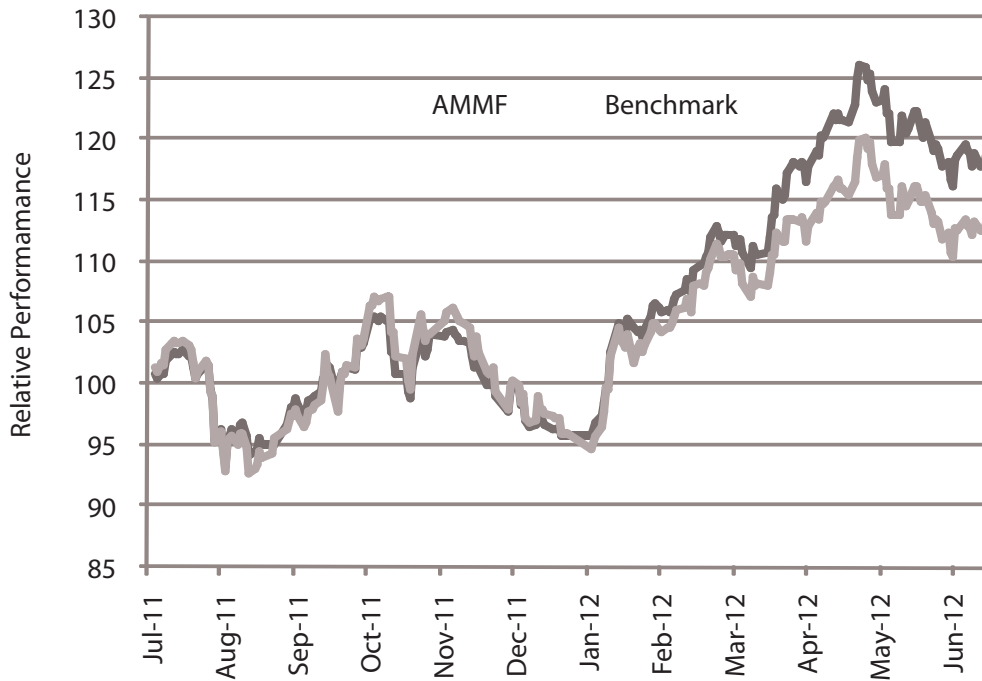
The Fund during the period August 05, 2011 to June 30, 2012 earned a total comprehensive income of Rs.283 million, which mainly comprised of dividend income of Rs.94 million, realized gain on sale of investments of Rs.236 million and profit on bank deposits of Rs.12 million. The unrealized gain on investments for the year was Rs.30 million. After accounting for expenses of Rs.40 million, the net income for the period was Rs. 315 million.

The net assets of the fund as at the period-end were Rs. 1,681 million as compared to Rs. 1,451 million as at August 5, 2011. The net asset value per share as at June 30, 2012 was Rs.12.69 per unit as compared to Rs.10.55 per unit as on August 5, 2011.

Distributions

The Board of Directors in its meeting held on July 9, 2012 approved distribution at the rate of Rs.2 per unit (20%) out of the profits of the Fund for the period ended June 30, 2012.

	AMMF (NAV)	KMI-30 (Index Points)
Opening Net Asset Value (NAV) as on August 5, 2011(Rupees)	10.55	19,964
Net Asset Value (NAV) as on June 30, 2012 (Rupees)	12.69	23,776
Return During the Period	20.28%	19.1%



Charity Statement

According to the Trust Deed of AMMF, 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 period ended June 30, 2012 an amount of Rs.1.9 million was accrued as charity payable.

Breakdown of unit holdings by size:

Range of Units	Number of Unit Holders
1 to 10,000	1,578
Between 10,001 to 50,000	360
Between 50,001 to 100,000	76
Between 100,001 to 500,000	52
From 500,001 and above	23
Total	2,089



Meezan Bank
The Premier Islamic Bank

Report of the *Shar'iah* Advisor – Al Meezan Mutual Fund

September 28, 2012/ Ziq'a'ad 10, 1433

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 equity investments of AMMF in light of *Shar'iah* requirements. Following is the list of investments of AMMF as on June 30, 2012 and their evaluation according to the screening criteria established by us. (December 31, 2011 accounts of the Investee companies have been used).

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<37%)	(iii) % of Non- <i>Shar'iah</i> Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>25%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Agriauto Industries Ltd.	Automobile and Parts	0.05%	31.83%	4.86%	44%	38.14	57.5
Attock Cement Pakistan Ltd.	Construction and Materials (Cement)	0.00%	3.63%	0.29%	89%	(18.7)	51
Bank Islami Pakistan Ltd.	Islamic Commercial Bank	**					
D.G. Khan Cement Company	Construction and Materials (Cement)	33.52%	3.22%	4.85%	71%	15.76	19.03
Engro Food Ltd.	Food Producers	34.85%	7.78%	0.01%	81%	(92.4)	22.6
Fauji Fertilizer Bin Qasim Ltd.	Chemicals	20.73%	22.00%	2.14%	56%	(9.47)	42.43

Page 1 of 3

Meezan Bank Ltd.

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



Fauji Fertilizer Company Ltd.	Chemicals	27.24%	0.00%	0.00%	52%	(10.39)	149.54
GlaxoSmithKline Ltd.	Pharma and Bio Tech	0.00%	1.27%	1.62%	68%	2.41	67.08
ICI Pakistan Ltd.	Chemicals	0.00%	0.00%	0.57%	67%	2.49	120.27
Indus Motors Company Ltd.	Automobile and Parts	0.00%	15.28%	2.18%	47%	29.9	204.8
Lucky Cement	Construction and Materials (Cement)	16.00%	0.00%	0.00%	94%	(31.19)	75.04
Meezan Bank Ltd.	Islamic Commercial Bank			**			
Millat Tractors	Engineering	0.04%	10.46%	0.69%	66%	3.2	365.21
National Refinery Ltd.	Oil and Gas	0.00%	1.53%	1.05%	46%	(38.82)	242.69
Oil & Gas Development Company Ltd.	Oil and Gas	0.00%	18.49%	4.24%	41%	23.88	151.62
Packages Ltd.	General Industrials	27.33%	30.40%	3.29%	61%	26.66	82.72
Pak Suzuki Motor Company Ltd.	Automobile and Parts	13.49%	0.00%	0.84%	75%	(26.76)	59.03
Pak. Telecommunication. Co. Ltd.	Fixed Line Telecommunication	7.41%	2.87%	1.22%	79%	(9.25)	10.39
Pakistan Oilfields Ltd.	Oil and Gas	0.00%	3.33%	4.09%	69%	210	346.45
Pakistan Petroleum Ltd.	Oil and Gas	0.12%	32.63%	4.68%	35%	50.64	168.32
Pakistan State Oil Company Ltd.	Oil and Gas	5.09%	0.00%	0.27%	33%	(316.41)	227.21
Thal Ltd.	General Industrials	14.43%	2.88%	2.40%	83%	(78.43)	81.8
The Hub Power Company Ltd.	Electricity	32.75%	0.00%	0.05%	37%	(41.87)	34.2
Tripak Films Ltd.	General Industrials	26.50%	4.24%	0.16%	70%	(69.73)	160.3

* 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 AMMF for the year ended June 30, 2012 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 AMMF 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 1.493 million was created and an amount of Rupees 1.750 million was disbursed.

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

A handwritten signature in black ink, appearing to be "Dr. Muhammad Imran Ashraf Usmani".

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

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



ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

AL MEEZAN MUTUAL 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

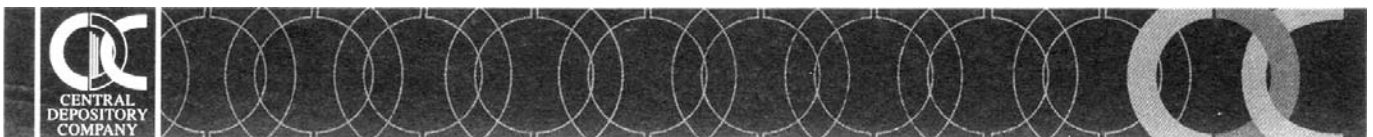
Al Meezan Mutual Fund (the Fund), initially established as an investment company under Companies Ordinance 1984 was converted into an open-end scheme with effect from August 05, 2011 pursuant to the trust deed dated June 17, 2011.

We, Central Depository Company of Pakistan Limited, being the Trustee of the Fund are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from August 05, 2011 to June 30, 2012 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, October 05, 2012





STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

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 management company has applied the principles contained in the CCG in the following manner:

1. The management company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed Mr. Salman Sarwar Butt
Executive Director	Mr. Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies including the management company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the 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 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on February 16, 2012 was filled up by the directors within 30 days.
5. The Management Company has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the management company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
7. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
8. One of the directors of the Company is pursuing the 'Directors Training Certification' and such certification shall be completed in the ensuing year.
9. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

10. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
11. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
12. The directors, CEO and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
13. The company has complied with all the corporate and financial reporting requirements of the CCG.
14. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. The board has formed an HR and Remuneration Committee. It comprises of four members including the CEO, all other members are non-executive directors and the chairman of the committee is an independent director.
17. The board has set up an effective internal audit function.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with 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 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Fund, was determined and intimated to directors, employees and stock exchange(s).
21. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
22. We confirm that all other material principles enshrined in the CCG have been complied with.

Mohammad Shoaib, CFA
Chief Executive

Karachi
September 21, 2012



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 period August 5, 2011 to June 30, 2012 prepared by the Board of Directors of Al Meezan Investment Management Limited (the Management Company) of **Al Meezan Mutual Fund** (the Fund) to comply with the Listing Regulation No. 35 of the Islamabad 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

Further, regulation (x) of the Listing Regulations No. 35 notified by the Islamabad 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 and have ensured compliance of requirement to the extent of approval of 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 prices 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 status of the Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period August 5, 2011 to June 30, 2012.


Chartered Accountants
Karachi, October 19, 2012

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Lahore-54660, Pakistan; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: House No. 1, Street No. 3, Darulaman Road, Ayoub Khan Meina, Opposite Ayoub Khan Mosque, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320



**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS
REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of **Al Meezan Mutual Fund**, which comprise the statement of assets and liabilities as at June 30, 2012, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period August 5, 2011 to June 30, 2012, 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, 2012, and of its financial performance, cash flows and transactions for the period August 5, 2011 to June 30, 2012 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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, October 19, 2012

Audit Engagement Partner: Saad Kaliya

*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2012

	Note	2012 (Rupees in '000)
Assets		
Balances with banks	5	163,281
Investments	6	1,510,974
Receivable against sale of investments		10,448
Dividend receivable		3,069
Advances, deposits and other receivables	7	7,464
Total assets		<u>1,695,236</u>
Liabilities		
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	8	3,485
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	9	220
Payable to Meezan Bank Limited (MBL)		12
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	1,493
Payable against redemption of units		100
Payable against purchase of investments		643
Unclaimed dividend		4,798
Accrued expenses and other liabilities	11	3,780
Total liabilities		<u>14,531</u>
Net assets		<u>1,680,705</u>
Contingency	12	
Unit holders' fund (as per statement attached)		<u>1,680,705</u>
		Number of units
Number of units in issue	13	<u>132,486,008</u>
		Rupees
Net assets value per unit		<u>12.69</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

INCOME STATEMENT

FOR THE PERIOD AUGUST 5, 2011 TO JUNE 30, 2012

	Note	For The Period August 5, 2011 To June 30, 2012 (Rupees in '000)
Income		
Net realised gain on sale of investments		235,525
Dividend income - net of charity		94,159
Profit on savings accounts with banks		12,499
Back end load		13,351
Other income		683
		356,217
Unrealised gain on re-measurement of investments - at 'fair value through profit or loss' (net)	6	30,090
Impairment loss on 'available for sale' investments	6.2	(28,822)
		1,268
		357,485
Total income		
Expenses		
Remuneration to Al Meezan - management company of the Fund	8.1	28,117
Sindh sales tax on management fee	8.2	4,499
Remuneration to CDC - trustee of the Fund	9	2,315
Annual fee to SECP	10	1,336
Auditors' remuneration	14	693
Fees and subscription		360
Brokerage		1,355
Bank and settlement charges		542
Printing expenses		336
		39,553
		317,932
Net income from operating activities		
Element of loss and capital losses included in prices of units sold for the period less those in units redeemed (net)		(3,308)
Net income for the period		314,624
Other comprehensive income for the period		
Surplus realised on disposal of 'available for sale investments' transferred to income statement on disposal		(79,011)
Net unrealised appreciation on re-measurement of investments classified as 'available for sale'		49,105
Element of loss and capital losses included in prices of units sold less those in units redeemed pertaining to 'available for sale' investments (net)		(1,691)
		283,027
		283,027

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

DISTRIBUTION STATEMENT FOR THE PERIOD AUGUST 5, 2011 TO JUNE 30, 2012

	For The Period August 5, 2011 To June 30, 2012
	(Rupees in '000)
Loss transferred from Al Meezan Mutual Fund Limited	(60,110)
Net income for the period	314,624
Element of loss and capital losses included in prices of units sold less those in units redeemed pertaining to 'available for sale' investments (net)	(1,691)
Accumulated income carried forward	<u>252,823</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 PERIOD AUGUST 5, 2011 TO JUNE 30, 2012

	For The Period August 5, 2011 To June 30, 2012 (Rupees in '000)
Issue of 137,539,986 units against cancellation of 137,539,986 shares of Al Meezan Mutual Fund Limited upon conversion of Al Meezan Mutual Fund Limited into Al Meezan Mutual Fund (open end fund) as per scheme of arrangement	1,450,997
Issue of 15,696,250 units	175,160
Redemption of 20,750,228 units	(233,478) (58,318)
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)	
- transferred to income statement	3,308
- transferred directly to other comprehensive income	1,691 4,999
Net realised gain on sale of investments	235,525
Unrealised diminution in value of investments	(28,638)
Total other comprehensive income for the period less distribution	76,140
Net assets at the end of the period	1,680,705
Net assets value per unit at the beginning of the period - Rupees	-
Net assets value per unit at the end of the period - Rupees	12.69

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

CASH FLOW STATEMENT

FOR THE PERIOD AUGUST 5, 2011 TO JUNE 30, 2012

	Note	For The Period August 5, 2011 To June 30, 2012 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period		314,624
Adjustments for:		
Dividend income		(96,091)
Profit on savings accounts with banks		(12,499)
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)		(30,090)
Impairment loss		28,822
Charity expense		1,932
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)		3,308
		(104,618)
(Increase) / decrease in assets		
Investments		(187,221)
Receivable against sale of investments		(10,448)
Advances, deposits and other receivables		43
		(197,626)
Increase / (decrease) in liabilities		
Payable to Al Meezan - management company of the Fund		(370)
Payable to CDC - trustee of the Fund		152
Payable to SECP		(184)
Payable to MBL		12
Conversion cost payable		(5,423)
Payable against purchase of investments		643
Accrued expenses and other liabilities		329
Cash utilised in operations		(4,841)
Dividend received		93,022
Charity paid		(1,749)
Profit received on savings accounts with banks		11,350
Dividend paid		(239,942)
Net cash outflow from operating activities		(129,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from sale of units		175,160
Payments against redemption of units		(233,378)
Net cash outflow from financing activities		(58,218)
Net cash outflow during the period		(187,998)
Cash and cash equivalents acquired from Al Meezan Mutual Fund Limited	15	351,279
Cash and cash equivalents at the end of the period	5	163,281

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 PERIOD AUGUST 5, 2011 TO JUNE 30, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Al Meezan Mutual Fund (the Fund) was constituted by virtue of a scheme of arrangement for conversion of Al Meezan Mutual Fund Limited (AMMFL) into an Open End Scheme under a Trust Deed executed between Al Meezan, as management company and CDC as trustee. The Trust Deed was executed on June 17, 2011 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations).
- 1.2 The Management Company has been licensed by the SECP to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the management company is situated at Ground Floor, Block 'B', Finance and Trade Centre, Shahrah-e-Faisal, Karachi 74400, Pakistan.
- 1.3 Title of the assets of the Fund is held in the name of CDC as a trustee of the Fund. The Fund is an open-end fund listed on the Islamabad Stock Exchange. Units of the Fund are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The management company of the Fund has been given quality rating of AM2.
- 1.4 The Fund has been formed to provide the unit holders safe and stable stream of halal income on their investments and to generate superior long-term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point of time. Under the trust deed all conducts and acts of the Fund are based on shariah. MBL acts as its shariah adviser to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.5 As per the Trust Deed, the Fund shall become operative from the "effective date" upon conversion of Al Meezan Mutual Fund Limited to an open end fund. Therefore, these financial statements have been prepared from August 5, 2011, i.e., the "effective date" of conversion, therefore, there are no corresponding figures in these financial statements.
- 1.6 Face value per unit is Rs 10. As per the scheme of arrangement for conversion of investment company into an open end fund, a swap ratio of 1:1 (i.e. for each fully paid-up share of the par value of Rs 10 of Al Meezan Mutual Fund Limited, each shareholder whose name was entered in the register of members of Al Meezan Mutual Fund Limited on the effective date was issued one unit of the open end fund of the par value of Rs 10 with no front-end load and upon issuance of the units of the open end fund, the shares of Al Meezan Mutual Fund Limited and the corresponding share certificates were deemed to be cancelled and of no effect) was approved by the shareholders of Al Meezan Mutual Fund Limited vide their special resolution dated April 27, 2011. Hence, the initial issuance of 137,539,986 units of Al Meezan Mutual Fund was made at the net asset value received against each unit (i.e. Rs 10.55 per unit).

2. BASIS OF MEASUREMENT

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



3. STATEMENT OF COMPLIANCE

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

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

- 3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following standards, amendments and interpretation to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures'. This amendment is effective from January 1, 2011. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements.
- b) IFRS 7, 'Financial instruments: Disclosures'. This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed 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:

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are certain amendments to the standards and interpretations that are mandatory for the Fund's accounting period beginning on or after July 1, 2012 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.

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)
- c) Recognition of provision for current and deferred taxation (note 4.9)

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 redeemed price represents the net assets value per unit less back end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

The element is recognised in the income statement to the extent that it is represented by income earned during the year and unrealised appreciation / (diminution) arising during the year on 'available for sale' securities is included in the distribution 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 other comprehensive income 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 is 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	2012 (Rupees in '000)
5. BALANCES WITH BANKS		
On current accounts		4,790
On savings accounts	5.1	158,491
		163,281
5.1 The balances in savings accounts bears expected profit which ranges from 5.65% to 12% during the period.		
6. INVESTMENTS		
Investments at fair value through profit and loss	6.1	645,384
Investments - 'available for sale'	6.2	865,590
		1,510,974

6.1 Held for trading -shares of listed companies

6.1.1 Shares of listed companies

Name of the investee company	Transferred from Al Meezan Mutual Fund Limited	Purchases during the period	Bonus Issue	Demerger effect / Adjustment	Sales during the period	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage in relation to total market value of investment
	-----Number of shares-----						-----Rupees in '000-----			%
General industrials										
Packages Limited	-	490,000	-	-	-	490,000	50,989	48,853	(2,136)	3.23
Thal Limited (note 6.1.2)	294,751	58,950	-	-	37,000	316,701	25,922	29,453	3,531	1.95
Tri-Pack Films Limited	3,300	13,128	-	-	-	16,428	3,290	3,450	160	0.23
Construction and materials										
DG Khan Cement Company Limited	-	437,305	-	-	-	437,305	17,725	17,221	(504)	1.14
Lucky Cement Limited	198,190	410,000	-	-	-	608,190	62,610	70,179	7,569	4.64
Attock Cement Pakistan Limited	115,305	-	-	-	45,000	70,305	3,142	5,726	2,584	0.38
Electricity										
Hub Power Company Limited	-	470,000	-	-	-	470,000	18,567	19,688	1,121	1.30
Food producers										
Engro Foods Limited	-	515,000	-	-	10,000	505,000	32,306	32,547	241	2.15
Oil and gas										
National Refinery Limited	-	20,000	-	-	-	20,000	5,212	4,628	(584)	0.31
Pakistan State Oil Company Limited	-	30,000	-	-	-	30,000	7,406	7,075	(331)	0.47
Pakistan Oilfields Limited	142,951	75,000	-	-	92,000	125,951	45,730	46,217	487	3.06
Pakistan Petroleum Limited	275,770	90,000	27,577	-	10,400	382,947	73,205	72,105	(1,100)	4.77
Oil and Gas Development Company Limited (note 6.1.3)	-	133,000	-	-	-	133,000	21,830	21,339	(491)	1.41
Fixed line telecommunication										
Pakistan Telecommunication Company Limited "A"	671,750	750,000	-	-	183,000	1,238,750	15,539	16,958	1,419	1.12
Automobile and parts										
Indus Motor Company Limited	125,464	-	-	-	-	125,464	25,656	30,749	5,093	2.04
Pak Suzuki Motor Company Limited	58,980	10,000	-	-	12,591	56,389	3,937	5,398	1,461	0.36
Agriauto Industries Limited (note 6.1.2)	-	8,960	-	-	-	8,960	605	726	121	0.05
Chemicals										
Fauji Fertilizer Bin Qasim Limited	-	794,685	-	-	-	794,685	31,618	32,439	821	2.15
Fauji Fertilizer Company Limited	-	1,287,000	12,500	-	-	1,299,500	147,982	144,309	(3,673)	9.55
ICI Pakistan Limited (note 6.1.4)	600	1,686	-	(765)	-	1,521	213	199	(14)	0.01
Banks										
Meezan Bank Limited (an associate of the Fund)	1,262,805	50,000	132,850	-	200,000	1,245,655	21,703	36,024	14,321	2.38
Unquoted company										
AkzoNobel Pakistan Limited (note 6.1.4)	-	-	-	765	-	765	107	101	(6)	0.01
Total							615,294	645,384	30,090	
Total cost of investments							615,294			

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.

6.1.3 190,000 shares of Oil and Gas Development Company Limited, having market value of Rs 30.484 million as at June 30, 2012, have been pledged as collateral in favour of National Clearing Company of Pakistan Limited against exposure margins and mark to market losses.

6.1.4 The demerger of the Paints Business of ICI Pakistan Limited and its vesting into Akzo Nobel Pakistan Limited had resulted in the split of the share capital in the ratio 66.54 : 33.46 as of June 27, 2012. Subsequent to the year ended June 30, 2012, Akzo Nobel Pakistan Limited has been listed on the Karachi Stock Exchange and trading of its shares has started on the Ready Board of the Exchange from July 13, 2012.

6.2 Investments - 'available for sale'

6.2.1 Shares of listed companies

Name of the investee company	Transferred from Al Meezan Mutual Fund Limited	Purchases during the period	Bonus issue	Sales during the period	Demerger effect / Adjustment	As at June 30, 2012	Carrying value as at June 30, 2012 (Before Impairment)	Impairment during the period	Carrying value as at June 30, 2012 (After Impairment)	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage in relation to total market value of investment
	-----Number of shares-----						-----Rupees in '000-----					%
Personal goods												
Nishat Mills Limited	-	445,000	-	445,000	-	-	-	-	-	-	-	-
General industrials												
Packages Limited (note 6.2.2)	416,356	566,400	-	981,378	-	1,378	16,896	16,782	114	137	23	0.01
Tri-Pack Films Limited	100,000	-	-	-	-	100,000	9,710	-	9,710	20,999	11,289	1.39
Construction and materials												
DG Khan Cement Company Limited (note 6.2.2)	1,175,000	5,457,000	-	5,478,000	-	1,154,000	57,563	11,531	46,032	45,445	(587)	3.01
Lucky Cement Limited	951,469	573,101	-	1,344,443	-	180,127	21,403	-	21,403	20,785	(618)	1.38
Attock Cement Pakistan Limited (note 6.2.2)	10,000	-	-	10,000	-	-	206	206	-	-	-	-
Electricity												
Hub Power Company Limited	2,092,500	2,836,000	-	1,226,000	-	3,702,500	137,156	-	137,156	155,098	17,942	10.26
Automobile assembler												
Millat Tractors Company Limited	-	3,000	-	-	-	3,000	1,300	-	1,300	1,449	149	0.10
Pharma and bio tech												
Glaxo Smithkline Pakistan Limited	18,224	-	1,822	-	-	20,046	1,276	-	1,276	1,268	(8)	0.08
Oil and gas												
National Refinery Limited	-	66,246	-	20,000	-	46,246	11,146	-	11,146	10,701	(445)	0.71
Attock Petroleum	-	33,500	-	10,000	-	23,500	9,748	-	9,748	11,148	1,400	0.74
Pakistan State Oil Company Limited	473,043	57,000	-	100,500	-	429,543	112,749	-	112,749	101,303	(11,446)	6.70
Pakistan Oilfields Limited	321,900	38,500	-	75,060	-	285,340	73,649	-	73,649	104,703	31,054	6.93
Pakistan Petroleum Limited	530,308	-	50,530	176,016	-	404,822	60,152	-	60,152	76,224	16,072	5.05
Oil and Gas Development Company Limited (note 6.1.3)	847,140	321,794	-	413,271	-	755,663	108,141	-	108,141	121,238	13,097	8.02
Fixed line telecommunication												
Pakistan Telecommunication Company Limited "A"	1,270,000	1,250,000	-	1,185,080	-	1,334,920	17,851	-	17,851	18,275	424	1.21
Automobile and parts												
Indus Motor Company Limited	31,200	-	-	15,000	-	16,200	3,961	-	3,961	3,970	9	0.26
Pak Suzuki Motor Company Limited (note 6.2.2)	20,000	20,000	-	40,000	-	-	303	303	-	-	-	-
Agriauto Industries Limited (note 6.1.2)	700,000	-	-	-	-	700,000	46,690	-	46,690	56,700	10,010	3.75
Chemicals												
Fauji Fertilizer Bin Qasim Limited	-	619,500	-	409,000	-	210,500	10,682	-	10,682	8,593	(2,089)	0.57
Fauji Fertilizer Company Limited	1,518,982	14,256	430,619	1,942,000	-	21,857	1,714	-	1,714	2,427	713	0.16
ICI Pakistan Limited (note 6.1.4)	729,515	25,000	-	211,275	(181,768)	361,472	45,497	-	45,497	47,378	1,881	3.14
Banks												
Meezan Bank Limited (an associate of the Fund)	837,016	250,000	135,877	50,000	-	1,172,893	17,939	-	17,939	33,920	15,981	2.24
BankIslami Pakistan Limited	-	500	-	-	-	500	2	-	2	5	3	-
Unquoted company												
AkzoNobel Pakistan Limited (note 6.1.4)	-	-	-	-	181,768	181,768	22,878	-	22,878	23,824	946	1.58
Total							788,612	28,822	759,790	865,590	105,800	
Total cost of investments												788,612



- 6.2.2 As per IAS 39 'Financial Instruments', where the investment is 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. The recoverable amount of the aforementioned securities had significantly declined as at June 30, 2012, the cumulative loss measured as the difference between the acquisition cost and the current fair value has been reclassified from other comprehensive income to the income statement as impairment loss.

	Note	2012 (Rupees in '000)
7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES		
Security deposits		2,738
Profit receivable on savings accounts with banks		4,726
		<u>7,464</u>
8. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - management company of the Fund		
Management fee	8.1	2,765
Sales load		270
Sindh sales tax on management fee	8.2	442
Sindh sales tax on sales load		8
		<u>3,485</u>

- 8.1 Under the provisions of NBFC Regulations, the management company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the management company has been charged at the rate of two percent per annum for the period August 5, 2011 to June 30, 2012.

- 8.2 During the current year, the Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act 2011 effective from July 1, 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.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2012 (Rupees in '000)
Auditors' remuneration		450
Withholding tax payable		10
Charity payable	11.1	2,314
Fund rating fee		150
Printing charges payable		255
Brokerage payable		601
		<u>3,780</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 2.314 million is outstanding in this regard after making charity payments of Rs 1.749 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.

Prior to 2011, 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. In December 2010 the ministry filed its responses against the Constitutional Petition requesting the Court to dismiss the same, whereafter, show cause notices were issued by the Federal Board of Revenue (FBR) to several mutual funds for the collection of WWF. In respect of such show cause notices, certain mutual funds have been granted stay by Honorable Sindh High Court (SHC) on the basis of the pending constitutional petition as referred above. No such notice was received by the Fund.

During the current period the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional. The management company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

However, a fund under the common management of the management company has received a notice of demand under section 137 of the Income Tax Ordinance, 2001 for the payment of levy of WWF for the period ended June 30, 2009. The management company has filed an appeal against such notice of demand to the Commission Inland Revenue (Appeals) which is pending adjudication.

The Management Company believes that the aforementioned constitutional petition pending in the Court has strong grounds for decision in favour of the mutual funds. The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs 20.455 million which includes Rs 14.286 million, being a contingent liability on account of Al-Meezan, transferred to the Fund. Had the WWF been provided, the NAV per unit of the Fund would have been lower by Re. 0.16 (1.26%).

There were no other contingencies and commitments outstanding as at June 30, 2012.

13. CLASSES OF UNITS IN ISSUE

- 13.1 The Fund may issue the following classes of units:

Class Description

- A Units shall be issued to all Conversion Unit Holders making fresh investment which may not be charged with Front-end or Back-end 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, 2012 in each class and their par values were as follows:

	2012	
	Number of units in issue	Rupees in '000'
- Growth units	132,486,008	1,324,860
Total	<u>132,486,008</u>	<u>1,324,860</u>

14. AUDITORS' REMUNERATION

	2012 (Rupees in '000)
Audit fee	460
Half yearly review	101
Other certifications and services	110
Out of pocket expenses	<u>22</u>
	<u><u>693</u></u>

15. NET ASSETS ACQUIRED FROM AL MEEZAN MUTUAL FUND LIMITED

The entire AMMFL undertaking as on the effective date (August 5, 2011) have been transferred to Al Meezan Mutual Fund (Open End Scheme) by virtue of Article IV of the Scheme of Arrangement for conversion of the Company into an Open End Scheme duly sanctioned by the SECP through its letter SCD/NBFC/MF-RS/AMMF/211/2011 dated May 9, 2011. Legal title of all the assets were transferred to the open end scheme as on the effective date.

Details of assets and liabilities transferred on the effective date (August 5, 2011) are as follows:

AL MEEZAN MUTUAL FUND LIMITED

	August 5, 2011 (Rupees in '000)
ASSETS	
Balances with banks	351,279
Investments	1,352,391
Advances, deposits, prepayments and other receivables	6,358
Total Assets	1,710,028
LIABILITIES	
Payable to the Management Company	3,323
Payable to the CDC	68
Payable to the SECP	1,677
Accrued expenses and other liabilities	3,800
Unclaimed dividend	244,740
Conversion cost payable	5,423
	259,031
NET ASSETS	1,450,997
Represented by:	
137,539,986 ordinary shares of Rs 10 each	1,375,400
Accumulated loss	(60,110)
Surplus on revaluation of investments categorised as 'available for sale investments'	135,707
	<u><u>1,450,997</u></u>

Contingent liability in respect of WWF amounting to Rs 14.286 million has also been transferred to the open end scheme.

16. 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 Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund, Meezan Capital Protected Fund - II Meezan Sovereign Fund, Meezan Income Fund, KSE Meezan Index 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 and the trust deed respectively.

Details of transactions with connected persons and balances with them for period August 5, 2011 to June 30, 2012 and as of that date :

	2012 (Rupees in '000)
Al Meezan - management company of the Fund	
Remuneration payable	<u>2,765</u>
Sales load payable	<u>270</u>
Sindh sales tax on management fee payable	<u>442</u>
Sindh sales tax on sales load payable	<u>8</u>
Investment of 41,075,440 units (note 16.1)	<u>521,247</u>
Meezan Bank Limited - shariah advisor of the Fund	
Balances with bank	<u>5,649</u>
Profit receivable on savings account	<u>23</u>
Sales load payable	<u>12</u>
Investment in 2,418,548 shares	<u>69,944</u>
Investment of 5,561,607 units (note 16.1)	<u>70,577</u>
CDC - trustee of the Fund	
Trustee fee payable	<u>220</u>
Deposits	<u>238</u>
Pakistan Kuwait Investment Company (Private) Limited	
Investment of 16,895,690 units (note 16.1)	<u>214,406</u>
Directors and executives of the management company	
Investment of 1,272,219 units (note 16.1)	<u>16,144</u>

**For The Period
August 5, 2011
to June 30, 2012
(Rupees in '000)**

Al Meezan - management company of the Fund

Remuneration for the period	<u>28,117</u>
Sindh sales tax on management fee	<u>4,499</u>
Units issued: 41,075,440 units (note 16.1)	<u>432,909</u>

Meezan Bank Limited

Profit on savings account	<u>138</u>
Dividend Income	<u>2,100</u>
Gain on sale of investment	<u>1,327</u>
268,727 bonus shares received	<u>-</u>
300,000 shares purchased during the period	<u>6,225,000</u>
250,000 shares sold during the period	<u>5,921,250</u>
Units issued: 5,561,607 units (note 16.1)	<u>55,616</u>

CDC - trustee of the Fund

Trustee fee	<u>2,315</u>
CDS charges	<u>30</u>
CDS eligibility fee	<u>61</u>

Pakistan Kuwait Investment Company (Private) Limited

Units issued: 16,895,690 units (note 16.1)	<u>178,250</u>
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Directors and executives of the management company

Units issued: 1,318,681 units (note 16.1)	<u>14,415</u>
Redemptions: 46,462 units	<u>567</u>

- 16.1 During the year due to the conversion of Al Meezan Mutual Fund Limited (AMMFL) to Al Meezan Mutual Fund (AMMF), an open end scheme, the equity instruments (shares) of AMMFL have been converted into units of AMMF in the ratio of 1:1 as per the scheme of arrangement for constitution of AMMF.

17. FINANCIAL INSTRUMENTS BY CATEGORY

	2012				
	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	163,281	-	-	-	163,281
Investments	-	645,384	865,590	-	1,510,974
Receivable against sale of investments	10,448	-	-	-	10,448
Dividend receivable	3,069	-	-	-	3,069
Advances, deposits and other receivables	7,464	-	-	-	7,464
	<u>184,262</u>	<u>645,384</u>	<u>865,590</u>	<u>-</u>	<u>1,695,236</u>
On balance sheet - financial liabilities					
Payable to Al Meezan					
- management company of the Fund	-	-	-	3,035	3,035
Payable to CDC - trustee of the Fund	-	-	-	220	220
Payable to MBL	-	-	-	12	12
Payable on redemption of units	-	-	-	100	100
Payable against purchase of investments	-	-	-	643	643
Accrued expenses and other liabilities	-	-	-	1,456	1,456
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,466</u>	<u>5,466</u>

18. 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:

18.1 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, profit receivable on bank deposits, 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, 2012 is tabulated below:

	2012 (Rupees in '000)
FINANCIAL ASSETS	
Balances with banks	163,281
Receivable against sale of investments	10,448
Dividend receivable	3,069
Deposits and other receivables	7,464
	184,262

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

	2012 (%)
AA+	94.44
AA	1.96
AA-	3.46
A	0.14
	100.00

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

18.2 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 exchange 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 252.106 million as on June 30, 2012. However, no such borrowing has been obtained during the period.

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 Financial liabilities into relevant maturity grouping as at June 30, 2012 is tabulated below:

	Maturity upto				2012 Total
	Three months	Six months	One year	More than one year	
	(Rupees in '000)				
Payable to Al Meezan - management company of the Fund	3,035	-	-	-	3,035
Payable to CDC - trustee of the Fund	220	-	-	-	220
Payable to MBL	12	-	-	-	12
Payable on redemption of units	100	-	-	-	100
Payable against purchase of investments	643	-	-	-	643
Accrued expenses and other liabilities	1,456	-	-	-	1,456
2012	5,466	-	-	-	5,466

18.3 Market risk

18.3.1 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.

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 0.468 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.



18.3.2 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 period August 5, 2011 to June 30, 2012, the net income would have increased / (decreased) by Rs 1.585 million had the interest rates on profit and loss savings accounts increased / (decreased) by 100 basis points.

19. 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, 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 18, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments where necessary.

20. 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, 2012.

21. PERFORMANCE TABLE

2012

Net assets (Rs. '000) (ex-distribution)*	1,680,705
Net assets value / redemption price per unit as at June 30 (Rs.) (ex-distribution)*	10.69
Offer price per unit as at June 30 (Rs.) (ex-distribution)*	10.97
Highest offer price per unit (Rs.)	13.83
Lowest offer price per unit (Rs.)	10.22
Highest redemption price per unit (Rs.)	13.47
Lowest redemption price per unit (Rs.)	9.96
Distribution (%)	
- Annual	20
Dates of distribution (annual)	July 9, 2012
Growth distribution (Rupees in '000)	264,972
Total return (%)	20.28

* The distribution is not accounted for in these financial statements as also explained in note 26.

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.

22. INVESTMENT COMMITTEE MEMBERS

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

	Designation	Qualification	Experience in years
1. Mohammad Shoaib, CFA	Chief Executive Officer	CFA / MBA	Twenty-Two years
2. Muhammad Asad	Chief Investment Officer	CFA level 2 / MBA	Sixteen years
3. Bushra Tariq	Senior Manager	BBA	Three Years
4. Sanam Ali Zaib	Head of Research	CFA / MBA	Eight years
5. Muhammad Ali	AVP Investments	CFA / FRM / MBA / MS	Eighteen years
6. Shakil Ahmed	Senior Manager	CFA / MBA	Five years
7. Farhan Lakhani	Manager research	CFA / MBA	Three Years

22.2 The fund manager of the Fund is Ms. Bushra Tariq and no other funds are being managed by the fund manager.

23. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors' meetings and directors present therein				
		August 16, 2011	September 28, 2011	October 14, 2011	February 23, 2012	April 27, 2012
Mr. Ariful Islam	Chairman	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib, CFA	Chief Executive	Yes	Yes	Yes	Yes	Yes
Mr. Mazhar Sharif	Director	Yes	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Director	Yes	Yes	No	Yes	No
Mr. Rana Ahmed Humayun	Director	Yes	Yes	No	Yes	-
Mr. Rizwan Ata***	Director	Yes	Yes	No	-	-
Mr. Salman Sarwar Butt	Director	Yes	Yes	Yes	Yes	Yes
Mr. Tasnimul Haq Farooqui*	Director	-	-	-	Yes	Yes
Syed Amir Ali*	Director	-	-	-	Yes	Yes
Syed Amir Ali Zaidi**	Director	-	-	-	-	Yes

* Appointed in December 2011

** Appointed in place of Rana Ahmed Humayun

*** Resigned in December 2011

24. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE

Broker's Name	2012 %
1. KASB Securities Limited	13.19%
2. BMA Capital Management Limited	8.97%
3. Foundation Securities (Private) Limited	8.48%
4. Invest Capital Markets Limited	7.16%
5. Elixir Securities Pakistan (Private) Limited	6.92%
6. Top Line Securities (Private) Limited	6.33%
7. Fortune Securities Limited	6.07%
8. Optimus Capital Management (Pvt) Limited	5.85%
9. JS Global Capital Limited	5.67%
10. Arif Habib Limited	4.61%

25. PATTERN OF UNITHOLDING

	----- (2012) -----		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment %
Individuals	1,973	504,971	30.04
Associated companies / directors	5	929,205	55.28
Insurance companies	2	58,645	3.49
Banks / DFIs	6	20,421	1.22
NBFCs	7	89,255	5.31
Retirement funds	11	41,937	2.50
Public limited companies	83	34,125	2.03
Others	2	2,146	0.13
Total	2,089	1,680,705	100.00

26 NON ADJUSTING EVENTS

The Board of Directors in its meeting held on July 9, 2012 has announced a payout of 20% amounting to Rs 264.972 million equivalent to 24,786,905 bonus units. The financial statements for the period August 5, 2011 to June 30, 2012 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ended June 30, 2013.

2012
(Rupees in '000)

The effect of issue of bonus units is as follows:

Number of units in issue before bonus units	132,486,008
Number of units in issue after bonus units	157,272,913
Net assets value per unit before distribution	12.69
Net assets value per unit after distribution	10.69

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the board of directors of the management company.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2012

Units held by	Units Held	%
Associated Companies		
Meezan Bank Limited	5,561,607	4.20
Al Meezan Investment Management limited	41,075,440	31.00
Pakistan Kuwait Investment Company (Pvt) Limited	16,895,690	12.75
CDC Trustee Meezan Islamic Fund	8,480,190	6.40
Chief Executive		
Mr. Mohammad Shoaib, CFA	1,234,159	0.93
Executives	38,060	0.03
Public Limited Companies	73,436	0.06
Bank & Financial Institutes	2,630,133	1.99
Mutual Funds		
MCFSL - Trustee Atlas Fund of Funds	3,148,995	2.38
NBP Trustee Department NIUT	2,866,385	2.16
Retirement Funds	3,305,800	2.50
Other Corporate Sector entities	7,408,536	5.59
Individuals	39,767,577	30.02
Total	132,486,008	100



Annual Report 2012



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. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoaib, CFA	Chief Executive

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, CFA	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)
Habib Metropolitan Bank Limited - Islamic Banking
Meezan Bank Limited

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 FUND MANAGER

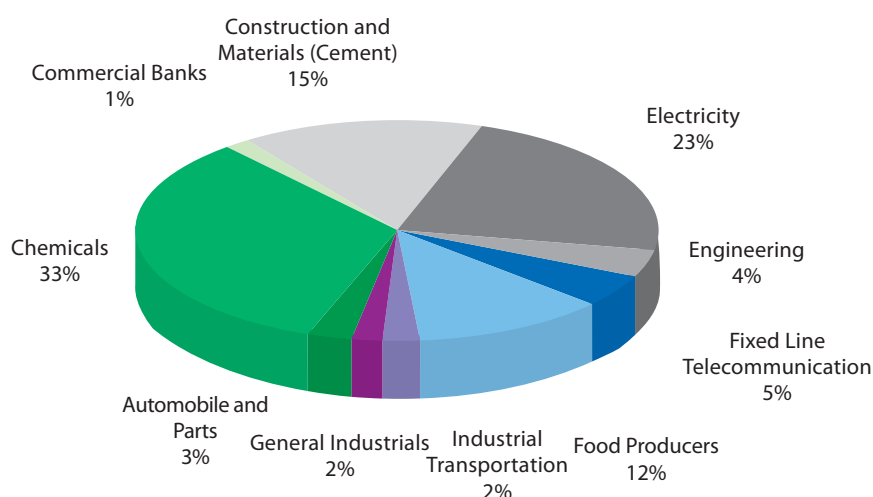
KSE Meezan Index Fund (KMIF) is an open end index tracker fund investing in Shariah compliant listed equity securities.

The objective of KMIF is to provide investors an opportunity to track closely the performance of the KSE-Meezan Index 30 (KMI 30) by investing in companies of the Index in proportion to their weightages.

Strategy, Investment Policy and Asset Allocation

The performance of KMIF is linked directly to the performance of KSE-Meezan Index 30 (KMI 30). The Fund Manager, Al Meezan Investment Management Limited, manages the fund with the aim to closely track the returns of the index. The Fund Manager strives to completely match the weightages of the constituent stocks of the index. Hence, this is a passively managed fund.

The Fund was launched during the year on May 23, 2012, and is invested by 99.35% as on June 30, 2012. The composition of sectors is as follows:



Performance Review

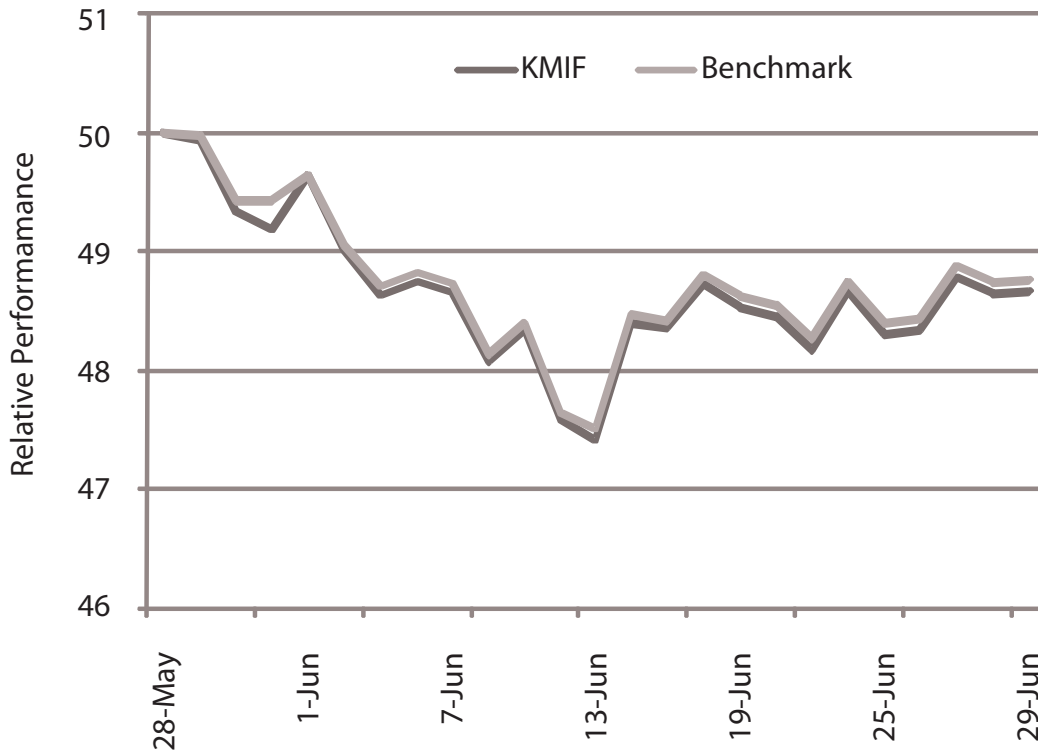
During the period under review, KSE Meezan Index Fund (KMIF) provided a return of -2.4% to its investors while KSE Meezan Index (KMI 30) posted a return of -1.79% to close at 23,776.

KSE Meezan Index Fund (KMIF) during the period ended June 30, 2012 incurred a net loss of Rs. 7 million. Main contributors include capital loss (realized and unrealized) amounting to Rs. 6 million. After accounting for expenses of Rs. 0.97 million, the Fund recorded net loss of Rs. 7 million. The net assets of the Fund stood at Rs. 289 million.

Distributions

Nil

	KMIF	KMI-30
Net Asset Value (NAV) as on May 23, 2011 (Rupees)	50.00	24,209
Net Asset Value (NAV) as on June 30, 2012 (Rupees)	48.83	23,776
Return During the Period	-2.4%	-1.79%



Charity Statement

According to the Trust Deed of KMIF, 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, 2012 an amount of Rs. 0.015 million was accrued as charity payable.

Breakdown of unit holdings by size:

Range of units	Number of unit holders
Upto 10,000	154
Between 10,001 to 50,000	46
Between 50,001 to 100,000	4
Between 100,001 to 500,000	6
Between 500,001 and above	2
Total	212



Meezan Bank
The Premier Islamic Bank

Report of the Shar'iah Advisor –KSE Meezan Index Fund

September 28, 2012/ Ziq'a'd 10, 1433

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 equity investments of KMIF in light of *Shar'iah* requirements. Following is the list of investments of KMIF as on June 30, 2012 and their evaluation according to the screening criteria established by us. (December 31, 2011 accounts of the Investee companies have been used).

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<37%)	(iii) % of Non-Shar'iah Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>25%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Attock Cement Ltd.	Construction and Materials	0.00%	3.63%	0.29%	89%	(18.7)	51
Attock Petroleum Ltd.	Oil and Gas	0.00%	4.02%	1.23%	26%	48	412.5
Attock Refinery	Oil and Gas	0.00%	0.00%	1.04%	45%	(123.37)	107.65
Clariant Pakistan	Chemicals	15.93%	0.00%	0.00%	47%	(2.15)	149
D.G. Khan Cement Company	Construction and Materials	33.52%	3.22%	4.85%	71%	(15.76)	19.03
Fauji Fertilizer Bin Qasim Ltd.	Chemicals	20.73%	22.00%	2.14%	56%	(9.47)	42.43
Fauji Fertilizer Company Ltd.	Chemicals	24.89%	30.55%	1.64%	56%	(24.41)	149.54
GlaxoSmithKline Ltd.	Pharma and Bio Tech	0.00%	1.27%	1.62%	68%	2.41	67.08
Habib Sugar Mills	Food Producers	0.00%	18.03%	0.41%	48%	12.36	21.91
Hub Power Company Ltd.	Electricity	32.75%	0.00%	0.05%	37%	(41.87)	34.2
ICI Pakistan Ltd.	Chemicals	0.00%	0.00%	0.57%	67%	2.49	120.27

Page 1 of 2

Meezan Bank Ltd.

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



Indus Motors Company Ltd.	Automobile and Parts	0.00%	15.28%	2.18%	47%	29.9	204.8
Lotte PTA	Chemicals	9.10%	0.00%	1.34%	64%	(1.41)	9.27
Lucky Cement	Construction and Materials	16.00%	0.00%	0.00%	94%	(31.19)	75.04
MARI GAS	Oil and Gas	5.93%	0.00%	1.22%	47%	(13.56)	81
Meezan Bank Ltd.	Islamic Commercial Bank			**			
Millat Tractors	Industrial Engineering	0.04%	10.46%	0.69%	66%	3.2	365.21
National Refinery Ltd.	Oil and Gas	0.00%	1.53%	1.05%	46%	(38.82)	242.69
Oil & Gas Development Company Ltd.	Oil and Gas	0.00%	18.49%	4.24%	41%	23.88	151.62
Pak. Telecommunication. Co. Ltd.	Fixed Line Telecommunication	7.41%	2.87%	1.22%	79%	(9.25)	10.39
Pakistan Internation Container Ltd.	Industrial Transportation	29.06%	6.71%	2.92%	66%	(104.28)	65.99
Pakistan Oilfields Ltd.	Oil and Gas	0.00%	3.33%	4.09%	69%	2.1	346.45
Pakistan Petroleum Ltd.	Oil and Gas	0.12%	32.60%	4.68%	35%	50.64	168.32
Pakistan Refinery	Oil and Gas	22.64%	0.00%	0.24%	44%	(315.69)	67.71
Pakistan State Oil Company Ltd.	Oil and Gas	5.09%	0.00%	0.27%	33%	(316.41)	227.21
Shell Pakistan	Oil and Gas	32.42%	0.00%	0.08%	55%	(280.27)	190.28
Sui North Pakistan	Gas Water and Multiutilities	13.99%	0.00%	1.60%	62%	(133.96)	15.71
Thal Ltd.	General Industrials	14.43%	2.88%	2.40%	83%	(78.43)	81.8
Tripak Films Ltd.	General Industrials	26.50%	4.24%	0.16%	70%	(69.73)	160.3
Unilever Pakistan	Food Producers	2.02%	0.97%	0.08%	78%	(625.22)	5,565.80

* All interest based debts.

** These ratios are for the calculation of non-*Shar'iah* Compliant elements 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 KMIF for the period ended June 30, 2012 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 KMIF under management of Al Meezan Investment Management Limited (Al Meezan) are *Shar'iah* compliant and in accordance with the criteria established by us.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400. Pakistan.
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Fax: (92-21) 34326020 - 23
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ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

KSE MEEZAN INDEX 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

We, Central Depository Company of Pakistan Limited, being the Trustee of KSE Meezan Index Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from May 18, 2012 to June 30, 2012 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, October 05, 2012





STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

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 management company has applied the principles contained in the CCG in the following manner:

1. The management company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed Mr. Salman Sarwar Butt
Executive Director	Mr. Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies including the management company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the 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 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on February 16, 2012 was filled up by the directors within 30 days.
5. The Management Company has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the management company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors of the Company is pursuing the 'Directors Training Certification' and such certification shall be completed in the ensuing year.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including the CEO, all other members are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Fund, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

We confirm that all other material principles enshrined in the CCG have been complied with.

Mohammad Shoaib, CFA
Chief Executive

Karachi
September 21, 2012



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 period May 18 to June 30, 2012 prepared by the Board of Directors of Al Meezan Investment Management Limited (the Management Company) of **KSE Meezan Index Fund** (the Fund) to comply with the Listing Regulation No.35 of the Islamabad 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

Further, regulation (x) of the Listing Regulations No.35 notified by the Islamabad 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 and have ensured compliance of requirement to the extent of approval of 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 prices 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 status of the Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period May 18 to June 30, 2012.


Chartered Accountants
Karachi, October 19, 2012

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
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Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320



INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **KSE Meezan Index Fund**, which comprise the statement of assets and liabilities as at June 30, 2012, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period May 18 to June 30, 2012, 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, 2012, and of its financial performance, cash flows and transactions for the period May 18 to June 30, 2012 in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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, October 19, 2012

Audit Engagement Partner: Saad Kaliya

*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
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Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320*

STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2012

	Note	2012 (Rupees in '000)
Assets		
Balances with banks	5	4,066
Investments	6	290,058
Dividend receivable		463
Advances, deposits and other receivables	7	2,657
Preliminary expenses and floatation costs	8	1,973
Total assets		<u>299,217</u>
Liabilities		
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	9	6,044
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	10	58
Payable to Securities and Exchange Commission of Pakistan (SECP)	11	24
Payable against purchase of investments		3,170
Accrued expenses and other liabilities	12	437
Total liabilities		<u>9,733</u>
Net assets		<u>289,484</u>
Unit holders' funds (as per statement attached)		<u>289,484</u>
		Number of units
Number of units in issue	13	<u>5,928,882</u>
		Rupees
Net assets value per unit		<u>48.83</u>

The annexed notes 1 to 24 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

INCOME STATEMENT

FOR THE PERIOD MAY 18 TO JUNE 30, 2012

	Note	For the period May 18 To June 30, 2012 (Rupees in '000)
Income		
Net realised loss on sale of investments		(286)
Dividend income - net of charity		451
Profit on savings accounts with banks		163
Other income		168
		<hr/> 496
Unrealised loss on re-measurement of investments at 'fair value through profit or loss' (net)	6	<hr/> (5,240)
Total loss		<hr/> (4,744)
Expenses		
Remuneration to Al Meezan - management company of the Fund	9.1	253
Sindh sales tax on management fee	9.2	40
Remuneration to CDC - trustee of the Fund	10	69
Annual fee to SECP	11	24
Auditors' remuneration	14	50
Brokerage		373
Bank and settlement charges		122
Amortisation of preliminary expenses and floatation costs	8	40
Total expenses		<hr/> 971
Net loss from operating activities		(5,715)
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)		<hr/> (1,245)
Net loss for the period		<hr/> <hr/> (6,960)

The annexed notes 1 to 24 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

DISTRIBUTION STATEMENT FOR THE PERIOD MAY 18 TO JUNE 30, 2012

For the period
May 18 To
June 30, 2012
(Rupees in '000)

Net loss for the period	(6,960)
Accumulated loss carried forward	<u>(6,960)</u>

The annexed notes 1 to 24 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 PERIOD MAY 18 TO JUNE 30, 2012


	For the period May 18 To June 30, 2012 (Rupees in '000)
Issue of 5,943,901 units	295,918
Redemption of 15,019 units	(719)
	295,199
Element of loss and capital losses included in prices of units issued less those in units redeemed (net)	1,245
Net realised loss on sale of investments	(286)
Unrealised diminution in value of investments	(5,240)
Net other loss for the period less distribution	(1,434)
Net assets at the end of the period	<u>289,484</u>
Net asset value per unit at the end of the period - Rupees	<u>48.83</u>

The annexed notes 1 to 24 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



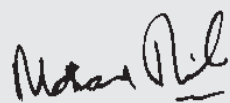
Mazhar Sharif
Director

CASH FLOW STATEMENT

FOR THE PERIOD MAY 18 TO JUNE 30, 2012

	Note	For the period May 18 To June 30, 2012 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period		(6,960)
Adjustments for:		
Dividend income		(463)
Profit on savings accounts with banks		(163)
Amortisation of formation cost		40
Charity expense		12
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)		5,240
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)		1,245
		5,911
Increase in assets		
Investments		(295,298)
Advances, deposits and other receivables		(2,500)
		(297,798)
Increase in liabilities		
Payable to AI Meezan - management company of the Fund		4,031
Payable to CDC - trustee of the Fund		58
Payable to SECP		24
Payable against purchase of investments		3,170
Accrued expenses and other liabilities		422
Cash generated from operations		7,705
Profit received on savings accounts with banks		6
Interest income on deposit		3
Net cash outflow from operating activities		(291,133)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from sale of units		295,918
Payments against redemption of units		(719)
Net cash inflow from financing activities		295,199
Cash and cash equivalents at the end of the period	5	4,066

The annexed notes 1 to 24 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For AI Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD MAY 18 TO JUNE 30, 2012

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 KSE Meezan Index Fund (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee. The trust deed was executed on March 13, 2012 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund is a Shariah Compliant Index Fund that aims to provide investors an opportunity to track closely the performance of the KSE-Meezan Index 30 (KMI 30) by investing in companies of the index in proportion to their weightages. 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 and an application for listing of units of the Fund has been made to the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 The management company of the Fund has been given quality rating of AM2 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.
- 1.6 These are the first financial statements of the Fund. This is the first year of establishment of the Fund, therefore, there are no corresponding figures in these financial statements. These financial statements have been prepared from May 18, 2012.

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 and the directives issued by the SECP.

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



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

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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)
- c) Recognition of provision for current and deferred taxation (note 4.12)
- d) Amortisation of preliminary expenses and floatation costs (notes 4.8 and 8)

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

The Fund enters into certain transactions involving purchase of security in the ready market and sale of the same security on deferred settlement basis. Securities purchased by the Fund in the ready market are carried on the statement of assets and liabilities, till eventual disposal, in accordance with the accounting policy specified in note 4.3 above, and sale of those securities in the futures market is accounted for separately as financial instruments sold on deferred settlement basis as explained in note 4.5 below.

4.5 Financial instruments sold on deferred settlement basis

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

4.6 Unit holders' funds

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

4.7 Issue and redemption of units

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

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

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

The element is recognised in the income statement to the extent that it is represented by income earned during the period and unrealised appreciation / (diminution) arising during the period on 'available for sale' securities is included in the distribution statement.

4.9 Provisions

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

4.10 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from May 18, 2012 in accordance with the requirements of the trust deed of the Fund.

4.11 Net assets value per unit

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



4.12 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.

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.

4.13 Revenue recognition

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

4.14 Expenses

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

4.15 Offsetting of financial instruments

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

4.16 Zakat

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

4.17 Cash and cash equivalents

Cash and cash equivalents are carried in the 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.

4.18 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	2012 (Rupees in '000)
5. BALANCES WITH BANKS		
On current account		1,318
On savings accounts	5.1	2,748
		<u>4,066</u>

5.1 The balance in savings accounts bears expected profit which ranges from 5.65% to 12% per annum.

6. INVESTMENTS

- AT FAIR VALUE THROUGH PROFIT AND LOSS

Held for trading - shares of listed companies

Name of the investee company	Purchases during the period	Demerger effect / Adjustment	Sales during the period	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage of total market value of investments
	-----Number of shares-----			-----Rupees in '000-----				
Automobile and parts								
Indus Motor Company Limited	16,941	-	44	16,897	4,832	4,141	(691)	1.43
Millat Tractors Company Limited	12,733	-	-	12,733	6,237	6,148	(89)	2.12
Banks								
Meezan Bank Limited (an associate of the Fund)	78,259	-	-	78,259	2,125	2,263	138	0.78
Chemicals								
Clariant Pakistan Limited	6,615	-	142	6,473	1,048	1,145	97	0.39
Fauji Fertilizer Bin Qasim Limited	284,705	-	23	284,682	11,815	11,621	(194)	4.01
Fauji Fertilizer Company Limited	290,866	-	13,881	276,985	31,986	30,759	(1,227)	10.60
ICI Pakistan Limited (note 6.3)	25,071	(8,389)	-	16,682	2,284	2,187	(97)	0.75
Lotte Pakistan PTA Limited	365,331	-	37,940	327,391	2,718	2,301	(417)	0.79
Construction and materials								
Attock Cement Pakistan Limited	14,984	-	-	14,984	1,194	1,220	26	0.42
D.G. Khan Cement Company Limited	209,393	-	-	209,393	8,720	8,246	(474)	2.84
Lucky Cement Limited	112,658	-	117	112,541	14,120	12,986	(1,134)	4.48
Electricity								
Hub Power Company Limited	805,086	-	-	805,086	31,894	33,725	1,831	11.63
Fixed line telecommunication								
Pakistan Telecommunication Company Limited "A"	521,854	-	12,440	509,414	7,909	6,974	(935)	2.40
Food producers								
Habib Sugar Mills Limited	26,135	-	45	26,090	588	569	(19)	0.20
Unilever Pakistan Limited (note 6.1)	2,409	-	-	2,409	17,483	17,053	(430)	5.88
General industrials								
Thal Limited (note 6.1)	19,383	-	506	18,877	1,821	1,756	(65)	0.61
Tri-Pack Films Limited	7,886	-	-	7,886	1,619	1,656	37	0.57
Industrial transportation								
Pakistan International Container Terminal	18,897	-	-	18,897	2,844	2,759	(85)	0.95
Oil and gas								
Mari Gas Company Limited	16,006	-	-	16,006	1,482	1,502	20	0.52
Attock Refinery Limited	27,532	-	1,446	26,086	3,204	3,205	1	1.10
Attock Petroleum Limited	11,900	-	23	11,877	5,421	5,634	213	1.94
National Refinery Limited	22,037	-	-	22,037	5,336	5,099	(237)	1.76
Oil and Gas Development Company Limited (note 6.2)	236,014	-	29,795	206,219	33,168	33,086	(82)	11.41
Pakistan Oilfields Limited	93,954	-	-	93,954	34,423	34,475	52	11.89
Pakistan Petroleum Limited	189,161	-	-	189,161	35,504	35,617	113	12.28
Pakistan Refinery Limited	10,287	-	-	10,287	633	591	(42)	0.20
Pakistan State Oil Company Limited	68,506	-	546	67,960	17,142	16,028	(1,114)	5.53
Shell Pakistan Limited	16,206	-	1,620	14,586	1,977	1,865	(112)	0.64
Oil and gas marketing								
Sui Northern Gas Pipeline Limited	130,343	-	4,840	125,503	2,386	2,120	(266)	0.73
Pharma and Bio Tech								
Glaxo Smithkline Pakistan Limited	35,612	-	385	35,227	2,237	2,228	(9)	0.77
Unquoted company								
Akzo Nobel Pakistan Limited (note 6.3)	-	8,389	-	8,389	1,148	1,099	(49)	0.38
					295,298	290,058	(5,240)	
Total cost of investments - 'held for trading'					295,298			

- 6.1 All shares have a nominal value of Rs 10 each except for the share of Thal Limited which have a face value of Rs 5 each and the shares of Unilever Pakistan Limited which have a face value of Rs 50 each.
- 6.2 62,000 shares of Oil and Gas Development Company Limited, having market value of Rs 9.947 million as at June 30, 2012, have been pledged as collateral in favour of National Clearing Company of Pakistan Limited against exposure margins and mark to market losses.
- 6.3 The demerger of the Paints Business of ICI Pakistan Limited and its vesting into Akzo Nobel Pakistan Limited had resulted in the split of the share capital in the ratio 66.54 : 33.46 as of June 27, 2012. Subsequent to the year ended June 30, 2012, Akzo Nobel Pakistan Limited has been listed on the Karachi Stock Exchange and trading of its shares has started on the Ready Board of the Exchange from July 13, 2012.

	Note	2012 (Rupees in '000)
7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES		
Profit receivable on savings accounts with banks		157
Deposits		2,500
		2,657
8. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs		2,013
Less: Amortisation during the period		40
		1,973
9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - management company of the Fund		
Management fee	9.1	216
Sindh sales tax payable on management fee	9.2	35
Sales load payable		1,139
Sindh sales tax payable on sales load		81
Formation cost payable		2,013
Others payable		2,560
		6,044
9.1 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 and sales load has been charged at the rate of one percent per annum for the period May 18, 2012 to June 30, 2012.		
9.2 During the current period, Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.		
10. 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.		

**11. 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	2012 (Rupees in '000)
12. ACCRUED EXPENSES AND OTHER LIABILITIES		
Auditors' remuneration		90
Brokerage payable		180
Withholding tax payable		3
Charity payable	12.1	15
Profit payable to Pre - IPO investors		149
		437

12.1 According to the instructions of the shariah adviser, any income earned by the Fund from investments whereby portion of the investment of investee company has been made in shariah non-compliant avenues, such proportion of income of the Fund from those investments should be given away for charitable purposes directly by the Fund. Accordingly, an amount of Rs 0.015 million is outstanding in this regard.

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, 2012 in each class and their par values were as follows:

	2012	
	Number of units in issue	Rupees in '000'
- Growth units	5,928,882	296,444
Total	5,928,882	296,444

14. AUDITORS' REMUNERATION

	2012 (Rupees in '000)
Audit fee	30
Other certifications and services	20
	50

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, Meezan Islamic Income Fund, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, 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 period May 18, 2012 to June 30, 2012 are as follows:

	2012 (Rupees in '000)
Al Meezan - management company of the Fund	
Remuneration payable	216
Sindh sales tax payable on management fee	35
Sales load payable	1,139
Sindh sales tax payable on sales load	81
Formation cost payable	2,013
Others payable	2,560
Investment of 2,030,851 units	99,166
Meezan Bank Limited - shariah advisor of the Fund	
Bank balance	2,493
Investment in 78,259 shares	2,263
Profit receivable on savings account	3
CDC - trustee of the Fund	
Trustee fee payable	58
Directors and executives of the management company	
Investment of 20,020 units	978

**For the period
May 18 To
June 30, 2012
(Rupees in '000)**

Al Meezan - management company of the Fund

Remuneration for the year	253
Sindh sales tax on management fee	40
Units issued: 2,030,851 units	101,500

Meezan Bank Limited - shariah advisor of the Fund

Profit on savings account	10
78,259 shares purchased during the period	2,125

CDC - trustee of the Fund

Remuneration for the year	69
CDS charges for the year	4

Directors and officers of the management company

Units issued: 20,020 units	1,001
----------------------------	-------

16. FINANCIAL INSTRUMENTS BY CATEGORY

	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
	2012				
	----- (Rupees in '000) -----				
On balance sheet - financial assets					
Balances with banks	4,066	-	-	-	4,066
Investments	-	290,058	-	-	290,058
Dividend receivable	463	-	-	-	463
Deposits and other receivables	2,657	-	-	-	2,657
	7,186	290,058	-	-	297,244
On balance sheet - financial liabilities					
Payable to Al Meezan - management company of the Fund	-	-	-	5,928	5,928
Payable to CDC - trustee of the Fund	-	-	-	58	58
Payable against purchase of investments	-	-	-	3,170	3,170
Accrued expenses and other liabilities	-	-	-	419	419
	-	-	-	9,575	9,575

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, profit receivable on bank deposits, 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, 2012 is tabulated below:

	2012 (Rupees in '000)
FINANCIAL ASSETS	
Balances with banks	4,066
Dividend receivable	463
Deposits and other receivables	2,657
	<u>7,186</u>

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

	2012 (%)
AA+	38.44
AA -	61.31
A	0.25
	<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 43.423 million as on June 30, 2012. However, no such borrowing has been obtained during the period.

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 financial liabilities into relevant maturity grouping as at June 30, 2012 is tabulated below:

	Maturity upto				Total
	Three months	Six months	One year	More than one year	
	----- (Rupees in '000) -----				
Payable to Al Meezan					
- management company of the Fund	5,888	-	-	40	5,928
Payable to CDC - trustee of the Fund	58	-	-	-	58
Payable against purchase of investments	3,170	-	-	-	3,170
Accrued expenses and other liabilities	419	-	-	-	419
	<u>9,535</u>	<u>-</u>	<u>-</u>	<u>40</u>	<u>9,575</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.

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 KSE Meezan Index 30 index (KMI).

The net assets of the Fund will increase / decrease by Rs 0.099 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. The fund manager manages the Fund's investment strategy by investing in companies of the index in proportion to their weightages. The fund manager monitors the performance of the Fund and the benchmark index on a continuous basis. Upon rebalancing of the index, the fund manager may also rebalance the portfolio within 30 days with the objective to minimize, before expenses, the tracking error of the Fund. 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.

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 period May 18, 2012 to June 30, 2012, the net income would have increased / (decreased) by Rs 0.027 million had the interest rates on profit and loss savings accounts increased / (decreased) by 100 basis points.

Fair value interest rate risk

Since the Fund does not have investment in fixed rate security, therefore, is not exposed to fair value interest rate risk.

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 except no less than one hundred million rupees in value terms of the units shall be invested in the Fund at all times or for any other duration, as prescribed by the SECP from time to time.

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 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 period 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, 2012.

20. PERFORMANCE TABLE

	2012
Net assets (Rs. '000)	289,484
Net assets value / redemption price per unit as at June 30 (Rs.)	48.83
Offer price per unit as at June 30 (Rs.)	50.12
Highest offer price per unit (Rs.)	51.49
Lowest offer price per unit (Rs.)	48.82
Highest redemption price per unit (Rs.)	50.17
Lowest redemption price per unit (Rs.)	47.57
Total return (%)	(2.34)

Investment portfolio composition of the Fund as described in Note 6.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

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, CFA	Chief Executive Officer	CFA / MBA	Twenty-two years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA level 2 / MBA	Sixteen years
3. Mrs. Sanam Ali Zaib	Head of Research	CFA / MBA	Eight years
4. Mr. Shakil Ahmed	Senior Manager	CFA / MBA	Five years
5. Mr. Muhammad Ali	AVP Investments	CFA / FRM / MBA / MS	Eighteen years
6. Mr. M. Farhan Lakhani	Manager Research and Investment / Fund Manager	CFA / MBA	Three years
7. Ms. Bushra Tariq	Senior Manager	BBA	Three years

21.2 The fund manager of the Fund is Mr. M. Farhan Lakhani. Other funds being managed by the fund manager are as follows:

- Meezan Balanced Fund
- Meezan Capital Protected Fund II

22. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE

Broker's Name	2012 %
1. Optimus Capital Management Limited	12.60
2. Elixir Securities (Private) Limited	10.99
3. KASB Securities Limited	10.99
4. Ample Securities (Private) Limited	9.38
5. Topline Securities (Private) Limited	9.38
6. Global Securities (Private) Limited	9.12
7. Taurus Securities Limited	8.58
8. BMA Capital Management Limited	8.58
9. Foundation Securities (Private) Limited	8.58
10. Invest Capital Investment Bank Limited	3.75

23. PATTERN OF UNITHOLDING

	----- (2012) -----		Percentage of total investment
	Number of investors	Investment amount (Rupees in '000)	
Individuals	194	109,610	37.86
Associated companies / directors	2	100,135	34.59
Insurance companies	1	9,764	3.37
Retirement funds	2	29,882	10.32
Public limited companies	6	27,343	9.45
Others	6	12,750	4.41
Total	211	289,484	100.00

24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the board of directors of the management company.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2012

Units held by	Units Held	%
Associated Companies		
Al Meezan Investment Management Limited	2,030,851	34.25
Chief Executive		
Mr. Mohammad Shoaib, CFA	20,000	0.34
Executives	20	0.00
Public Limited Companies	560,000	9.45
Banks and financial institutions	200,000	3.37
Individuals	2,244,880	37.86
Retirement funds	612,000	10.32
Other corporate sector entities	261,131	4.41
Total	5,928,882	100.00



Annual Report 2012



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. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoab, CFA	Chief Executive

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoab, CFA	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)	Allied Bank Limited - Islamic Banking
Askari Bank Limited - Islamic Banking	Bank Alfalah Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking	Bank Islami Pakistan Limited
Dubai Islamic Bank Pakistan Limited	Faysal Bank Limited
HBL - Islamic Banking	Habib Metropolitan Bank Limited - Islamic Banking
MCB Bank Limited - Islamic Banking	Meezan Bank Limited
National Bank of Pakistan - Islamic Banking	Soneri Bank Limited - Islamic Banking
Standard Chartered Bank (Pakistan) Limited - Islamic Banking	
UBL Ameen Islamic Banking	

LEGAL ADVISER

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

TRANSFER AGENT

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

DISTRIBUTORS

Al Meezan Investment Management Limited
Meezan Bank Limited

REPORT OF THE FUND MANAGER

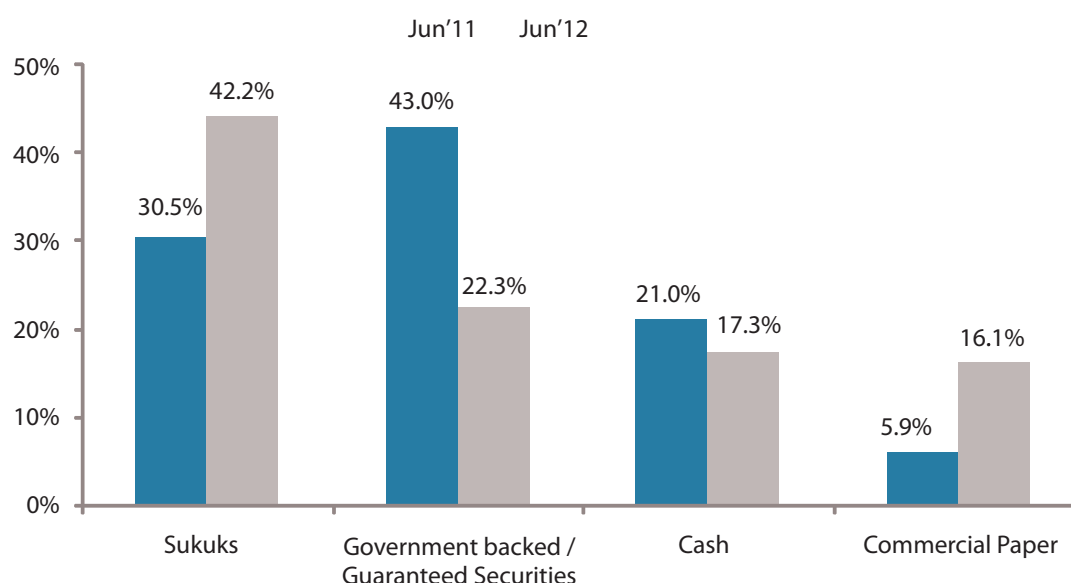
Meezan Islamic Income Fund (MIIF) is Pakistan's first Shariah Compliant open end mutual fund which falls under the category of Income Funds.

The Fund's primary objective is to provide investors with a high and stable rate of current income in a Shariah compliant way. A secondary objective is to take advantage of opportunities to realize capital appreciation. The Fund shall seek to provide the investors with a rate of total return consistent with a broadly diversified portfolio of long, medium and short term high quality Islamic Income instruments.

Strategy, Investment policy and asset allocation

The instruments in which MIIF invests are Sukkuks (Islamic Bonds), Musharaka and Murabaha instruments, Shariah Compliant spread transactions. Certificate of Islamic Investments, Islamic bank deposits, and other Islamic Income products.

During the year, the focus was on proactive and continuous reallocation between high yield instruments, so as to maximize fund yield, while maintaining a balance within the risk management constraints. In this connection, funds matured from corporate Sukkuks are deployed in government Ijarah Sukkuks. To manage interest rate risk and meet liquidity objectives, the fund manager during the period has kept the duration below six months.



Performance Review

During the fiscal year 2012, Meezan Islamic Income Fund (MIIF) provided an annualized return of 7.8% as compared to benchmark return of 6%. Due to redemption and provisioning factor, net assets of the fund decreased by 52% in the fiscal year 2012 to stand at Rs. 1.2 billion as on June 30, 2012. As of period end, the fund was invested 44% in Islamic Corporate Sukkuks, 22% in GoP Ijarah Sukuk, 8% in Islamic commercial paper and 26% in Islamic Banks. During the period, one of the fund's holdings, Maple Leaf sukuk defaulted on its payment and was classified as 'non performing asset.' Accordingly as per provisioning policy of the fund, an amount of Rs. 98.1 million has also been provided against the outstanding principal.

The Fund during the year under consideration earned a gross income of Rs. 169 million, which was primarily due to profit on sukuk certificates amounting worth Rs. 236 million. Cash in saving accounts at Islamic banks contributed Rs. 54 million while realized gain on sale of sukuk certificates was Rs. 23 million. On the other side, the fund incurred unrealized gain worth Rs. 5 million in addition to a provision of Rs. 111 million was created in the sukuks. The fund also incurred expenses totaling to Rs. 62 million and element of loss and capital losses of Rs. 17 million, which brought the net income figure to Rs. 91 million.

The net assets of the fund stood at Rs. 1,209 million at the end of fiscal year 2012 as compared to Rs. 2,542 million the year before.

Distributions

The Board of Directors in its meeting held on July 9, 2012 approved final distribution of Rs. 1.97 per unit (3.94% of par) out of the profits of the Fund for the year ended June 30, 2012. The final distribution is in addition to the interim distributions amounting to Rs. 2.0 per unit to the unit holders of the Fund during the fiscal year.

	MIIF	Islamic Bank Deposits
Value as on June 30, 2012 (Rupees)	51.90	
Value as on June 30, 2011 (Rupees)	51.06	
Return during the period - Net	7.80%	6.00%
Return during the period - Gross	9.30%	
Outperformance - Net	1.80%	
Outperformance - Gross	3.30%	

Unit holder Break down:

Range of units	Number of unit holders
1 to 10,000	1,395
Between 10,001 to 50,000	247
Between 50,001 to 100,000	32
Between 100,001 to 500,000	18
Between 500,001 and above	6
Total	1,698

Fund Rating

JCR-VIS Credit Rating Company has assigned the 'A-(f)' rating to Meezan Islamic Income Fund.



Meezan Bank
The Premier Islamic Bank

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

September 14, 2012/ Shawwal 27, 1433

Alhamdulillah, the period from July 01, 2011 to June 30, 2012 was the sixth year of operations of Meezan Islamic Income Fund (MIIF) under management of Al Meezan Investment Management Limited (Al Meezan). We Meezan Bank Limited are the *Shar'iah* Advisor of the Fund and are issuing the report in accordance with clause 7.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the *Shar'iah* compliance of the Fund's activity.

In the capacity of *Shar'iah* Advisor, we have prescribed criteria and procedure to be followed in ensuring *Shar'iah* compliance in every investment.

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

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MIIF in light of the *Shar'iah* guidelines.
- ii. All the provisions of the scheme and investments made on account of MIIF by Al Meezan are *Shar'iah* compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MIIF for the year ended June 30, 2012 have been in compliance with *Shar'iah* principles.

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

For and on behalf of Meezan Bank Limited

Dr. Muhammad Imran Ashraf Usmani
Shariah Advisor

Meezan Bank Ltd.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
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Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

MEEZAN ISLAMIC INCOME FUND

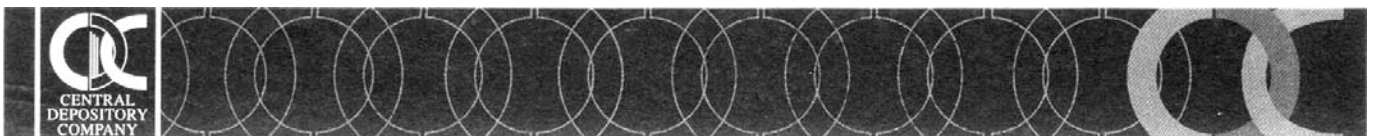
Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Islamic Income Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 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, October 9, 2012



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

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 management company has applied the principles contained in the CCG in the following manner:

1. The management company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed Mr. Salman Sarwar Butt
Executive Director	Mr. Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies including the management company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the 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 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on February 16, 2012 was filled up by the directors within 30 days.
5. The Management Company has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the management company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors of the Company is pursuing the 'Directors Training Certification' and such certification shall be completed in the ensuing year.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.



11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including the CEO, all other members are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Fund, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Mohammad Shoaib, CFA
Chief Executive

Karachi
September 21, 2012



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, 2012 prepared by the Board of Directors of Al Meezan Investment Management Limited (the Management Company) of **Meezan Islamic Income Fund** (the Fund) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange where the Fund is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

Further, regulation (x) of the Listing Regulations No. 35 notified by 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 and have ensured compliance of requirement to the extent of approval of 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 prices 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 status of the Management Company's compliance for and on behalf of the Fund, 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, 2012.


Chartered Accountants
Karachi, October 19, 2012

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**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS
REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of **Meezan Islamic Income Fund**, which comprise the statement of assets and liabilities as at June 30, 2012, 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, 2012, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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.

A. Ferguson & Co.
Chartered Accountants
Karachi, October 19, 2012

Audit Engagement Partner: Saad Kaliya

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STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
Assets			
Balances with banks	5	314,009	426,592
Investments	6	904,288	2,016,720
Deposits and other receivables	7	28,091	109,070
Total assets		1,246,388	2,552,382
Liabilities			
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	9	1,921	3,401
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	10	154	246
Payable to Securities and Exchange Commission of Pakistan (SECP)	11	1,438	2,237
Payable to Meezan Bank Limited (MBL)	12	96	97
Payable on redemption of units		9,100	2,897
Accrued expenses and other liabilities	13	24,715	1,569
Total liabilities		37,424	10,447
Netassets		1,208,964	2,541,935
Contingency	14		
Unit holders' funds (as per statement attached)		1,208,964	2,541,935
Number of units			
Number of units in issue	16	23,294,657	49,783,807
Rupees			
Net asset value per unit		51.90	51.06

The annexed notes 1 to 30 form an integral part of these financial statements.



Mohammad Shoab, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)




Mazhar Sharif
Director

INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
Income			
Profit on savings accounts with banks		53,559	95,805
Profit on sukuk certificates		236,338	312,683
Realised gain on sale of sukuk certificates		23,273	27,807
		<u>313,170</u>	<u>436,295</u>
Unrealised gain / (loss) on re-measurement of investments at fair value through profit or loss (net)		5,381	(44,715)
Provision against sukuk certificates		(110,619)	(32,200)
Provision for accrued profit on an investment		(38,562)	-
Reversal of provision against sukuk certificates		-	7,593
		<u>(143,800)</u>	<u>(69,322)</u>
Total income		169,370	366,973
Expenses			
Remuneration to Al Meezan - management company of the Fund	9.1	28,759	44,747
Sindh sales tax on management fee	9.2	4,601	-
Remuneration to CDC - trustee of the Fund	10	2,482	3,705
Annual fee to SECP	11	1,438	2,237
Auditors' remuneration	17	582	550
Fees and subscription		255	255
Legal and professional charges		15	1,083
Amortisation of preliminary expenses and floatation costs		-	500
Brokerage		87	61
Bank and settlement charges		89	74
Provision / (Reversal of provision) for Workers' Welfare Fund - current - prior	15	1,817	(15,649)
		21,409	-
Printing expense		149	816
Total expenses		61,683	38,379
Net income from operating activities		107,687	328,594
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)		(16,795)	(19,178)
Net income for the year		90,892	309,416
Other comprehensive Income / (loss) for the year			
Unrealised loss on 'available for sale' investment		-	(1,455)
Surplus realised on disposal of 'available for sale investments' transferred to income statement on disposal		1,563	-
Element of loss and capital losses included in prices of units sold less those in units redeemed realised on disposal of 'available for sale' investments transferred to income statement on disposal (net)		(337)	-
Total comprehensive income for the year		92,118	307,961

The annexed notes 1 to 30 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, 2012

	2012			2011		
	Unrealised	Realised	Total	Unrealised	Realised	Total
	Gains / (Losses)			Gains / (Losses)		
	----- (Rupees in '000) -----					
Undistributed income brought forward	(272,914)	327,221	54,307	(208,954)	331,475	122,521
Net income for the year	(143,800)	234,692	90,892	(69,322)	378,738	309,416
Less: Final distribution for the year ended June 30, 2011						
- bonus units @ 2% (June 30, 2010: 2.5%)	-	(23,672)	(23,672)	-	(55,493)	(55,493)
- cash dividend @ 2% (June 30, 2010: 2.5%)	-	(26,112)	(26,112)	-	(26,298)	(26,298)
Less: Interim distribution on September 30, 2011						
- bonus units @ nil (September 30, 2010: 3%)	-	-	-	-	(61,353)	(61,353)
- cash dividend @ nil (September 30, 2010: 3%)	-	-	-	-	(31,558)	(31,558)
Less: Interim distribution on December 31, 2011						
- bonus units @ nil (December 31, 2010: 2%)	-	-	-	-	(32,387)	(32,387)
- cash dividend @ nil (December 31, 2010: 2%)	-	-	-	-	(27,089)	(27,089)
Less: Interim distribution on March 31, 2012						
- bonus units @ 4% (March 29, 2011: 3.5%)	-	(36,470)	(36,470)	-	(48,187)	(48,187)
- cash dividend @ 4% (March 29, 2011: 3.5%)	-	(12,788)	(12,788)	-	(45,707)	(45,707)
Less: Interim distribution on May 24, 2012						
- bonus units @ nil (May 24, 2011: 2%)	-	-	-	-	(23,440)	(23,440)
- cash dividend @ nil (May 24, 2011: 2%)	-	-	-	-	(26,118)	(26,118)
Element of loss and capital losses included in the prices of units sold less those in units redeemed (net)	-	(337)	(337)	-	-	-
(Losses) / gains realised						
- on disposal	430	(430)	-	(5,731)	5,731	-
- on principal repayment	2,409	(2,409)	-	11,093	(11,093)	-
	2,839	(2,839)	-	5,362	(5,362)	-
Undistributed income carried forward	(413,875)	459,695	45,820	(272,914)	327,221	54,307

The annexed notes 1 to 30 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 UNITHOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2012

	2012 (Rupees in '000)	2011
Net assets at the beginning of the year	2,541,935	3,394,034
Issue of 9,525,603 units (June 30, 2011: 27,729,224 units)	485,161	1,424,291
Redemption of 37,215,426 units (June 30, 2011: 47,749,302 units)	(1,888,482)	(2,446,759)
	(1,403,321)	(1,022,468)
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)		
- transferred to income statement	16,795	19,178
- transferred directly to distribution statement	337	-
	17,132	19,178
Realised gain on sale of sukuk certificates	23,273	27,807
Unrealised diminution in value of investments	(143,800)	(69,322)
Total other comprehensive income for the year less distribution	113,603	(28,154)
Issue of 472,871 bonus units for the year ended June 30, 2011 (June 30, 2010: 1,096,257 units)	23,672	55,493
Issue of nil bonus units against interim distribution on September 30, 2011 (September 30, 2010: 1,206,545 units)	-	61,353
Issue of nil bonus units against interim distribution on December 31, 2011 (December 31, 2010: 643,248 units)	-	32,387
Issue of 727,802 bonus units against interim distribution on March 29, 2012 (March 29, 2011: 959,902 units)	36,470	48,187
Issue of nil bonus units against interim distribution on May 24, 2012 (May 24, 2011: 465,534 units)	-	23,440
Net assets at the end of the year	<u>1,208,964</u>	<u>2,541,935</u>
Net asset value per unit as at the beginning of the year	<u>51.06</u>	<u>51.87</u>
Net asset value per unit as at the end of the year	<u>51.90</u>	<u>51.06</u>

The annexed notes 1 to 30 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		90,892	309,416
Adjustments for			
Profit on savings accounts with banks		(53,559)	(95,805)
Profit on sukuk certificates		(236,338)	(312,683)
Reversal of provision for WWF		-	(15,649)
Unrealised (gain) / loss on re-measurement of investments at fair value through profit or loss (net)		(5,381)	44,715
Provision against sukuk certificates		110,619	32,200
Provision for accrued profit on investment		38,562	-
Reversal of provision against sukuk certificates		-	(7,593)
Amortisation of preliminary expenses and floatation costs		-	500
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)		16,795	19,178
		(129,302)	(335,137)
Decrease in assets			
Investments		1,008,757	117,177
(Decrease) / increase in liabilities			
Payable to Al Meezan - management company of the Fund		(1,480)	(2,160)
Payable to CDC - trustee of the Fund		(92)	(113)
Payable to SECP		(799)	(1,202)
Payable to MBL		(1)	51
Accrued expenses and other liabilities		23,146	(86)
		20,774	(3,510)
Profit received on savings accounts with banks		62,791	100,971
Profit received on sukuk certificates		269,523	291,023
Net cash inflow from operating activities		1,323,435	479,940
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from sale of units		485,161	1,424,291
Payments against redemption of units		(1,882,279)	(2,453,571)
Dividend paid		(38,900)	(156,770)
Net cash outflow from financing activities		(1,436,018)	(1,186,050)
Net cash outflow during the year		(112,583)	(706,110)
Cash and cash equivalents at the beginning of the year		426,592	1,132,702
Cash and cash equivalents at the end of the year	5	314,009	426,592

The annexed notes 1 to 30 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, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Islamic Income Fund (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee. The trust deed was executed on September 13, 2006 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations) notified through S.R.O 1203(I) /2008 on November 21, 2008. The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to provide the unit holders safe and stable stream of halal income on their investments and to generate superior long term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point of time. Under the trust deed all conducts and acts of the Fund are based on shariah. MBL acts as its shariah adviser to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The Fund has been given a stability rating of A-(f) by JCR - VIS. The management company of the Fund has been given quality rating of AM2 by JCR - VIS.
- 1.4 Title to the assets of the Fund are 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 aforementioned guidelines. This practice is being followed to comply with the requirements of the 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 and the directives issued by the SECP.

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

- 3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following standards, amendments and interpretation to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures'. This amendment is effective from January 01, 2011. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements.
- b) IFRS 7, 'Financial instruments: Disclosures'. This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are, therefore, not detailed in these financial statements.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for investments which are carried at fair value in accordance with the Fund's policy.

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 main areas where assumption 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)
- (c) Recognition of provision for current and deferred taxation (note 4.10)
- (d) Recognition of provision for Workers' Welfare Fund (note 15)

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 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.

4.3.2 Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

The Fund follows trade date accounting for purchase and sale of investments. Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

4.3.3 Measurement

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

Subsequent to initial recognition, instruments classified as financial assets at 'fair value through profit or loss' and 'available for sale' are measured at their 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 the income statement.

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

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

4.3.4 Fair value measurement principles

The fair value of debt securities are determined as follows:

- The fair value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in circular No. 1/2009 dated January 6, 2009 issued by the SECP.
- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further, the reversal of provision is also made in accordance with the said circular and subsequent clarification.

Financial assets and financial liabilities are priced at their fair value.

4.3.5 Impairment

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

In case of investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is recognised in other comprehensive income. If in any subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through income statement.

4.3.6 Derecognition

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

The Fund uses weighted average method to determine realised gains and losses on derecognition. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

4.4 Unit holders' funds

Unit holders' funds 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 distributors and the management company.

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

4.6 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

During the year, the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, the element is recognised in the income statement to the extent that it is represented by income earned during the year and unrealised appreciation / (diminution) arising during the year on 'available for sale' securities is included in the distribution statement. In the prior years, the element was recognised based on cumulative values of undistributed income and unrealised gain / (loss) on available for sale securities present in the net asset value of units.

In the opinion of the management company of the Fund, the revised methodology would ensure that existing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology:

- Income for the year would have been lower by Rs 1.590 million.
- amount taken to the distribution statement would have been lower by Rs 1.590 million.

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 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from December 13, 2007 as per the Trust Deed of the Fund.

4.9 Net assets value per Unit

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

4.10 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. Accordingly, the Fund has not recorded a tax liability in respect of income relating to the current period as the Fund intends to avail this exemption.

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

4.11 Revenue recognition

- (i) Gains / (losses) arising on sale of investments are included in income currently and are recognised when the transaction takes place.
- (ii) Unrealised gains / (losses) arising on revaluation of securities classified as financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.
- (iii) Unrealised gains / (losses) arising on revaluation of securities classified as 'available for sale' are included in the statement of other comprehensive income in the period in which they arise.
- (iv) Dividend income is recognised when the Fund's right to receive dividend is established.
- (v) Profit on savings accounts with banks, placements and investments in debt instruments are recorded on accrual basis, except for the securities which are classified as Non-Performing Asset under circular 1 of 2009 issued by the SECP for which the profits are recorded on cash basis.

4.12 Expenses

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

4.13 Offsetting of financial instruments

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

4.14 Zakat

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

4.15 Cash and cash equivalents

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

4.16 Dividend and bonus units

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

	Note	2012 (Rupees in '000)	2011
5. BALANCES WITH BANKS			
In savings accounts	5.1	309,115	421,551
In current accounts		4,894	5,041
		<u>314,009</u>	<u>426,592</u>
5.1 The balance in savings accounts bears expected profit which ranges from 5.65% to 12.10% per annum (2011: 5.66% to 12.90% per annum)			
6. INVESTMENTS			
Investments at 'fair value through profit or loss'	6.1	904,288	1,941,720
Investments - 'available for sale'	6.2	-	75,000
		<u>904,288</u>	<u>2,016,720</u>
6.1 Investments at 'fair value through profit or loss'			
- Held for trading	6.1.1	291,267	1,045,803
- Investments at 'fair value through profit or loss upon initial recognition'	6.1.4	613,021	895,917
		<u>904,288</u>	<u>1,941,720</u>

6.1.1 Held for trading - Sukuk certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2011	Purchases during the year	Sales / redemptions during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / loss	Percentage of market value of investment
			----- Number of certificates -----			-- (Rupees in '000) --				
Secured										
Century Paper & Board Mills Limited (note 6.1.3)	September 25, 2014	6 months Kibor plus base rate of 1.35%	5,985	-	1,710	4,275	20,574	21,267	693	2.35
GOP Ijarah Sukuk Certificates - III (note 6.1.2)	March 11, 2012	Weighted average 6 months T-Bills	2,000	-	2,000	-	-	-	-	-
GOP Ijarah Sukuk Certificates - IV (note 6.1.2)	September 17, 2012	Weighted average 6 months T-Bills less 5 basis points	1,370	-	1,370	-	-	-	-	-
GOP Ijarah Sukuk Certificates - V (note 6.1.2)	November 15, 2013	Weighted average 6 months T-Bills	5,300	-	5,300	-	-	-	-	-
GOP Ijarah Sukuk Certificates - VII (note 6.1.2)	March 7, 2014	Weighted average 6 months T-Bills	1,500	-	1,500	-	-	-	-	-
GOP Ijarah Sukuk Certificates - IX (note 6.1.2)	December 26, 2014	Weighted average 6 months T-Bills	-	2,500	800	1,700	170,000	170,000	-	18.80
GOP Ijarah Sukuk Certificates - XII (note 6.1.2)	June 28, 2015	Weighted average 6 months T-Bills	-	1,000	-	1,000	100,000	100,000	-	11.06
Grand Total							<u>290,574</u>	<u>291,267</u>	<u>693</u>	
Total cost of investments								<u>290,162</u>		

6.1.2 The nominal value of the sukuk certificates is Rs 100,000 each.

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

6.1.4 Investments at fair value through profit or loss upon initial recognition - Sukuk Certificates

Name of the investee company	Maturity dates	Profit rate	As at July 1, 2011	Purchases during the year	Sales / redemptions during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Provision / (reversal of provision) for the year as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of market value of investment
			----- Number of certificates -----			-- (Rupees in '000) --					
Secured											
Arzoo Textile Mills Limited (note 6.1.3)	April 15, 2014	6 months Kibor plus base rate of 2%	14,000	-	-	14,000	-	-	-	-	-
Century Paper & Board Mills Limited (note 6.1.3)	September 25, 2014	6 months Kibor plus base rate of 1.35%	13,170	-	5,153	8,017	80,006	-	81,370	1,364	9.00
Eden Builders Limited (note 6.1.3)	March 8, 2014	3 months Kibor plus base rate of 2.3%	6,600	-	2,400	4,200	20,501	-	20,907	406	2.31
Eden Housing Limited (note 6.1.3 & 6.1.8)	September 29, 2014	6 months Kibor plus base rate of 2.5%	59,400	-	-	59,400	110,246	-	110,246	-	12.19
Engro Fertilizer Pakistan Limited (note 6.1.3)	September 1, 2015	6 months Kibor plus base rate of 1.5%	40,500	-	10,000	30,500	152,500	-	155,021	2,521	17.14
Kot Addu Power Company Limited (note 6.1.3)	June 26, 2012	6 months Kibor plus base rate of 1.1%	30,000	19,000	49,000	-	-	-	-	-	-
Maple Leaf Cement Factory Limited (note 6.1.3 & 6.1.6)	December 3, 2018	3 months Kibor plus base rate of 1%	63,918	-	54	63,864	200,260	98,078	102,182	-	11.30
Maple Leaf Cement Factory Limited (note 6.1.3 & 6.1.7)	March 31, 2012	3 months Kibor plus base rate of 1%	2,400	-	-	2,400	8,449	8,449	-	-	-
Security Leasing Corporation Limited II (note 6.1.3 & 6.1.9)	January 19, 2022	Nil	5,156	-	1,264	3,892	13,710	4,092	9,618	-	1.06
Sitara Chemical Industries Limited III (note 6.1.3)	December 31, 2012	3 months Kibor plus base rate of 1%	15,750	-	9,000	6,750	33,280	-	33,677	397	3.73
Hub Power Company (note 6.1.3)	August 4, 2012	6 months Kibor plus base rate of 1.25%	-	40,000	20,000	20,000	100,000	-	100,000	-	11.06
Grand Total							718,952	110,619	613,021	4,688	
Total cost of investments										919,720	

- 6.1.5 The nominal value of the sukuk certificates of Eden Housing Limited is Rs 1,856 each.
- 6.1.6 On September 3, 2011 i.e. the scheduled redemption date, principal repayment alongwith the accrued profit aggregating Rs 0.068 million and Rs 23.492 million respectively was not received by the Fund from Maple Leaf Cement Factory Limited (MLCFL). In accordance with the requirements of the Circular No.1, the sukuk certificates have been classified as 'non-performing assets' and no further profit has been accrued thereafter. Further, the accrued interest amounting to Rs 38.562 million on these sukuk has also been provided for in full. On subsequent schedule redemption dates of December 3, 2011, March 3, 2012 and June 3, 2012 principal repayments alongwith the accrued profit were not received by the Fund on timely basis. Subsequent to the scheduled dates, principal repayments and interest amounting to Rs 0.272 million and Rs 52.265 million were received by the Fund. Further, in accordance with the provisioning policy of the Fund, an amount of Rs 98.078 million has also been provided against the outstanding principal as at June 30, 2012.
- 6.1.7 At time of signing of the first addendum on March 30, 2010 between MLCFL and the investment agent of the sukuk certificates, the Fund received an amount of Rs 12.772 million representing approximately 50% of the mark up due upto March 3, 2010 and the repayment of the balance mark up was settled by issuance of additional sukuk certificates. These additional units of sukuk certificates have been transferred to the Fund's security account maintained with the CDC and accordingly have been recorded in the books of the Fund during the year ended June 30, 2011. The sukuk certificates have been classified as non-performing by MUFAP on January 17, 2012. Therefore in accordance with the requirement of Circular No.1, the sukuk certificates have been classified as non-performing assets and no further profit has been accrued thereafter. Further, in accordance with the provisioning policy of the Fund, an amount of Rs 8.449 million has also been provided against the outstanding principal as at June 30, 2012.
- 6.1.8 On May 6, 2011, Eden Housing sukuk certificates have been classified as non-performing by MUFAP. Accordingly, Fund has valued the sukuku at the last price quoted by MUFAP. Although, the fund has received all the installments due as per the restructured terms, accrual of profit has been stopped and all income have been recognised on cash basis from August 19, 2011.
- 6.1.9 The agreement with Security Leasing Sukuk II has been amended during the year on February 19, 2012. In accordance with the revised terms no mark-up is payable on the said sukuk with the approval of contributories of the sukuk certificate. The sukuk certificates have been classified as non-performing by MUFAP on April 3, 2012. Accordingly, the Fund has measured the sukuku at the price last quoted by MUFAP. The Fund has received all the installments due as per the restructured terms.

6.2 Investments - available for sale

Name of the investee company	Maturity date	Profit rate	As at July 1, 2011	Purchases during the year	Sales / redemptions during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised loss	Percentage of market value of investment
			----- Number of certificates -----			-- (Rupees in '000) --				
GOP Ijarah Sukuk Certificates - III (note 6.1.2)	March 11, 2012	Weighted average 6 months T-Bills	750	-	750	-	-	-	-	-
Total cost of investments							-			

6.3 Following investments of the Fund are in the sukuk which are below 'investment grade' securities:

Name of the investee company	Type of investments	Value of investment before provision	Provision held as at June 30, 2012	Value of investment after provision	Percentage of net assets	Percentage of total assets
		Rs '000			%	
Arzoo Textile Mills Limited Sukuk	Non-traded sukuk certificates	32,200	32,200	-	-	-
Eden Housing Limited	Non-traded sukuk certificates	110,246	-	110,246	9.12	8.85
Maple Leaf Cement Factory Limited	Non-traded sukuk certificates	200,260	98,078	102,182	8.45	8.20
Maple Leaf Cement Factory Limited II	Non-traded sukuk certificates	8,449	8,449	-	-	-
Security Leasing Corporation Limited II	Non-traded sukuk certificates	13,710	4,092	9,618	0.80	0.77
		364,865	142,819	222,046	18.37	17.82

	Note	2012 (Rupees in '000)	2011
7. DEPOSITS AND OTHER RECEIVABLES			
Deposits		2,600	2,600
Profit receivable on savings accounts with banks		8,260	17,492
Profit receivable on sukuk certificates		17,231	88,978
		<u>28,091</u>	<u>109,070</u>
8. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Preliminary expenses and floatation costs		-	500
Less: Amortisation during the year		-	500
		<u>-</u>	<u>-</u>
9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) – management company of the Fund			
Management fee	9.1	1,492	3,102
Sindh sales tax on management fee	9.2	239	-
Sales load		183	298
Sindh sales tax on sales load		6	-
Certificate charges		1	1
		<u>1,921</u>	<u>3,401</u>

9.1 Under the provisions of NBFC Regulations, the management company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five year of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the management company has been charged at the rate of 1.5 percent per annum of the average annual net assets of the Fund for the year ended June 30, 2012 (2011: 1.5%).

9.2 During the current year, the Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

10. 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.

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

This represents annual fee payable to the SECP. Fee at the rate of 0.075 percent of the average annual net assets of the Fund is payable to SECP under regulation 62 read with Schedule II of the NBFC Regulations.

	Note	2012 (Rupees in '000)	2011
12. PAYABLE TO MEEZAN BANK LIMITED (MBL)			
Sales load		96	97
13. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		400	385
Zakat payable		30	44
Printing expenses payable		180	426
Workers' Welfare Fund (WWF) payable	15	23,226	-
Fund rating fee		225	-
Withholding tax payable		566	626
Other payable		88	88
		24,715	1,569



14. CONTINGENCY

In April 2009 the Fund's management company (Al Meezan) and CDC had received notices from WAPDA that further transfer of the WAPDA First Sukuk Company Limited's (WFSCL) sukuk being held by the Fund may be stopped until further instructions are given by WAPDA. The Fund, however, in its response stated that it is in the business of purchase and sale of securities and that the Fund is the bonafide holder of these sukuk, which were purchased after taking all necessary steps and measures to ascertain the genuineness of these sukuk including their verification from the issuer (i.e.WFSCL) therefore, the Fund cannot comply with the instructions of WAPDA.

The Fund disposed off its investment in the aforementioned sukuk having a face value of Rs 180 million by June 30, 2009, i.e. before book closure for rentals due on October 22, 2009.

In September 2009 the Fund received a demand from WAPDA claiming return of Rs 13.6 million being rentals received by it (the Fund) in April 2009 on its holding of WFSCL sukuk, WAPDA contends that Fund is not a bonafide owner of those sukuk. The management company of the Fund has rejected WAPDA's claim and stated that the said sukuk were purchased after their existence had been duly verified from WAPDA at more than one stage and that these sukuk were transferred in its CDS account, hence, the Fund was the bonafide holder of these sukuk.

The defendants (i.e. WAPDA and WFSCL) have also filed an interpleader suit in December 2009 against Al Meezan, CDC in its capacity as the trustee of the Fund and some other parties in the senior civil court of Lahore (the Court) seeking a decision from the Court as to who is the lawful owner and to whom the profit payment due on October 22, 2009 and subsequently rentals should be made. The interpleader suit has been dismissed by the court on May 21, 2010 and the issuer has preferred regular first appeal which is pending for adjudication. Management company has submitted objections to the aforementioned review application on June 28, 2011.

Based on the aforementioned facts and the advise of its legal consultant, the management is confident that the Fund was a legitimate and bonafide owner of those sukuk from the date it acquired them till such time that those sukuk were sold in the normal course of business and accordingly it is not liable to return the aforementioned amount of rental (Rs 13.6 million) received by it.

There were no other contingencies and commitments outstanding as at June 30, 2012.

15. WORKERS' WELFARE FUND

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, 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 ended June 30, 2011, 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.

During the current year the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional. The management company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

However, a fund under the common management of the management company has received a notice of demand under section 137 of the Income Tax Ordinance, 2001 for the payment of levy of WWF for the period ended June 30, 2009. The management company has filed an appeal against such notice of demand to the Commission Inland Revenue (Appeals) which is pending adjudication.

During the year ended June 30, 2011, the management company had reversed the liability as at June 30, 2010 amounting to Rs 15.649 million. In the current year, it has recognised WWF charge upto June 30, 2012 amounting to Rs 23.226 million which includes Rs 1.817 million pertaining to the current year and Rs 21.409 million pertaining to prior years. If the WWF would have not been provided, the NAV per unit of the Fund would have been higher by Re 1.00 (1.93%).

16. CLASSES OF UNITS IN ISSUE

16.1 The Fund may issue following classes of units:

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

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

16.2 According to the supplemental offering document dated March 17, 2008, the management company of the Fund may issue the following classes of units:

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

16.3 The units in issue as at June 30, 2012 and 2011 in each class and their par values were as follows:

	2012		2011	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
- Growth units	20,102,928	1,005,146	23,671,542	1,183,578
- Income units	3,191,729	159,586	26,112,265	1,305,613
Total	23,294,657	1,164,732	49,783,807	2,489,191

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

17. AUDITORS' REMUNERATION	2012	2011
	(Rupees in '000)	
Audit fee	290	275
Half yearly review	110	110
Other certifications and services	110	110
Out of pocket expenses	72	55
	<u>582</u>	<u>550</u>

18. 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, Meezan Sovereign Fund, Meezan Tahaffuz Pension Fund, Meezan Capital Protected Fund - II, Meezan Cash Fund, Meezan Islamic Fund, KSE Meezan Index Fund and Meezan Balanced Fund being the Funds under the common management of the management company and Pakistan Kuwait Investment Company (Private) Limited.

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

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

Details of transactions with connected persons and balances with them as at ended June 30 alongwith the comparative are as follows:

	2012	2011
	(Rupees in '000)	
Al-Meezan - management company of the Fund		
Remuneration payable	1,492	3,102
Sales load payable	183	298
Certificate charges payable	1	1
Sindh sales tax on management fee	239	-
Sindh sales tax on sales load	6	-
Investments as at June 30, 2012: 421,342 units (June 30, 2011: Nil units)	21,868	-
MBL		
Sales load payable	96	97
Balances with bank	6,150	10,386
Profit receivable on savings account	7	156
Investments as at June 30, 2012: Nil units (June 30, 2011: 17,642,001 units)	-	900,801
CDC - trustee of the Fund		
Trustee fee payable	154	246
Deposits	100	100
Directors and officers of the management company		
Investments as at June 30, 2012: 39,518 units (June 30, 2011: 314,219 units)	2,051	16,044

**For the year ended
June 30**

Al-Meezan - management company of the Fund

**2012 2011
(Rupees in '000)**

Remuneration for the year	28,759	44,747
Sindh sales tax on management fee	4,601	-
Units issued: 405,171 units (June 30, 2011: 4,668,353 units)	21,000	240,000
Redemptions: Nil units (June 30, 2011: 9,905,553 units)	-	506,694
Bonus units issued: 16,171 units (June 30, 2011: 497,354 units)	810	726

MBL

Profit on savings account	258	474
Redemptions: 17,642,001 units (June 30, 2011: nil units)	891,738	-
Cash dividend paid	-	114,673

CDC - trustee of the Fund

Remuneration for the year	2,482	3,705
CDS Charges for the year	6	6

Directors and officers of the management company

Units issued: 64,726 units (June 30, 2011: 289,759 units)	2,791	14,729
Redemptions: 59,472 units (June 30, 2011: 665,552 units)	3,027	33,745
Bonus units issued: 1,391 units (June 30, 2011: 79,009 units)	37	2,957

19. FINANCIAL INSTRUMENTS BY CATEGORY

	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
	2012 ----- (Rupees in '000) -----				
On balance sheet - financial assets					
Balances with banks	314,009	-	-	-	314,009
Investments	-	904,288	-	-	904,288
Deposits and other receivables	28,091	-	-	-	28,091
	342,100	904,288	-	-	1,246,388
On balance sheet - financial liabilities					
Payable to Al Meezan					
- management company of the Fund	-	-	-	1,676	1,676
Payable to CDC - Trustee of the fund	-	-	-	154	154
Payable to MBL	-	-	-	96	96
Payable on redemption of units	-	-	-	9,100	9,100
Accrued expenses and other liabilities	-	-	-	893	893
	-	-	-	11,919	11,919

	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
	2011				
	----- (Rupees in '000) -----				
On balance sheet - financial assets					
Balances with banks	426,592	-	-	-	426,592
Investments	-	1,941,720	75,000	-	2,016,720
Deposits and other receivables	109,070	-	-	-	109,070
	535,662	1,941,720	75,000	-	2,552,382
On balance sheet - financial liabilities					
Payable to Al Meezan					
- management company of the Fund	-	-	-	3,401	3,401
Payable to CDC - Trustee of the fund	-	-	-	246	246
Payable to MBL	-	-	-	97	97
Payable on redemption of units	-	-	-	2,897	2,897
Accrued expenses and other liabilities	-	-	-	899	899
	-	-	-	7,540	7,540

20. 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.

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

Risks managed and measured by the Fund are explained below:

20.1 Market risk

Interest Rate Risk

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

Cash flow interest rate risk

The company's interest rate risk arises from the balances in savings accounts and investment in debt securities. At June 30, 2012, if there had been increase / decrease of 100 basis points in interest rates, with all other variables held constant, net assets of the Fund for the year then ended would have been higher / lower by Rs 12.134 million (2011: approximately Rs 24.383 million) mainly as a result of finance income.

Fair value interest rate risk

Since the Fund does not have investment in fixed rate security, therefore, is not exposed to fair value interest rate risk.

20.2 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Credit risk arises from deposits with banks and financial institutions, profit receivable on bank deposits, credit exposure arising as a result of investment in debt securities and profit receivable on debt securities. Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The Fund receives a monthly rating update, against which investments are reviewed. The credit rating wise analysis of investments in debt instruments have been tabulated below:

	2012	2011
	(%)	
Government guaranteed	29.86	54.15
AA+	11.06	7.44
AA-	-	10.04
A+	32.22	8.42
A	2.31	1.60
Non-rated	24.55	18.35
	<u>100.00</u>	<u>100.00</u>

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

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

The maximum exposure to credit risk as at June 30, 2012 and 2011 is tabulated below:

	2012	2011
	(Rupees in '000)	
Financial assets		
Balances with banks	314,009	426,592
Investments	634,288	2,016,720
Deposits and other receivables	28,091	109,070
	<u>976,388</u>	<u>2,552,382</u>

Credit rating wise analysis of balances with bank of the Fund are tabulated below:

	2012	2011
	(%)	
AAA	0.42	0.07
AA+	40.13	12.04
AA	0.68	49.63
AA-	1.96	2.45
A	56.81	35.81
	<u>100.00</u>	<u>100.00</u>

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

Due to the Fund's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, the Fund does not expect non-performance by these counter parties on their obligations to the Fund except for Arzoo Textiles Limited sukuk.

20.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily issuance and cancellation of units and it is therefore exposed to the liquidity risk of meeting unit holders' redemptions at any time. The Fund manages its liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

In accordance with the regulation 58(1)(k) of the NBFC Regulations, the Fund has the ability to borrow funds for meeting redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen percent of its net assets which amounts to Rs 181.345 million as on June 30, 2012 (2011: Rs 381.290 million).

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

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

An analysis of the financial liabilities of the Fund into relevant maturity grouping as at June 30, 2012 and 2011 is tabulated below:

	Maturity upto				Total	2011
	Three months	Six months	One year	More than one year		
	----- (Rupees in '000) -----					
Payable to Al Meezan - management company of the Fund	1,676	-	-	-	1,676	3,401
Payable to CDC - trustee of the Fund	154	-	-	-	154	246
Payable to MBL	96	-	-	-	96	97
Payable on redemption of units	9,100	-	-	-	9,100	2,897
Accrued expenses and other liabilities	893	-	-	-	893	899
	<u>11,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,919</u>	<u>7,540</u>
2011	<u>7,540</u>	<u>-</u>	<u>-</u>	<u>-</u>		

21. CAPITAL RISK MANAGEMENT

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

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

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

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

In accordance with risk management policies stated in note 20, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments where necessary.

22. FAIR VALUE 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.

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 fair value of financial assets (e.g. sukuk) that are not traded in an active market is determined with reference to the values quoted by MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009.

If a security is not quoted by MUFAP due to it being 'non-investment' grade, its values is determined by applying discount in accordance with the Circular No. 1.

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 fair value hierarchy has the following levels:

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

The following table presents the assets that are measured at fair value as at June 30, 2012:

Assets	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Financial assets held for trading				
- Debt securities	-	291,267	-	291,267
Financial assets designated at fair value through profit or loss upon initial recognition				
- Debt securities	-	390,975	222,046	613,021
	-	682,242	222,046	904,288

The following table presents the assets that are measured at fair value as at June 30, 2011:



Assets	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Financial assets held for trading				
- Debt securities	-	1,045,803	-	1,045,803
Financial assets designated at fair value through profit or loss upon initial recognition				
- Debt securities	-	525,752	370,165	895,917
Financial assets available for sale				
- Debt securities	-	75,000	-	75,000
	-	1,646,555	370,165	2,016,720

The following table presents the transfers between levels for the year ended June 30, 2012:

	Level 1	Level 2	Level 3
	----- (Rupees in '000) -----		
Transfers between level 1 and level 2			
- Debt securities	-	-	-

The following table presents the transfers between levels for the year ended June 30, 2011:

	Level 1	Level 2	Level 3
	----- (Rupees in '000) -----		
Transfers between level 1 and level 2			
- Debt securities	(778,401)	778,401	-

The following table presents the movement in level 3 instruments:

	2012 Debt securities	2011 Debt securities
	----- (Rupees in '000) -----	
Opening balance	370,165	467,680
Transfers into level 3	-	-
Sales / redemptions	(37,500)	(29,497)
Provisions	(110,619)	(24,607)
Gains and losses recognised in income statement	-	(43,411)
Closing balance	222,046	370,165

23. PERFORMANCE TABLE

	2012	2011	2010	2009
Net assets (Rs '000) (ex-distribution)*	1,202,676	2,515,823	3,367,736	4,814,792
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution)*	49.93	50.06	50.62	50.16
Offer price per unit as at June 30 (Rs) (ex-distribution)*	50.22	50.31	50.87	50.41
Distribution (%)				
- Interim				
- First quarter	-	3.00	2.50	2.54
- Second quarter	-	2.00	1.00	1.50
- Third quarter	4.00	3.50	0.27	2.00
- Fourth quarter	-	2.00	-	-
- Annual	3.94	2.00	2.50	3.50
Dates of distribution (interim)				
- First quarter	-	September 30, 2010	October 3, 2009	September 30, 2008
- Second quarter	-	December 31, 2010	January 4, 2010	February 23, 2009
- Third quarter	March 31, 2011	March 29, 2011	February 26, 2010	April 15, 2009
- Fourth quarter	-	May 24, 2011	-	-
Dates of distribution (annual)	July 9, 2012	July 7, 2011	July 7, 2010	July 6, 2009
Income distribution (Rupees in '000)	19,076	156,584	88,524	163,542
Growth distribution (Rupees in '000)	76,072	189,039	185,688	305,931
Highest offer price per unit (Rs)	52.41	52.61	52.36	52.17
Lowest offer price per unit (Rs)	50.00	50.34	50.34	47.06
Highest redemption price per unit (Rs)	52.11	52.35	52.10	51.91
Lowest redemption price per unit (Rs)	49.71	50.09	50.09	46.82
Total return (%)	7.81	11.78	7.31	10.14
Weighted Average Portfolio Duration (years)	2.94	2.63	3.87	4.24
	One year	Two years	Three years	Four years
Average annual return as at June 30, 2012	7.81%	9.78%	8.95%	9.25%

* The distribution is not accounted for in these financial statements as also explained in note 28.

Investment portfolio composition of the Fund as described in Note 6.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

24. INVESTMENT COMMITTEE MEMBERS

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

Name	Designation	Qualification	Experience
1.Mr. Mohammad Shoaib, CFA	Chief Executive Officer	CFA / MBA	Twenty Two years
2.Mr. Muhammad Asad	Chief Investment Officer	CFA level 2 / MBA	Sixteen years
3.Ms. Sanam Ali Zaib	Head of Research	CFA / MBA	Eight years
4.Ms. Bushra Tariq	Senior Manager	BBA	Three years
5.Mr. Shakil Ahmed	Senior Manager	CFA / MBA	Five years
6.Mr. Muhammad Ali	AVP Investments / Fund Manager	CFA / FRM / MBA / MS	Eighteen years
7.Mr. M. Farhan Lakhani	Manager Research / Investments	CFA / MBA	Three years

24.2 The Fund manager of the Fund is Mr. Muhammad Ali. Other Funds being managed by the Fund Manager are as follows:

- Meezan Cash Fund
- Meezan Sovereign Fund

25. TOP BROKERS BY PERCENTAGE OF COMMISSION PAID

Name of the broker	2012
	%
Elixir Securities (Private) Limited	43.68
BMA Capital Management Limited	34.48
KASB Securities (Private) Limited	12.64
JS Global Capital Limited	9.20
Name of the broker	2011
	%
KASB Securities (Private) Limited	52.46
BMA Capital Management Limited	24.59
Global Securities (Private) Limited	8.20
Invisor Securities (Private) Limited	8.20
JS Global Capital Limited	6.55

26. PATTERN OF UNIT HOLDING

	As at June 30, 2012		
	Number of unit holders	Investment amount	Percentage of total investment
		(Rupees in '000)	%
Individuals	1,641	612,638	50.67
Associated companies / directors	3	23,074	1.91
Insurance companies	4	17,589	1.45
Banks / DFIs	4	280,984	23.24
Retirement funds	29	267,605	22.14
Public limited companies	10	4,447	0.37
Others	7	2,627	0.22
Total	1,698	1,208,964	100.00

	As at June 30, 2011		
	Number of unit holders	Investment amount	Percentage of total investment
		(Rupees in '000)	%
Individuals	1,923	852,780	33.55
Associated companies / directors	4	717,509	28.23
Insurance companies	4	16,315	0.64
Banks / DFIs	7	432,652	17.02
Retirement funds	36	269,171	10.59
Public limited companies	13	242,486	9.54
Others	9	11,022	0.43
Total	1,996	2,541,935	100.00

27. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	---Dates of Board of Directors Meetings and Directors' present therein---					
		July 7, 2011	August 16, 2011	September 28, 2011	October 24, 2011	February 23, 2012	April 27, 2012
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib	Chief Executive	No	Yes	Yes	Yes	Yes	Yes
Mr. Salman Sarwar Butt	Independent Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Tasnimun Haq Farooqui*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali Zaidi**	Nominee Director	-	-	-	-	-	Yes
Mr. P. Ahmed	Independent Director	No	Yes	Yes	No	Yes	No
Mr. Rana Ahmed Humayun	Nominee Director	Yes	Yes	Yes	No	Yes	-
Mr. Mazhar Sharif	Nominee Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Rizwan Ata***	Nominee Director	Yes	Yes	Yes	No	-	-

* Appointed in December 2011

** Appointed in place of Rana Ahmed Humayun

*** Resigned in December 2011

28. NON ADJUSTING EVENT

The Board of Directors in its meeting held on July 9, 2012 has announced a final dividend of 3.94% (2011: 2%) amounting to Rs 45.890 million (2011: Rs 49.784 million) which includes 793,166 bonus units (2011: 472,863 units) and cash dividend of Rs 6.288 million (2011: Rs 26.112 million). The financial statements for the year ended June 30, 2012 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2013.

Number of units

The effect of issue of bonus units is as follows:

Number of units in issue before bonus units	<u>23,294,657</u>	<u>49,783,807</u>
Number of units in issue after bonus units	<u>24,087,823</u>	<u>50,256,670</u>

Rupees

Net assets value per unit before distribution	<u>51.90</u>	<u>51.06</u>
Net assets value per unit after distribution	<u>49.93</u>	<u>50.06</u>

29. CORRESPONDING FIGURES

For better presentation the following are now presented on the face of the statement of movement in unitholders' fund:

- Unrealised diminution in value of investments
- Net realised gain on sale of investments
- Total other comprehensive income for the year less distribution

Accordingly, the corresponding amounts for the year ended June 30, 2011 have been reclassified. As the reclassifications are not considered to be material, therefore, the Fund has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. July 1, 2010).

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the Board of Directors of the Management Company.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2012

Held by	Units Held	%
Associated Companies		
Al Meezan Investment Management Limited	421,342	1.81
Directors		
Syed Amir Ali	18,060	0.08
Mr. Salman Sarwar Butt	5,210	0.02
Executives	16,248	0.07
Public Limited Companies	85,680	0.37
Banks and financial institutions	5,752,963	24.70
Individuals	11,788,253	50.60
Retirement funds	5,156,271	22.13
Other corporate sector entities	50,630	0.22
Total	23,294,657	100.00



Annual Report 2012



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. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoaib, CFA	Chief Executive

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, CFA	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

Askari Bank Limited - Islamic Banking	Habib Bank Limited - Islamic Banking
Bank Alfalah Limited - Islamic Banking	Meezan Bank Limited
Bank Al Habib Limited - Islamic Banking	MCB Bank Limited
Standard Chartered Bank (Pakistan) Limited - Islamic Banking	UBL Ameen
Habib Metropolitan Bank Limited - Islamic Banking	Faysal Bank 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 FUND MANAGER

Meezan Sovereign Fund (MSF) is Pakistan's first Shariah Compliant open end mutual fund which falls under the category of Income Funds.

The Fund's primary objective is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in Government Securities.

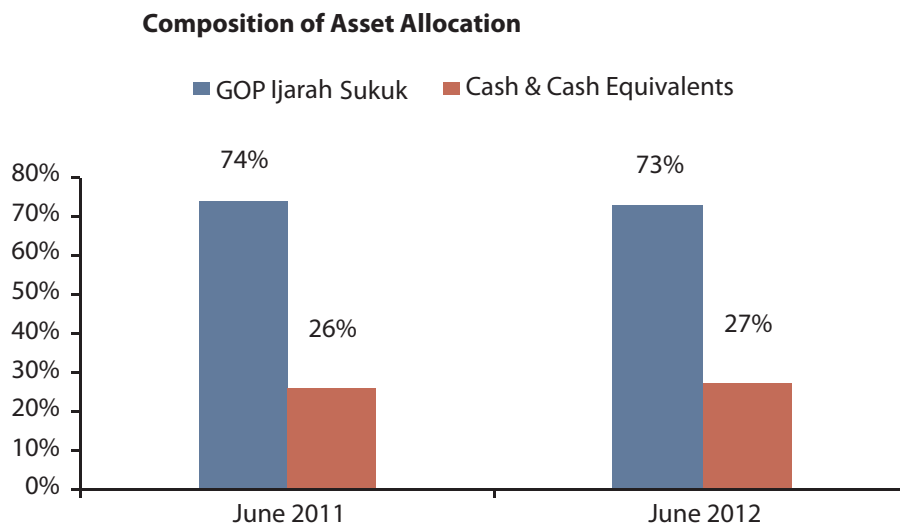
Investment Policy

Meezan Sovereign Fund, an open end income fund, was launched in February 2010 with the investment policy stating that at least 70% of the net assets of the fund shall be invested in Shariah compliant fixed government securities. The remaining allocation will be in top rated banks and financial institutions.

Strategy Implementation - Strategic and tactical Asset Allocation

The instruments in which MSF invests are Sovereign Sukuks (Islamic Bonds), Musharaka and Murabaha instruments; Certificate of Islamic Investments, Islamic bank deposits and other Sovereign Islamic income products.

The asset allocation of the fund on June 30, 2012 is as follows:



Performance Review

Meezan Sovereign Fund (MSF) gave a return of 11.20% to its investors for the year ended June 30, 2012. During the year under consideration the Fund earned a gross income of Rs. 2,090 million. Profit on sukuk certificates contributed Rs. 1,520 million and profit on saving accounts with banks was Rs. 546 million. After accounting for expenses of Rs.286 million and element of income and capital gain of Rs. 56 million, the net income of the Fund was Rs. 1,860 million.

The net assets of the Fund were at Rs. 19,710 million as at June 30, 2012 and the net asset value (NAV) per unit of the fund was Rs. 50.03 per unit. During the year, fresh units of Rs. 27,423 million were issued while units amounting to Rs. 21,325 million were redeemed, resulting in net inflow of Rs. 6,098 million.

Distributions:

The Fund made distributions amounting to Rs. 5.35 per unit out of profits during the year ended June 30, 2012.

	<u>MSF</u>	<u>Six Month Deposits at Islamic Banks</u>
Value as on June 30, 2012 (Rupees)	50.03	
Value as on June 30, 2011 (Rupees)	50.65	
Return During the Period - Net	11.20%	8.10%
Return During the Period - Gross	12.20%	
Outperformance - Net	3.10%	
Outperformance - Gross	4.10%	

Unit holder Break down:

Range of Units	Number of Unit Holders
Upto 10,000	2,695
Between 10,001 to 50,000	1,498
Between 50,001 to 100,000	303
Between 100,001 to 500,000	257
From 500,001 and above	60
Total	4,813

Fund Rating

JCR-VIS Credit Rating Company has assigned the 'AA(f)' rating to Meezan Sovereign Fund.



Meezan Bank
The Premier Islamic Bank

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

September 14, 2012/ Shawwal 27, 1433

Alhamdulillah, the period from July 01, 2011 to June 30, 2012 was the third year of operations of Meezan Sovereign Fund (MSF) under management of Al Meezan Investment Management Limited (Al Meezan). We Meezan Bank Limited are the *Shar'iah* Advisor of the Fund and are issuing the report in accordance with clause 8.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the *Shar'iah* compliance of the Fund's activity.

In the capacity of *Shar'iah* Advisor, we have prescribed criteria and procedure to be followed in ensuring *Shar'iah* compliance in every investment.

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

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MSF in light of the *Shar'iah* guidelines.
- ii. All the provisions of the scheme and investments made on account of MSF by Al Meezan are *Shar'iah* compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MSF for the year ended June 30, 2012 have been in compliance with *Shar'iah* principles.

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


For and on behalf of Meezan Bank Limited

Dr. Muhammad Imran Ashraf Usmani
Shariah Advisor

Meezan Bank Ltd.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

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ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

MEEZAN SOVEREIGN FUND

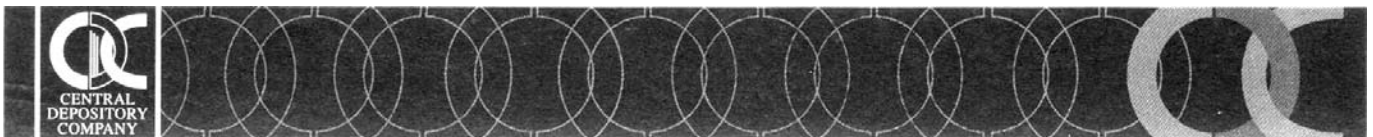
Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Sovereign Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 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, October 05, 2012



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

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 management company has applied the principles contained in the CCG in the following manner:

1. The management company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed Mr. Salman Sarwar Butt
Executive Director	Mr. Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies including the management company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the 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 NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on February 16, 2012 was filled up by the directors within 30 days.
5. The Management Company has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the management company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors of the Company is pursuing the 'Directors Training Certification' and such certification shall be completed in the ensuing year.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.



11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including the CEO, all other members are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Fund, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Mohammad Shoaib, CFA
Chief Executive

Karachi
September 21, 2012



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, 2012 prepared by the Board of Directors of Al Meezan Investment Management Limited (the Management Company) of **Meezan Sovereign Fund** (the Fund) to comply with the Listing Regulation No. 35 of the Islamabad 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

Further, regulation (x) of the Listing Regulations No. 35 notified by the Islamabad 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 and have ensured compliance of requirement to the extent of approval of 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 prices 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 status of the Management Company's compliance for and on behalf of the Fund, 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, 2012.


Chartered Accountants
Karachi, October 19, 2012

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Lahore-54660, Pakistan; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: House No. 1, Street No. 3, Darulaman Road, Ayoub Khan Meina, Opposite Ayoub Khan Mosque, Kabul, Afghanistan; Tel: +93 (799) 315320, +93 (799) 315320



**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS
REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of **Meezan Sovereign Fund**, which comprise the statement of assets and liabilities as at June 30, 2012, 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, 2012, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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.

A. Ferguson & Co.
Chartered Accountants
Karachi, October 19, 2012

Audit Engagement Partner: Saad Kaliya

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320

STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
Assets			
Balances with banks	5	5,233,984	3,031,769
Investments	6	14,360,803	9,235,000
Deposits, prepayments and other receivables	7	247,711	340,874
Preliminary expenses and floatation costs	8	1,335	1,847
Total assets		19,843,833	12,609,490
Liabilities			
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	9	21,181	10,968
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	10	1,275	762
Payable to Securities and Exchange Commission of Pakistan (SECP)	11	12,929	4,728
Payable to Meezan Bank Limited (MBL)		699	420
Payable on redemption of units		12,917	45,973
Dividend payable		28,858	-
Accrued expenses and other liabilities	12	56,465	978
Total liabilities		134,324	63,829
Net assets		19,709,509	12,545,661
Unit holders' funds (as per statement attached)		19,709,509	12,545,661
Number of units			
Number of units in issue	14	393,965,527	247,712,653
Rupees			
Net assets value per unit		50.03	50.65

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



Mohammad Shoab, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	<i>Note</i>	2012 (Rupees in '000)	2011
Income			
Profit on savings accounts with banks		546,015	200,230
Profit on sukuk certificates		1,519,613	594,625
Realised gain on sale of sukuk certificates		25,311	1,213
		<u>2,090,939</u>	<u>796,068</u>
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)		<u>(1,086)</u>	<u>(12,290)</u>
Total income		2,089,853	783,778
Expenses			
Remuneration to Al Meezan - management company of the Fund	9.1	172,385	63,046
Sindh sales tax on management fee	9.2	27,582	-
Remuneration to CDC - trustee of the Fund	10	13,681	5,936
Annual fee to SECP	11	12,929	4,728
Auditors' remuneration	15	444	359
Fees and subscription		205	120
Amortisation of preliminary expenses and floatation costs	8	512	511
Amortisation of premium on investments held as 'available for sale'		1,947	-
Brokerage		255	182
Bank and settlement charges		151	58
Provision for Workers' Welfare Fund - current	13	37,203	-
Provision for Workers' Welfare Fund - prior		18,001	-
Printing expense		271	48
Total expenses		<u>285,566</u>	<u>74,988</u>
Net income from operating activities		<u>1,804,287</u>	<u>708,790</u>
Element of income and capital gains included in prices of units sold less those in units redeemed (net)		<u>55,869</u>	<u>175,187</u>
Net income		<u>1,860,156</u>	<u>883,977</u>

The annexed notes 1 to 28 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, 2012

	2012			2011		
	Unrealised Gains / (losses)	Realised	Total	Unrealised Gains / (losses)	Realised	Total
----- (Rupees in '000) -----						
Undistributed income brought forward	(12,269)	172,297	160,028	21	34,056	34,077
Net income for the year	(1,086)	1,861,242	1,860,156	(12,290)	896,267	883,977
Less: Final distribution for the year ended June 30, 2011						
- bonus units @ 1.28% (June 30, 2010: 3.6%)	-	(68,000)	(68,000)	-	(33,725)	(33,725)
- cash dividend @ 3.5%(June 30, 2010: Nil)	-	(90,537)	(90,537)	-	-	-
Less: Interim distribution on September 23, 2011						
- bonus units @ 2.6% (September 30, 2010: 2.5%)	-	(185,368)	(185,368)	-	(17,545)	(17,545)
- cash dividend @ 2.6%(September 30, 2010: Nil)	-	(186,478)	(186,478)	-	-	-
Less: Interim distribution on December 22, 2011						
- bonus units @ 2.6% (December 31, 2010: 1.3%)	-	(225,591)	(225,591)	-	(28,095)	(28,095)
- cash dividend @ 2.6%(December 31, 2010: 1.3%)	-	(190,299)	(190,299)	-	(79,135)	(79,135)
Less: Interim distribution on March 22, 2012						
- bonus units @ 2.6% (March 30, 2011: 4.2%)	-	(262,232)	(262,232)	-	(165,367)	(165,367)
- cash dividend @ 2.6% (March 30, 2011: 4.2%)	-	(242,041)	(242,041)	-	(247,287)	(247,287)
Less: Interim distribution on June 28, 2012						
- bonus units @ 2.92% (May 31, 2011: 1.75%)	-	(530,990)	(530,990)	-	(83,242)	(83,242)
- cash dividend @ 2.92% (May 31, 2011: 1.75%)	-	(28,878)	(28,878)	-	(103,630)	(103,630)
Undistributed income carried forward	<u>(13,355)</u>	<u>23,125</u>	<u>9,770</u>	<u>(12,269)</u>	<u>172,297</u>	<u>160,028</u>

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



Mohammad Shoab, 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, 2012

	2012	2011
	(Rupees in '000)	
Net assets at the beginning of the year	12,545,661	970,896
Issue of 539,359,809 units (2011: 316,664,970 units)	27,422,886	16,083,373
Redemption of 418,512,777 units (2011: 94,238,281 units)	(21,325,092)	(4,787,346)
	6,097,794	11,296,027
Element of income and capital gains included in prices of units sold less those in units redeemed (net)	(55,869)	(175,187)
Realised gain on sale of sukuk certificates	25,311	1,213
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)	(1,086)	(12,290)
Net income for the year less distributions	(174,483)	137,028
Issue of 1,359,720 bonus units for the year ended June 30, 2011 (June 30, 2010: 674,240 units)	68,000	33,725
Issue of 3,702,923 bonus units against interim distribution on September 23, 2011 (September 30, 2010: 350,684 units)	185,368	17,545
Issue of 4,496,534 bonus units against interim distribution on December 22, 2011 (December 31, 2010: 553,811 units)	225,591	28,095
Issue of 5,226,869 bonus units against interim distribution on March 22, 2012 (March 30, 2011: 3,306,687 units)	262,232	165,367
Issue of 10,619,796 bonus units against interim distribution on June 28, 2012 (May 24, 2011: 1,664,160 units)	530,990	83,242
Net assets at the end of the year	19,709,509	12,545,661
Net assets value per unit at the end of the year - Rupees	50.03	50.65

The annexed notes 1 to 28 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, 2012

<i>Note</i>	2012 (Rupees in '000)	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	1,860,156	883,977
Adjustments for:		
Profit on savings accounts with banks	(546,015)	(200,230)
Profit on sukuk certificates	(1,519,613)	(594,625)
Amortisation of premium on investments held as 'available for sale'	1,947	-
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)	1,086	12,290
Amortisation of preliminary expenses and floatation costs	512	511
Element of income and capital gains included in prices of units sold less those in units redeemed (net)	(55,869)	(175,187)
	(2,117,952)	(957,241)
Increase in assets		
Investments	(5,128,836)	(8,942,881)
Deposits and other receivables	(5)	(75)
	(5,128,841)	(8,942,956)
Increase in liabilities		
Payable to AI Meezan - management company of the Fund	10,213	7,910
Payable to CDC - trustee of the Fund	513	664
Payable to SECP	8,201	4,571
Payable to MBL	279	419
Accrued expenses and other liabilities	55,487	654
	74,693	14,218
Profit received on savings accounts with banks	524,245	101,180
Profit received on sukuk certificates	1,634,551	378,967
Net cash outflow from operating activities	(3,153,148)	(8,521,855)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from sale of units	27,422,886	16,083,373
Payments against redemption of units	(21,358,148)	(4,746,407)
Dividend paid	(709,375)	(430,052)
Net cash inflow from financing activities	5,355,363	10,906,914
Net cash inflow during the year	2,202,215	2,385,059
Cash and cash equivalents at the beginning of the year	3,031,769	646,710
Cash and cash equivalents at the end of the year	5	5
	5,233,984	3,031,769

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



Mohammad Shoaib, CFA
Chief Executive

For AI Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Sovereign Fund (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee. The trust deed was executed on May 14, 2009 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to provide the unit holders maximum possible preservation of capital along with Halal and reasonable returns by investing primarily in a portfolio of shariah compliant government securities thus minimising the credit risk of investments. The Fund shall also keep an exposure in short-term near cash instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point of time. Under the trust deed all conducts and acts of the Fund are based on shariah. MBL acts as its shariah adviser to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open end Shariah Compliant (Islamic) Income Scheme, listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 The management company of the Fund has been given quality rating of AM2 and the stability rating of the Fund is AA(f) given by JCR-VIS.
- 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, NBFC Rules, NBFC Regulations and the directives issued by the SECP.

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

3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following standards, amendments and interpretation to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures'. This amendment is effective from January 01, 2011. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements.
- b) IFRS 7, 'Financial instruments: Disclosures'. This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed 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:

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management company is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are certain amendments to the standards and interpretations that are mandatory for the Fund's accounting period beginning on or after July 1, 2012 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 certain investments which are carried at fair value in accordance with the Fund's policy.

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 assumption and estimates are significant to the financial statements, are as follows:

- (a) Classification and valuation of financial instruments (note 4.3)
- (b) Impairment of financial instruments (note 4.3.5)
- (c) Recognition of provision for current and deferred taxation (note 4.10)
- (d) Amortisation of preliminary expenses and floatation costs (notes 4.8 and 8)
- (e) Recognition of provision for Workers' Welfare Fund (note 13)

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.

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 asset or financial liability at fair value through profit or loss' are expensed immediately.

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

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

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

4.3.4 Fair value measurement principles

Consistent with prior years, the government securities not listed on a stock exchange and traded in the interbank market are valued at the average rates quoted on a widely used electronic quotation system which are based on the remaining tenor of the securities.

4.3.5 Impairment

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

In case of investment classified as 'available for sale', a significant or prolonged decline in the fair value of the securities below their cost is considered an indicator that the securities are impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is removed from other comprehensive income and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is recognised in other comprehensive income. If in any subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through income statement.



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.

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 distributors and the management company.

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

During the year, the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, the element is recognised in the income statement to the extent that it is represented by income earned during the year and unrealised appreciation / (diminution) arising during the year on 'available for sale' securities is included in the distribution statement. In the prior years, the element was recognised based on cumulative values of undistributed income and unrealised gain / (loss) on available for sale securities present in the net asset value of units.

In the opinion of the management company of the Fund, the revised methodology would ensure that existing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology:

- Income for the year would have been higher by Rs 1.462 million.
- amount taken to the distribution statement would have been higher by Rs 1.462 million.

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 Preliminary expenses and floatation costs

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

4.9 Net assets value per unit

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

4.10 Taxation

Current

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

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 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.

4.11 Revenue recognition

- i. Gains / (losses) arising on sale of investments are included in income currently and are recognised on the date at which the transaction takes place.
- ii. Unrealised gains / (losses) arising on revaluation of securities classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.



- iii. Unrealised gains / (losses) arising on revaluation of securities classified as 'available for sale' are included in the other comprehensive income in the period in which they arise.
- iv. Profit on savings accounts with banks, placements and investments in debt instruments are recorded on accrual basis, except for the securities which are classified as Non-Performing Asset under circular 1 of 2009 issued by the SECP for which the profits are recorded on cash basis.

4.12 Expenses

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

4.13 Offsetting of financial instruments

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

4.14 Zakat

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

4.15 Cash and cash equivalents

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

4.16 Dividend and bonus units

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

5. BALANCES WITH BANKS	Note	2012 (Rupees in '000)	2011
On savings accounts	5.1	5,226,379	3,029,220
On current accounts		7,605	2,549
		<u>5,233,984</u>	<u>3,031,769</u>

- 5.1 The balances in savings accounts have an expected profit ranging from 5.04% to 12.10% (2011: 5.66 % to 12.90%) per annum.

6. INVESTMENTS	Note	2012 (Rupees in '000)	2011
Investments at 'fair value through profit or loss'	6.1	14,085,000	9,235,000
Investments - 'available for sale'	6.2	275,803	-
		<u>14,360,803</u>	<u>9,235,000</u>

6.1 INVESTMENTS AT 'FAIR VALUE THROUGH PROFIT OR LOSS' - Sukuk Certificates

Name of the Issuer	Maturity	Profit rate	As at July 01, 2011	Purchases during the year	Sales / redemptions during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of total market value of investments	
			-----Number of Certificates-----			-----Rupees in '000-----					
GoP Ijarah Sukuk Certificates - IV (note 6.3.1)	September 17, 2012	Weighted average 6 months T-Bills less 5 basis points	5,350	-	5,350	-	-	-	-	-	
GoP Ijarah Sukuk Certificates - V (note 6.3.1)	November 15, 2013	Weighted average 6 months T-Bills	49,560	-	-	49,560	4,956,000	4,956,000	-	34.50%	
GoP Ijarah Sukuk Certificates - VI (note 6.3.1)	December 20, 2013	Weighted average 6 months T-Bills	7,570	-	-	7,570	757,000	757,000	-	5.27%	
GoP Ijarah Sukuk Certificates - VII (note 6.3.1)	March 7, 2014	Weighted average 6 months T-Bills	24,870	-	22,000	2,870	287,000	287,000	-	2.00%	
GoP Ijarah Sukuk Certificates - VIII (note 6.3.1)	May 16, 2014	Weighted average 6 months T-Bills	5,000	2,000	3,000	4,000	401,086	400,000	(1,086)	2.79%	
GoP Ijarah Sukuk Certificates - IX (note 6.3.1)	December 26, 2014	Weighted Average 6 months T-Bills	-	69,600	-	69,600	6,960,000	6,960,000	-	48.47%	
GoP Ijarah Sukuk Certificates - XII (note 6.3.1)	June 28, 2015	Weighted Average 6 months T-Bills	-	7,250	-	7,250	725,000	725,000	-	5.05%	
							14,086,086	14,085,000	(1,086)		
Total cost of investment								14,098,355			

6.2 INVESTMENTS - 'AVAILABLE FOR SALE' - Sukuk Certificates

Name of the Issuer	Maturity	Profit rate	As at July 01, 2011	Purchases during the year	Sales / redemptions during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of total market value of investments	
			-----Number of Certificates-----			-----Rupees in '000-----					
GoP Ijarah Sukuk Certificates - V (note 6.3.1)	November 15, 2013	Weighted average 6 months T-Bills	-	5,500	2,750	2,750	275,803	275,803	-	1.92%	
GoP Ijarah Sukuk Certificates - VII (note 6.3.1)	March 7, 2014	Weighted average 6 months T-Bills	-	500	500	-	-	-	-	-	
							275,803	275,803	-		
Total cost of investment								275,000			

6.3 The offering document of the Fund requires that at least 70% of the Fund's net assets should be invested in Government Securities.

6.3.1 The nominal value of the sukuk certificates is Rs 100,000 each.



	<i>Note</i>	2012	2011
		(Rupees in '000)	
7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Deposits		100	100
Prepayments		80	75
Profit receivable on savings accounts with banks		135,804	114,034
Profit receivable on sukuk certificates		111,727	226,665
		<u>247,711</u>	<u>340,874</u>
8. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Preliminary expenses and floatation costs	8.1	1,847	2,358
Less: Amortisation during the year		512	511
		<u>1,335</u>	<u>1,847</u>
8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund, restricted to one percent of Pre-IPO capital, and are being amortised over a period of five years in accordance with the trust deed of the Fund.			
9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - management company of the Fund			
	<i>Note</i>	2012	2011
		(Rupees in '000)	
Management fee	9.1	16,170	9,340
Sindh sales tax on management fee	9.2	2,587	-
Sales load		2,344	1,628
Sindh sales tax on sales load		80	-
		<u>21,181</u>	<u>10,968</u>
9.1 Under the provisions of the NBFC Regulations, the management company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the management company has been charged at the rate of one percent per annum of the average annual net assets of the Fund for the year ended June 30, 2012 (2011: one percent per annum of the average annual net assets).			
9.2 During the current year, the Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.			
10. 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.			
11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)			
This represents annual fee at the rate of 0.075% of the average annual net assets of the Fund payable to the SECP under regulation 62 read with Schedule II of the NBFC Regulations.			

	Note	2012	2011
(Rupees in '000)			
12. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		300	275
Withholding tax payable		699	639
Zakat payable		40	17
Workers' Welfare Fund (WWF) payable	13	55,204	-
Printing expenses payable		222	47
		56,465	978

13. WORKERS' WELFARE FUND

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.

During the year ended June 30, 2011, 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 respective mutual funds with the FBR for their withdrawal on the basis of the above referred clarification of the Ministry. No such notice was received by the Fund.

During the current year the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional. The management company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

However, a fund under the common management of the management company has received a notice of demand under section 137 of the Income Tax Ordinance, 2001 for the payment of levy of WWF for the period ended June 30, 2009. The management company has filed an appeal against such notice of demand to the Commission Inland Revenue (Appeals) which is pending adjudication.

The Fund has recognised WWF charge upto June 30, 2012 amounting to Rs 55.204 million which includes Rs 18.001 million pertaining to the current year and Rs 37.203 million pertained to prior years. If the WWF would have not been provided, the NAV per unit of the Fund would have been higher by Rs 0.14 (0.28%).

14. CLASSES OF UNITS IN ISSUE

14.1 The Fund may issue following classes of units:

Class	Description
A (Note 14.1.1)	Units shall be issued to Core Investors with no Front-end Load and no Back-end Load. Any bonus units issued for distribution of income shall also be Class A units.



- B Units shall be issued to Pre-IPO investors and during the IPO. These units shall be charged with applicable Front-end Load.
- C Units shall be issued after the IPO period and may be charged with Front-end Load.
- D Units shall be issued after the IPO period any may be charged with a Back-end Load.

14.1.1 Core units subscribed by the Core Investors shall be offered and issued at the par value. Rupees 50 million from that shall not be redeemable for a period of two years from the date of issue.

14.2 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.

14.3 The units in issue as at June 30, 2012 and 2011 in each class and their par values are as follows:

Class	2012		2011	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
- Growth units	374,185,866	18,709,293	106,249,324	5,312,466
- Income units	19,779,661	988,983	141,463,329	7,073,166
Total	393,965,527	19,698,276	247,712,653	12,385,632

The par value of each unit is Rs 50. The management company of the Fund has set a minimum initial investment limit of Rs 5,000 and the minimum amount for adding to an existing account is Rs 1,000. All units carry equal rights and are entitled to dividends and payment of net asset value on liquidation.

	2012	2011
	(Rupees in '000)	
15. AUDITORS' REMUNERATION		
Audit fee	200	165
Half yearly audit fee	110	60
Other certification fee	110	110
Out of pocket expenses	24	24
	444	359

16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

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

	2012	2011
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration payable	16,170	9,340
Sindh sales tax on management fee	2,587	-
Sales load payable	2,344	1,628
Sindh sales tax on sales load	80	-
Investments as at June 30, 2012: 14,134,002 units (June 30, 2011: 11,561,754 units)	707,124	585,603
MBL		
Balances with bank	38,049	16,471
Profit receivable on savings account	460	84
Sales load payable	699	420
Investments as at June 30, 2012: 142,803,099 units (June 30, 2011: 98,474,437 units)	7,144,439	4,987,730
CDC - trustee of the Fund		
Trustee fee payable	1,275	762
Deposits	100	100
Directors and officers of the management company		
Investments as at June 30, 2012: 3,975,979 units (2011: 2,630,520 units)	198,918	133,236
For the year ended June 30		
	2012	2011
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration for the year	172,385	63,046
Sindh sales tax on management fee	27,582	-
Units issued 4,003,069 units (June 30, 2011: 11,020,180 units)	204,000	558,191
Units redeemed 3,002,581 units (June 30, 2011: 1,028,925 units)	153,000	52,000
Bonus units issued: 1,571,760 units (June 30, 2011: 570,499 units)	78,257	28,563
MBL		
Profit on savings account	1,740	975
Units issued 178,552,550 units (June 30 2011: 113,186,089 units)	9,125,702	5,750,000
Units redeemed 138,275,433 units (June 30, 2011: 14,711,652 units)	7,100,702	750,000
Cash dividend	498,815	367,025
Bonus units issued: 4,051,545 units (June 30, 2011: Nil units)	202,577	-
CDC - trustee of the Fund		
Remuneration for the year	13,681	5,936
CDS Charges for the year	6	-
Directors and officers of the management company		
Units issued 2,020,573 units (June 30 2011: 3,606,172 units)	97,827	183,035
Units redeemed 1,003,295 units (June 30 2011: 1,193,987 units)	50,811	60,092
Bonus units issued 328,181 units (June 30 2011: 189,230 units)	16,440	9,478

17. FINANCIAL INSTRUMENTS BY CATEGORY

	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
2012					
----- (Rupees in '000) -----					
On balance sheet - financial assets					
Balances with banks	5,233,984	-	-	-	5,233,984
Investments	-	14,085,000	275,803	-	14,360,803
Deposits, prepayments and other receivables	247,631	-	-	-	247,631
	<u>5,481,615</u>	<u>14,085,000</u>	<u>275,803</u>	<u>-</u>	<u>19,842,418</u>
On balance sheet - financial liabilities					
Payable to Al Meezan - management company of the Fund	-	-	-	18,514	18,514
Payable to CDC - trustee of the fund	-	-	-	1,275	1,275
Payable to MBL	-	-	-	699	699
Payable on redemption of units	-	-	-	12,917	12,917
Accrued expenses and other liabilities	-	-	-	522	522
	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,927</u>	<u>33,927</u>
2011					
----- (Rupees in '000) -----					
On balance sheet - financial assets					
Balances with banks	3,031,769	-	-	-	3,031,769
Investments	-	9,235,000	-	-	9,235,000
Deposits, prepayments and other receivables	340,799	-	-	-	340,799
	<u>3,372,568</u>	<u>9,235,000</u>	<u>-</u>	<u>-</u>	<u>12,607,568</u>
On balance sheet - financial liabilities					
Payable to Al Meezan - management company of the Fund	-	-	-	10,968	10,968
Payable to CDC - trustee of the fund	-	-	-	762	762
Payable to MBL	-	-	-	420	420
Payable on redemption of units	-	-	-	45,973	45,973
Accrued expenses and other liabilities	-	-	-	322	322
	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,445</u>	<u>58,445</u>

18. 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 and the directives issued by the SECP.

Risks managed and measured by the Fund are explained below:

18.1 Market risk

18.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

Cash flow interest rate risk

The Funds interest rate risk arises from the balances in savings accounts and investment in debt securities. At June 30, 2012, if there had been increase / decrease of 100 basis points in interest rates, with all other variables held constant, net assets of the Fund for the year then ended would have been higher / lower by Rs 195.872 million (2011: 122.642 million) mainly as a result of finance income.

Fair value interest rate risk

Since the Fund does not have investment in fixed rate security, therefore, is not exposed to fair value interest rate risk.

18.2 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The Fund receives a monthly rating update, against which investments are reviewed. All the debt instruments in which the Fund has invested as at June 30, 2012 are Government guaranteed securities.

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

Concentration of credit risk exists when changes in economic and industry factors similarly affect groups of counter parties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio mainly comprises of government guaranteed GoP Ijarah Sukuks and balances with banks. As transactions are entered with credit worthy parties thereby any significant concentration of credit risk is mitigated.

The maximum exposure to credit risk as at June 30, 2012, along with comparative is tabulated below:

	2012	2011
	(Rupees in '000)	
Financial assets		
Balances with banks	5,233,984	3,031,769
Deposits, prepayments and other receivables	247,631	340,799
	<u>5,481,615</u>	<u>3,372,568</u>



Credit rating wise analysis of the bank balances of the Fund are tabulated below:

	2012 (%)	2011
AAA	0.03	0.05
AA+	75.88	67.43
AA	23.36	31.98
AA-	0.73	0.54
	<u>100.00</u>	<u>100.00</u>

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

18.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily creation and cancellation of units and it is therefore exposed to the liquidity risk of meeting unit holder's redemptions at any time. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

In accordance with regulation 58(1)(k) of the NBFC Regulations, 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 2,956.426 million (2011: Rs 1,881.849 million) as on June 30, 2012. However, no such borrowing has been obtained during the year.

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

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

An analysis of the Fund's financial liabilities into relevant maturity grouping as at June 30, 2012 and 2011 is tabulated below:

	2012				Total
	Maturity upto			More than one year	
	Three months	Six months	One year		
	----- (Rupees in '000) -----				
Payable to Al Meezan - management company of the Fund	18,514	-	-	-	18,514
Payable to CDC - trustee of the Fund	1,275	-	-	-	1,275
Payable to MBL	699	-	-	-	699
Payable on redemption of units	12,917	-	-	-	12,917
Accrued expenses and other liabilities	522	-	-	-	522
	<u>33,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,927</u>

2011

	Maturity upto			More than one year	Total
	Three months	Six months	One year		
----- (Rupees in '000) -----					
Payable to Al Meezan					
- management company of the Fund	10,968	-	-	-	10,968
Payable to CDC					
- trustee of the Fund	762	-	-	-	762
Payable to MBL	420	-	-	-	420
Payable on redemption of units	45,973	-	-	-	45,973
Accrued expenses and other liabilities	322	-	-	-	322
	<u>58,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,445</u>

19. CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividend 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' Funds.

The Fund has no restrictions or specific capital requirements on the subscription and redemption of units except that the core investor (management company) shall hold its investment of atleast Rs 50 million for a minimum period of two years during which its units will not be redeemable.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders.

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

In accordance with risk management policies stated in note 18, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by disposal of investments where necessary.

20. FAIR VALUE 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.

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 fair value of financial assets that are not traded in an active market is determined with reference to the values quoted by Mutual Funds Association of Pakistan (MUFAP). The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009 issued by SECP.

A security whose fair value is not quoted by MUFAP due to being non-performing or non-investment grade, then the fair value of such security is determined in accordance with the Circular 1 of 2009 dated January 6, 2009.

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:

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

The following table presents assets that are measured at fair value as at June 30, 2012:

Assets	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Financial assets held for trading				
- Debt securities	-	14,085,000	-	14,085,000
Financial assets available for sale				
- Debt securities	-	275,803	-	275,803

The following table presents assets that are measured at fair value as at June 30, 2011:

Assets	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Financial assets held for trading				
- Debt securities	-	9,235,000	-	9,235,000

The following table presents the transfers between levels for the year ended June 30, 2012:

Assets	Level 1	Level 2	Level 3
	----- (Rupees in '000) -----		
Transfers from Level 1 to Level 2	-	-	-

The following table presents the transfers between levels for the year ended June 30, 2011:

Assets	Level 1	Level 2	Level 3
	----- (Rupees in '000) -----		
Transfers from Level 1 to Level 2			
- Debt securities	(304,409)	304,409	-

21. PERFORMANCE TABLE

	2012	2011	2010
Net assets (Rs '000) (ex-distribution)*	19,709,509	12,455,125	970,896
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution)*	50.03	50.01	50.02
Offer price per unit as at June 30 (Rs) (ex-distribution)*	50.32	50.26	50.27
Distribution (%)			
- Interim			
' First quarter	2.60	2.50	-
' Second quarter	2.60	1.30	-
' Third quarter	2.60	4.20	-
' Fourth quarter	2.92	1.75	-
' Annual	-	1.28	3.60
Dates of distribution (interim)			
' First quarter	September 23, 2011	Sep 30, 2010	-
' Second quarter	December 22, 2011	Dec 31, 2011	-
' Third quarter	March 22, 2012	March 30, 2011	-
' Fourth quarter	June 28, 2012	May 24, 2011	-
Dates of distribution (annual)	-	July 7, 2011	July 7, 2010
Income distribution (Rupees in '000)	647,696	520,589	-
Growth distribution (Rupees in '000)	1,204,181	362,249	-
Highest offer price per unit (Rs)	51.73	52.37	52.08
Lowest offer price per unit (Rs)	50.32	50.29	50.25
Highest redemption price per unit (Rs)	51.47	52.11	51.82
Lowest redemption price per unit (Rs)	50.03	50.04	50.00
Total return (%)	11.18	11.46	9.70
Weighted Average Portfolio Duration (years)	2.02	2.43	2.48
Average annual return (%) as at June 30, 2012	One Year	Two Year	Three Year
	11.18	11.32	10.78

* No annual distribution has been made subsequent to the year end as also explained in note 26.

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

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate.

22. INVESTMENT COMMITTEE MEMBERS

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

Name	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib, CFA	Chief Executive Officer	CFA / MBA	Twenty two years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA Level 2 / MBA	Sixteen years
3. Ms. Sanam Ali Zaib	Head of Research	CFA / MBA	Eight years
4. Ms. Bushra Tariq	Senior Manager	BBA	Three years
5. Mr. Shakil Ahmed	Senior Manager	CFA / MBA	Five years
6. Mr. M. Farhan Lakhani	Manager Research and Investments	CFA / MBA	Three years
7. Mr. Muhammad Ali	AVP Investments	CFA / FRM / MBA / MS	Eighteen years

22.2 The Fund Manager of the Fund is Mr. Muhammad Ali. Other Funds being managed by the Fund Manager are as follows:

- Meezan Cash Fund
- Meezan Islamic Income Fund

23. BROKERAGE COMMISSION BY PERCENTAGE

Name of the broker	2012 %
Optimus Capital Management (Private) Limited (formerly Invisor Securities (Private) Limited)	35
Elixir Securities Pakistan (Private) Limited	29
BMA Capital Management Limited	24
Invest Capital Markets Limited	8
JS Global Capital Limited	4
Name of the broker	2011 %
KASB Securities Limited	48
BMA Capital Management Limited	30
Global Securities Pakistan Limited	11
Invisor Securities (Private) Limited	6
Elixir Securities Pakistan (Private) Limited	4
JS Global Capital Limited	1

24. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	July 7, 2011	August 16, 2011	September 28, 2011	October 24, 2011	February 23, 2012	April 27, 2012
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib	Chief Executive	No	Yes	Yes	Yes	Yes	Yes
Mr. Salman Sarwar Butt	Independent Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Tasnimun Haq Farooqui*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali Zaidi**	Nominee Director	-	-	-	-	-	Yes
Mr. P. Ahmed	Independent Director	No	Yes	Yes	No	Yes	No
Mr. Rana Ahmed Humayun	Nominee Director	Yes	Yes	Yes	No	Yes	-
Mr. Mazhar Sharif	Nominee Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Rizwan Ata***	Nominee Director	Yes	Yes	Yes	No	-	-

* Appointed in December 2011

** Appointed in place of Rana Ahmed Humayun

*** Resigned in December 2011

25. PATTERN OF UNIT HOLDING

----- (2012) -----		
Number of investors	Investment amount Rupees in '000	Percentage of total investment
Individuals	4,640	6,183,755
Associated companies / directors	7	8,034,961
Insurance companies	13	226,587
Banks / DFIs	2	2,081,286
NBFCs	3	6,129
Retirement funds	44	302,450
Public limited companies	9	827,605
Others	95	2,046,736
Total	4,813	19,709,509
		100.00

	----- (2011) -----		
	Number of investors	Investment amount Rupees in '000	Percentage of total investment
Individuals	2,220	2,755,247	21.96
Associated companies / directors	6	5,698,162	45.42
Insurance companies	6	134,470	1.07
Banks / DFIs	2	2,176,396	17.35
NBFCs	1	6	-
Retirement funds	18	63,275	0.50
Public limited companies	5	668,182	5.33
Others	45	1,049,923	8.37
Total	2,303	12,545,661	100

26. NON ADJUSTING EVENT

The board of directors of the management company of the Fund in its meeting held on July 9, 2012 has announced a final payout of Nil (2011: 1.28%) amounting to Rs Nil (2011: Rs 158.536 million) equivalent to Nil bonus units (2011: 1,359,719) and cash dividend of Rs Nil (2011: 90.536 million).

These financial statements do not recognise the appropriations as these have been proposed subsequent to the balance sheet date.

	2012	2011
	Number of Units	
The effect of issue of bonus units is as follows:		
Number of units in issue before bonus units	393,965,527	247,712,653
Number of units in issue after bonus units	393,965,527	249,072,372
Net assets value per unit before bonus issue	50.03	50.65
Net assets value per unit after bonus issue	50.03	50.01

27. CORRESPONDING FIGURES

For better presentation the following are now presented on the face of the statement of movement in unitholders' fund:

- Unrealised loss on re-measurement of investments at fair value through profit or loss (net)
- Realised gain on sale of sukuk certificates
- Net income for the year less distributions

Accordingly, the corresponding amounts for the year ended June 30, 2011 have been reclassified. As the reclassifications are not considered to be material, therefore, the Fund has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. July 1, 2010).

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the Board of Directors of the management company.



Mohammad Shoab, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2012

Units held by	Units Held	%
Associated Companies		
Meezan Bank Limited	142,803,099	36.25
Al Meezan Investment Management Limited	14,134,002	3.59
Chief Executive		
Mr. Mohammad Shoaib, CFA	1,560,874	0.40
Directors		
Mr. Ariful Islam	1,486,077	0.38
Mr. Mazhar Sharif	522,348	0.13
Mr. Tasnimul Haq Farooqi	10,049	0.00
Syed Amir Ali	91,183	0.02
Executives	305,448	0.08
Public Limited Companies	16,542,676	4.20
Bank & Financial Institutes	46,193,236	11.73
Mutual Funds		
Pak Asian Fund Limited	60,423	0.02
Retirement Funds	6,045,559	1.53
Other Corporate Sector entities	40,911,385	10.38
Individuals	123,299,168	31.30
Total	393,965,527	100



Annual Report 2012



FUND INFORMATION

MANAGEMENT COMPANY

Al Meezan Investment Management Limited
Ground Floor, Block "B", Finance & Trade Centre
Shahrah-e-Faisal, Karachi 74400, Pakistan.
Phone: (9221) 3563 0722-6, 111-MEEZAN
Fax: (9221) 3567 6143, 3563 0808
Web site: www.almeezangroup.com
E-mail: info@almeezangroup.com

BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Chairman
Mr. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoaib, CFA	Chief Executive

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, CFA	Member

TRUSTEE

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

AUDITORS

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

SHARIAH ADVISOR

Meezan Bank Limited

BANKERS TO THE FUND

Askari Bank Limited - Islamic Banking	Habib Bank Limited - Islamic Banking
Bank Alfalah Limited - Islamic Banking	Meezan Bank Limited
Bank Al Habib Limited - Islamic Banking	MCB Bank Limited - Islamic Banking
Standard Chartered Bank (Pakistan) Limited - Islamic Banking	Faysal Bank Ltd.
Habib Metropolitan Bank Limited - Islamic Banking	UBL Ameen
Soneri Bank 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: (9221) 3206 2891 Fax: (9221) 3255 2771
Web site: www.meezanbank.com

DISTRIBUTORS

Al Meezan Investment Management Limited
Meezan Bank Limited

REPORT OF THE FUND MANAGER

Meezan Cash Fund is an open end cash fund investing primarily in Shariah compliant money market and Islamic bonds (Sukuks).

Its objective is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in liquid Shariah compliant money market & Shariah compliant debt securities.

Investment Policy

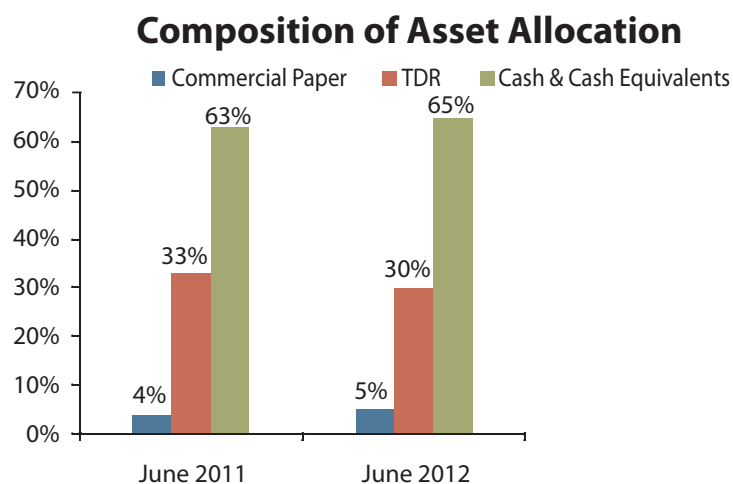
The fund provides valued investors with the opportunity to park their excess liquidity in secure high quality instruments. To minimize the impact of interest rate volatility, the investment policy limits the investment avenues to short term, i.e. to a maximum maturity of six months. Moreover, to ensure security of investment, rating of instruments must at least be 'AA'.

Strategy Implementation - Strategic and tactical Asset Allocation

Al Meezan Investments, with the view to avoid volatility which we witnessed in financial crisis in the fiscal year 2009, launched Pakistan's first Shariah compliant money market fund - Meezan Cash Fund in June 2009. The fund completed its third full year of operations.

As per its investment policy, MCF can invest or place funds in instruments/avenues with a rating of 'double A' (AA) and above. Moreover, the investment policy limits interest rate risk by capping the maturity of instruments up to a maximum of six months, along with maximum portfolio duration of three months.

Details of asset allocations are briefed here:



Performance Review

Meezan Cash Fund (MCF) completed its full fiscal year of operations. The fund gave a competitive return of 10.68% to its investors for the year ended June 30, 2012.

The Fund during the year under consideration earned a gross income of Rs. 826 million. Profit on bank deposits and placements amounting to Rs. 750 million and profit on sukuk certificates amounting to Rs.72 million were the main contributors of income of the Fund. After accounting for expenses of Rs. 128 million and element of income and capital gains included in prices of units sold less those in units redeemed of Rs. 11 million, the Fund posted a net income of Rs. 708 million as compared to Rs. 623 million for the corresponding period.

The net assets of the Fund were Rs. 7,419 million as at June 30, 2012 as compared to Rs. 5,956 million in the corresponding period and the net asset value per unit (NAV) was Rs. 50.08. Units worth Rs. 12,803 million were issued while units amounting to Rs. 11,912 million were redeemed during the year, resulting in net inflow of Rs. 891 million.

Distributions

The Fund made distributions amounting to Rs. 5.07 per unit out of the profits during the year ended June 30, 2012.

Performance Table with Benchmark

	MCF	Six Month Deposits with Islamic Banks
Net Asset Value (NAV) as on June 30, 2012 (Rupees)	50.08	
Net Asset Value (NAV) as on June 30, 2011 (Rupees)	50.03	
Return During the Period - Net	10.68%	8.10%
Return During the Period - Gross	11.68%	
Outperformance - Net	2.58%	
Outperformance - Gross	3.58%	

Breakdown of unit holdings by size

Range of Units	Number of Investors
1-9,999	3628
10000-49,999	1020
50000-99,999	191
100000-499,999	124
500,000 and above	30
Total	4993

Fund Rating

JCR-VIS Credit Rating Company has assigned the 'AA (f)' rating to Meezan Cash Fund.



Meezan Bank
The Premier Islamic Bank

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

September 14, 2012/ Shawwal 27, 1433

Alhamdulillah, the period from July 1, 2011 to June 30, 2012 was the fourth year of operations of Meezan Cash Fund (MCF) under management of Al Meezan Investment Management Limited (Al Meezan). We Meezan Bank Limited are the *Shar'iah* Advisor of the Fund and are issuing the report in accordance with clause 8.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the *Shar'iah* compliance of the Fund's activity.

In the capacity of *Shar'iah* Advisor, we have prescribed criteria and procedure to be followed in ensuring *Shar'iah* compliance in every investment.

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

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MCF in light of the *Shar'iah* guidelines.
- ii. All the provisions of the scheme and investments made on account of MCF by Al Meezan are *Shar'iah* compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MCF for the year ended June 30, 2012 have been in compliance with *Shar'iah* principles.

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

Dr. Muhammad Imran Ashraf Usmani
For and on behalf of Meezan Bank Limited
Shariah Advisor

Meezan Bank Ltd.

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Tel: (92-21) 38103500 Fax: (92-21) 36406049 www.meezanbank.com

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

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Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
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Email: info@cdcpak.com



ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

MEEZAN CASH 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

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Cash Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 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, October 05, 2012



STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED JUNE 30, 2012

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 management company has applied the principles contained in the CCG in the following manner:

1. The management company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed Mr. Salman Sarwar Butt
Executive Director	Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies including the management company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the 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 NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on February 16, 2012 was filled up by the directors within 30 days.
5. The Management Company has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the management company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors of the Company is pursuing the 'Directors Training Certification' and such certification shall be completed in the ensuing year.



10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including the CEO, all other members are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Fund, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Mohammad Shoaib, CFA
Chief Executive

Karachi
September 21, 2012



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, 2012 prepared by the Board of Directors of Al Meezan Investment Management Limited (the Management Company) of **Meezan Cash Fund** (the Fund) to comply with the Listing Regulation No. 35 of the Islamabad 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

Further, regulation (x) of the Listing Regulations No. 35 notified by the Islamabad 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 and have ensured compliance of requirement to the extent of approval of 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 prices 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 status of the Management Company's compliance for and on behalf of the Fund, 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, 2012.


Chartered Accountants
Karachi, October 19, 2012

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A. F. FERGUSON & CO.

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Meezan Cash Fund**, which comprise the statement of assets and liabilities as at June 30, 2012, 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, 2012, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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, October 19, 2012

Audit Engagement Partner: Saad Kaliya

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STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2012


	Note	2012 (Rupees in '000)	2011
Assets			
Balances with banks	5	4,614,198	3,666,697
Investments	6	2,603,500	2,175,000
Profit receivable	7	257,153	151,784
Preliminary expenses and floatation costs	8	1,171	1,773
Deposits and prepayments		302	290
Total assets		7,476,324	5,995,544
Liabilities			
Payable to AI Meezan Investment Management Limited (AI Meezan) - management company of the Fund	9	7,767	4,634
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	10	600	456
Payable to Securities and Exchange Commission of Pakistan (SECP)	11	5,207	4,620
Payable on redemption of units		8,599	21,876
Brokerage payable		-	45
Dividend payable		5	7,428
Accrued expenses and other liabilities	12	35,375	656
Total liabilities		57,553	39,715
Net assets		7,418,771	5,955,829
Unit holders' fund (as per statement attached)		7,418,771	5,955,829
Number of units			
Number of units in issue	14	148,152,204	119,042,374
Rupees			
Net assets value per unit		50.08	50.03

The annexed notes 1 to 25 form an integral part of these financial statements.



Mohammad Shoaib, CFA
Chief Executive

For AI Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012


	Note	2012 (Rupees in '000)	2011
Income			
Profit on savings accounts with banks		574,668	466,600
Profit on placements		175,670	253,037
Profit on sukuk certificates		71,886	367
Profit on Government of Pakistan (GoP) Ijarah Sukuk		3,431	-
Other income		45	-
Total income		825,700	720,004
Expenses			
Remuneration to Al Meezan - management company of the Fund	9.1	69,427	61,621
Sindh sales tax on management fee	9.2	11,108	-
Remuneration to CDC - trustee of the Fund	10	6,464	6,544
Annual fee to SECP	11	5,207	4,624
Auditors' remuneration	13	442	352
Legal and professional charges		6	-
Fees and subscription		222	202
Amortisation of preliminary expenses and floatation costs	8	602	604
Bank and settlement charges		123	103
Printing and stationery expense		260	111
Provision for Workers' Welfare Fund (WWF) - current	15	14,168	-
- prior		20,464	-
Total expenses		128,493	74,161
Net income from operating activities		697,207	645,843
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed (net)		11,220	(22,768)
Net income for the year		708,427	623,075

The annexed notes 1 to 25 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, 2012

	2012	2011
	(Rupees in '000)	
Undistributed income for the year brought forward - realised	3,711	170,821
Final distribution for the year ended June 30, 2010		
- bonus units @ 3.38%	-	(170,806)
Interim distribution on August 23, 2011		
- bonus units @ 1.70%	(97,720)	-
- cash dividend @ 1.70%	(10,890)	-
Interim distribution on September 23, 2011		
- bonus units @ 0.90%	(46,330)	-
- cash dividend @ 0.90%	(10,289)	-
Interim distribution on September 30, 2010		
- bonus units @ 2.45%	-	(139,774)
Interim distribution on October 20, 2011		
- bonus units @ 0.88%	(46,186)	-
- cash dividend @ 0.88%	(10,024)	-
Interim distribution on November 22, 2011		
- bonus units @ 0.98%	(50,785)	-
- cash dividend @ 0.98%	(11,163)	-
Interim distribution on December 21, 2011		
- bonus units @ 0.80%	(42,980)	-
- cash dividend @ 0.80%	(9,110)	-
Interim distribution on December 31, 2010		
- bonus units @ 2.50%	-	(139,430)
- cash dividend @ 2.50%	-	(14,527)
Interim distribution on January 22, 2012		
- bonus units @ 0.86%	(47,552)	-
- cash dividend @ 0.86%	(9,801)	-
Interim distribution on February 22, 2012		
- bonus units @ 0.88%	(51,088)	-
- cash dividend @ 0.88%	(10,029)	-
Interim distribution on March 19, 2012		
- bonus units @ 0.80%	(47,934)	-
- cash dividend @ 0.80%	(13,091)	-

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2012


	2012 (Rupees in '000)	2011
Interim distribution on March 31, 2011		
- bonus units @ 2.70%	-	(150,115)
- cash dividend @ 2.70%	-	(17,290)
Interim distribution on April 22, 2012		
- bonus units @ 0.80%	(46,951)	-
- cash dividend @ 0.80%	(19,331)	-
Interim distribution on May 22, 2012		
- bonus units @ 0.90%	(52,076)	-
- cash dividend @ 0.90%	(21,752)	-
Interim distribution on May 23, 2011		
- bonus units @ 1.70%	-	(83,618)
- cash dividend @ 1.70%	-	(10,881)
Interim distribution on June 21, 2012		
- bonus units @ 0.64%	(46,763)	-
- cash dividend @ 0.64%	(5)	-
Interim distribution on June 28, 2011		
- bonus units @ 1.16%	-	(56,316)
- cash dividend @ 1.16%	-	(7,428)
Net income for the year	708,427	623,075
Undistributed income for the year carried forward - realised	10,288	3,711

The annexed notes 1 to 25 form an integral part of these financial statements.



Mohammad Shoab, 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, 2012

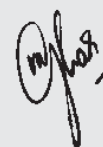
	2012 (Rupees in '000)	2011
Net assets at the beginning of the year	5,955,829	5,224,268
Issue of 254,768,262 units (June 30, 2011: 157,936,813 units)	12,802,748	7,978,597
Redemption of 237,182,629 units (June 30, 2011: 154,760,202 units)	(11,911,528)	(7,842,753)
	891,220	135,844
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed (net)	(11,220)	22,768
Net income for the year less distribution	6,577	(167,110)
Issue of 3,416,130 bonus units for the year ended June 30, 2010	-	170,806
Issue of 1,954,007 bonus units against interim distribution on August 23, 2011	97,720	-
Issue of 926,235 bonus units against interim distribution on September 23, 2011	46,330	-
Issue of 2,795,532 bonus units against interim distribution on September 30, 2010	-	139,774
Issue of 923,709 bonus units against interim distribution on October 20, 2011	46,186	-
Issue of 1,015,710 bonus units against interim distribution on November 22, 2011	50,785	-
Issue of 859,420 bonus units against interim distribution on December 21, 2011	42,980	-
Issue of 2,786,311 bonus units against interim distribution on December 31, 2010	-	139,430
Issue of 950,272 bonus units against interim distribution on January 22, 2012	47,552	-
Issue of 1,020,949 bonus units against interim distribution on February 22, 2012	51,088	-
Issue of 958,512 bonus units against interim distribution on March 19, 2012	47,934	-
Issue of 3,001,173 bonus units against interim distribution on March 31, 2011	-	150,115
Issue of 940,704 bonus units against interim distribution on April 22, 2012	46,951	-
Issue of 1,039,430 bonus units against interim distribution on May 22, 2012	52,076	-
Issue of 1,671,351 bonus units against interim distribution on May 23, 2011	-	83,618
Issue of 935,249 bonus units against interim distribution on June 21, 2012	46,763	-
Issue of 1,126,321 bonus units against interim distribution on June 28, 2011	-	56,316
	576,365	740,059
Net assets at the end of the year	7,418,771	5,955,829
Net asset value per unit at the beginning of the year - Rupees	50.03	51.69
Net asset value per unit at the end of the year - Rupees	50.08	50.03

The annexed notes 1 to 25 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, 2012

	Note	2012 (Rupees in '000)	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		708,427	623,075
Adjustments for:			
Profit on savings accounts with banks		(574,668)	(466,600)
Profit on placements		(175,670)	(253,037)
Profit on sukuk certificates		(71,886)	(367)
Profit on GoP Ijarah Sukuk		(3,431)	-
Amortisation of preliminary expenses and floatation costs		602	604
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed (net)		(11,220)	22,768
		(127,846)	(73,557)
Increase in assets			
Deposits and prepayments		(12)	(18)
Investments - net		(428,500)	(25,000)
		(428,512)	(25,018)
Increase in liabilities			
Payable to Al Meezan - management company of the Fund		3,133	(2,908)
Payable to CDC - trustee of the Fund		144	(80)
Payable to SECP		587	2,047
Brokerage payable		(45)	-
Accrued expenses and other liabilities		34,719	148
		38,538	(793)
Cash utilised in operations			
Premium paid on purchase of GoP Ijarah Sukuk		(517,820)	(99,368)
Profit received on purchase of GoP Ijarah Sukuk		(17,960)	-
Profit received on savings accounts with banks		505,315	491,038
Profit received on sukuk certificates		53,460	-
Profit received on placements		179,471	250,355
Net cash inflow from operating activities		202,466	642,025
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issuance of units		12,802,748	7,978,597
Payment against redemption of units		(11,924,805)	(7,854,021)
Dividend paid		(132,908)	(42,698)
Net cash generated from financing activities		745,035	81,878
Net cash inflow during the year		947,501	723,903
Cash and cash equivalents at the beginning of the year		3,666,697	2,942,794
Cash and cash equivalents at the end of the year	5	4,614,198	3,666,697

The annexed notes 1 to 25 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, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Cash Fund (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee. The trust deed was executed on May 14, 2009 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to provide the unit holders safe and stable stream of halal income on their investments and to generate superior long term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point in time. Under the trust deed all the conducts and acts of the Fund are based on shariah. Meezan Bank Limited (MBL) acts as its shariah advisor to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end Shariah compliant (Islamic) Money Market Scheme listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 The management company of the Fund has been given a quality rating of AM2 and the stability rating of the Fund is AA(f) given by JCR-VIS.
- 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 advisor 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, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following standards, amendments and interpretation to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:



- a) IFRS 7, 'Financial Instruments: Disclosures'. This amendment is effective from January 01, 2011. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements.
- b) IFRS 7, 'Financial instruments: Disclosures'. This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Presentation of financial statements' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments - Presentation' (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management company is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Accounting Convention

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

4.2 Critical accounting estimates and assumptions

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 assumption and estimates are significant to the financial statements, are as follows:

- (a) Classification and valuation of financial instruments (notes 4.3.1, 4.3.2, 4.3.3 and 4.3.4)
- (b) impairment of financial instruments (note 4.3.5);
- (c) recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.10);
- (d) amortisation of preliminary expenses and floatation costs (note 4.8); and
- (e) recognition of provision for Workers' Welfare Fund (note 15).

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 assets and liabilities

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 derivative financial assets that are either designated in this category or are not classified in any of the other categories.

4.3.2 Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

The Fund follows trade date accounting for purchase and sale of investments. Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

4.3.3 Measurement

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

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

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

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

4.3.4 Fair value measurement principles

The fair value of debt securities and derivatives were determined as follows:

- Effective January 10, 2009 the carrying value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in circular no. 1/2009 (the circular) dated January 6, 2009 issued by the SECP.
- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further, the reversal of provisions are also made in accordance with the said circular and subsequent clarification.

Financial assets and financial liabilities are priced at their fair market value.

4.3.5 Impairment

Consistent with prior years, 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.

The Fund assesses at each reporting date whether there is objective evidence that the financial asset or a group of financial assets is impaired. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered, among other indicators, as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through income statement. If in any subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through income statement.

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.

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 for duties and charges and provision for transaction costs, if applicable. The sales load is payable to the distributors and the management company.

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

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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

During the year, the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, the element is recognised in the income statement to the extent that it is represented by income earned during the year and unrealised appreciation / (diminution) arising during the year on 'available for sale' securities is included in the distribution statement. In the prior years, the element was recognised based on cumulative values of undistributed income and unrealised gain / (loss) on available for sale securities present in the net asset value of units.

In the opinion of the management company of the Fund, the revised methodology would ensure that existing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology:

- Income for the year would have been higher by Rs 0.873 million; and
- amount taken to the distribution statement would have been higher by Rs 0.873 million.

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 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from June 15, 2009 in accordance with the requirements of the trust deed of the Fund.

4.9 Net assets value per unit

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

4.10 Taxation

Current

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

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 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.

4.11 Revenue recognition

Profit on placements, profit on savings accounts with banks and investments in debt instruments are recorded on an accrual basis.

4.12 Expenses

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

4.13 Offsetting of financial instruments

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

4.14 Zakat

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

4.15 Cash and cash equivalents

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

4.16 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.

5. BALANCES WITH BANKS

	Note	2012 (Rupees in '000)	2011
On savings accounts	5.1 & 5.2	4,608,704	3,659,525
On current account	5.2	5,494	7,172
		4,614,198	3,666,697

5.1 The balances in savings accounts have an expected profit ranging from 5.19% to 12.10% per annum (2011: 5.04% to 12.90%).

5.2 The balance includes Rs 67.029 million (2011: Rs 37.678 million) with related party, Meezan Bank Limited, on which return is earned at 5.65% (2011: 5.65%) per annum.

6. INVESTMENTS

	Note	2012 (Rupees in '000)	2011
Investments - 'loans and receivables'			
- Placements	6.1	1,600,000	1,950,000
Investments - 'fair value through profit or loss'			
- Held for trading	6.2	625,000	-
- Fair value through profit or loss upon initial recognition	6.3	378,500	225,000
		1,003,500	225,000
		2,603,500	2,175,000

6.1 Placements

Name of the bank	Maturity	Profit range	As at July 1, 2011	Placements made during the year	Matured during the year	As at June 30, 2012	Percentage of total market value of investments
Bank Al-Habib	July 22, 2011 - October 28, 2011	12.50 - 12.80	950,000	300,000	(1,250,000)	-	-
Habib Bank Limited	November 16, 2011	12.10	500,000	-	(500,000)	-	-
Bank Al-Alfalah	August 1, 2011 - September 27, 2012	11.80 - 13.02	500,000	5,600,000	(4,500,000)	1,600,000	61.46
						<u>1,600,000</u>	

6.1.1 During the year, placements bear expected profit rates ranging from 11.80% to 13.02% per annum (2011 : 12.10% to 13.02%).

6.2 Held for trading

Name of the Issuer	Maturity	Profit rate	As at July 01, 2011	Purchases during the year	Sales / redemptions during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of total market value of investments
			-----Number of Certificates-----			-----Rupees in '000-----			----	----
GoP Ijarah Sukuk - IV	September 17, 2012	Weighted Average 6 months T-Bills less 5 basis points	-	6,250	-	6,250	625,000	625,000	-	24.01
Total							625,000	625,000	-	
Total cost of investment								625,000		

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

6.3 Investments - 'fair value through profit or loss upon initial recognition'

Name of the Issuer	Maturity	Profit rate	As at July 01, 2011	Purchases during the year	Sales / redemptions during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of total market value of investments
			-----Number of Certificates-----			-----Rupees in '000-----			----	----
*Kot Addu Power Company Limited - Sukuk	June 26, 2012	6 months KIBOR plus base rate of 1.1%	45,000	45,000	90,000	-	-	-	-	-
*HUB Power Company Limited- Sukuk	August 4, 2012	6 months KIBOR plus base rate of 1.1%	-	120,000	60,000	60,000	300,000	300,000	-	11.52
*Engro Fertilizers Limited -Sukuk	September 22, 2012	6 months KIBOR plus base rate of 1.5%	-	15,700	-	15,700	78,500	78,500	-	3.01
Total							378,500	378,500	-	
Total cost of investment								378,500		

* These securities are carried at face value as per the requirements of Circular 1 of 2009 with respect to thinly and non traded debt securities with residual maturities of upto six months.

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

6.4 Following investments of the Fund in islamic scheduled banks are below the investment criteria defined by Circular no. 7 of 2009:

Name of investee company	Type of investments	Value of investment	Provision held	Value of investment after provision	Percentage of net assets	Percentage of total assets
		----- (Rs in '000) -----			----- % -----	
Meezan Bank Limited	Balances with banks	67,029	-	67,029	0.90	0.90
Soneri Bank	Balances with banks	6	-	6	-	-
		67,035	-	67,035		

7. PROFIT RECEIVABLE	Note	2012	2011
		(Rupees in '000)	
Profit receivable on:			
- savings accounts with banks		187,362	118,009
- placements		29,607	33,408
- sukuk certificates		18,793	367
- GoP Ijarah Sukuk	7.1	21,391	-
		<u>257,153</u>	<u>151,784</u>

7.1 This includes an amount of Rs 17.960 million (2011: nil) accrued till the deal date at the time of outright purchase of GoP Ijarah Sukuk.

8. PRELIMINARY EXPENSES AND FLOATATION COSTS	Note	2012	2011
		(Rupees in '000)	
Preliminary expenses and floatation costs	8.1	1,773	2,377
Less: Amortisation during the year		602	604
		<u>1,171</u>	<u>1,773</u>

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund, restricted to one percent of Pre-IPO capital, and are being amortised over a period of five years in accordance with the trust deed of the Fund.

9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (AL MEEZAN) - management company of the Fund	Note	2012	2011
		(Rupees in '000)	
Management fee	9.1	6,696	4,634
Sindh sales tax on management fee	9.2	1,071	-
		<u>7,767</u>	<u>4,634</u>

9.1 Under the provisions of the NBFC Regulations, the management company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. In accordance with the offering document of the Fund, the remuneration of the management company is restricted to 1% per annum of average annual net assets.

9.2 During the current year, the Sindh Provincial Government levied Sindh Sales Tax at the rate of 16% on the remuneration of the management company and sales load through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

10. 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 below, based on the average daily net assets value of the Fund.

The remuneration of the trustee for the year ended June 30, 2012 and 2011 has been calculated as per the following applicable tariff:

Average net assets	Tariff
Upto to Rs 1 billion	Lower of Rs 600,000 or 0.17% per annum of NAV
Over Rs 1 billion to Rs 5 billion	Rs 1,700,000 and 0.085% per annum of the NAV exceeding Rs 1,000,000
Exceeding Rs 5 billion	Rs 5,100,000 and 0.07% per annum of the NAV exceeding Rs 5 billion

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

This represents annual fee at the rate of 0.075% of the average annual net assets of the Fund payable to the SECP under regulation 62 read with Schedule II of NBFC Regulations.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2012 (Rupees in '000)	2011
Auditors' remuneration		300	265
Annual listing fee		10	10
Withholding tax payable		68	137
Printing charges		265	172
Zakat payable		100	72
WWF payable	15	34,632	-
		35,375	656

13. AUDITORS' REMUNERATION

	2012 (Rupees in '000)	2011
Audit fee	190	155
Half yearly review	100	60
Other certifications and services	110	110
Out of pocket expenses	42	27
	442	352

14. CLASSES OF UNITS IN ISSUE

14.1 The Fund may issue following classes of units:

Class	Description
--------------	--------------------

- | | |
|---|--|
| A | Units have been issued to Core Investors with no front-end load and no back-end load. Any bonus units issued for distribution of income shall also be Class A units. |
| B | Units shall be issued to Pre-IPO investors and may be charged with front-end load. |
| C | Units shall be issued after the IPO period and may be charged with front-end load. |
| D | Units shall be issued after the IPO period any may be charged with a back-end load. |

14.2 According to the offering document dated June 5, 2009; the management company of the Fund may issue the following types of units:

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

Class	2012		2011	
	Number of units	(Rupees in '000)	Number of units	(Rupees in '000)
Growth units	148,021,052	7,401,053	105,210,378	5,260,519
Income units	131,152	6,558	13,831,996	691,600
Total	148,152,204	7,407,611	119,042,374	5,952,119

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

15. WORKERS' WELFARE FUND

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, 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 ended June 30, 2011, 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.

During the current year the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional. The management company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

During the current year, the Fund has received a notice of demand under section 137 of the Income Tax Ordinance, for the payment of levy amount of Rs 0.041 million for the year ended June 30, 2009. The management company has filed an appeal against that notice with the Commissioner Inland Revenue (Appeals) which is pending adjudication.

The Fund has recognised WWF charge upto June 30, 2012 amounting to Rs 34.632 million which includes Rs 14.168 million pertaining to the current year and Rs 20.464 million pertaining to prior years. Had the Fund not provided for WWF the NAV per unit of the Fund would have been higher by Rs 0.23 (0.46%).

16. TRANSACTIONS WITH CONNECTED PERSONS

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the holding company of the management company, directors and officers of the management company, Meezan Islamic Fund, Meezan Islamic Income Fund, Al Meezan Mutual Fund, Meezan Tahaffuz Pension Fund, Meezan Cash Fund, Meezan Sovereign Fund, Meezan Capital Protected Fund - II and KSE Meezan Index 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 and Regulations and the trust deed respectively.

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

	2012	2011
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration payable	6,696	4,634
Sindh sales tax on management fee payable	1,071	-
MBL		
Balances with bank	67,029	35,667
Profit receivable on savings account	466	116
CDC - trustee of the Fund		
trustee fee payable	600	456
Deposits	100	100
Directors and officers of the management company		
Investment as at June 30, 2012: 479,694 units (June 30, 2011: 452,804 units)	24,023	22,654
For the year ended June 30,		
	2012	2011
	(Rupees in '000)	
Al Meezan - management company of the Fund		
Remuneration for the year	69,427	61,621
Units issued: Nil units (June 30, 2011: 562,589 units)	-	28,355
Redemptions: Nil units (June 30, 2011: 3,416,832 units)	-	172,914
Bonus units issued: Nil units (June 30, 2011: 193,117 units)	-	9,658
MBL		
Profit on savings account	1,140	1,302
CDC - trustee of the Fund		
trustee fee for the year	6,464	6,544
CDS charges	6	6
Directors and officers of the management company		
Units issued: 349,387 units (June 30, 2011: 242,894 units)	15,889	12,245
Redemptions: 366,740 units (June 30, 2011: 937,454 units)	18,385	47,366
Bonus units issued: 44,243 units (June 30, 2011: 104,159 units)	2,207	5,272

	2012	2011
	(Rupees in '000)	
17. FINANCIAL INSTRUMENTS BY CATEGORY		
FINANCIAL ASSETS		
- Loans and receivables		
Balances with banks	4,614,198	3,666,697
Investments - placements	1,600,000	1,950,000
Profit receivable	257,153	151,784
Deposits	100	100
	<u>6,471,451</u>	<u>5,768,581</u>
- Fair value through profit and loss		
Investments - sukuk certificates	1,003,500	225,000
	<u>7,474,951</u>	<u>5,993,581</u>
FINANCIAL LIABILITIES		
- Measured at amortised cost		
Payable to Al Meezan		
- management company of the Fund	6,696	4,634
Payable to CDC		
- trustee of the Fund	600	456
Payable on redemption of units	8,599	21,876
Brokerage Payable	-	45
Accrued expenses and other liabilities	565	437
	<u>16,460</u>	<u>34,876</u>
18. 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 and the directives issued by SECP.

Risks managed and measured by the Fund are explained below:

18.1 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 short-term placements with banks, deposits with banks, profit receivable and investments in debt securities. Out of the total financial assets, those that are subject to credit risk amounted to Rs 6,828.560 million (2011: Rs 5,768.581 million).

Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The credit rating wise analysis of investments in debt instruments as at June 30, 2012 and 2011 have been tabulated as follows:

	2012	2011
 %	
Government guaranteed	62.28	-
AA	7.82	-
Non-rated	29.90	100.00
	100.00	100.00

Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties. In accordance with the risk management policy of the Fund, the Fund manager monitors the credit position on a daily basis which is reviewed by the Board of Directors of the management company on a quarterly basis.

Credit rating wise analysis of balances with banks and placements of the Fund are tabulated below:

	2012	2011
 %	
AAA	0.03	0.04
AA+	59.25	67.17
AA	39.64	32.15
AA-	1.08	0.64
	100.00	100.00

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, 2012, along with comparative is tabulated below:

	2012	2011
	(Rupees in '000)	
Financial assets exposed to credit risk		
Balances with banks	4,614,198	3,666,697
Investments	1,978,500	1,950,000
Profit receivable	235,762	151,784
Deposits	100	100
	6,828,560	5,768,581

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

Due to the Fund's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, the Fund does not expect non-performance by these counter parties on their obligations to the Fund.



18.2 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 offering document provides for the daily creation and cancellation of units and it is therefore exposed to the liquidity risk of meeting unit holder's redemptions at any time. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are readily convertible into known amount of cash. The Fund will manage the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

In accordance with the regulation 58(1)(k) of the NBFC Regulations, 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 1,112.816 million as on June 30, 2012 (2011: Rs 893.375 million). However, no such borrowing has been obtained during the year.

Further, the Fund is also allowed, as per regulation 57(10) of the NBFC Regulations, to defer redemption request to next dealing day, if such requests exceed ten percent of the total number.

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

An analysis of the Fund's liabilities into relevant maturity grouping as at June 30, 2012, alongwith comparative is tabulated below:

	As at June 30, 2012				Total	2011 Total
	Maturity upto					
	Three months	Six months	One year	More than one year		
	----- (Rupees in '000) -----					
Payable to Al Meezan						
- management company of the Fund	6,696	-	-	-	6,696	4,634
Payable to CDC						
- trustee of the Fund	600	-	-	-	600	456
Payable on redemption of units	8,599	-	-	-	8,599	21,876
Brokerage payable	-	-	-	-	-	45
Dividend payable	5	-	-	-	5	7,428
Accrued expenses and other liabilities	565	-	-	-	565	437
	16,465	-	-	-	16,465	34,876
June 30, 2011	34,876	-	-	-	34,876	

18.3 Market risk

18.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market interest rates.

The Funds interest rate risk arises from the balances in savings accounts, investment in debt securities and short-term placements.

At June 30, 2012, if there had been increase / (decrease) of 100 basis points in interest rates, with all other variables held constant, net assets of the Fund for the year then ended would have been higher / (lower) by Rs 56.122 million (2011: Rs 38.845 million) mainly as a result of finance income.

As at June 30, 2012, the Fund also holds placements which are classified as 'loans and receivables'. Since 'loans and receivables' are carried at amortised cost, any increase or decrease in market interest rates will not affect the net income for the year nor the net assets of the Fund as at June 30, 2012.

18.3.2 Currency risk

Currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pakistani Rupees.

18.3.3 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 Fund, at present is not exposed to price risk as the Fund does not invest in equity securities.

19. CAPITAL RISK MANAGEMENT

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

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

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

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

In accordance with risk management policies stated note 18, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by disposal of investments where necessary.



20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As at June 30, 2012 the fair value of all financial assets and financial liabilities are estimated to approximate their carrying values.

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.

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 fair value of financial assets that are not traded in an active market is determined with reference to the values quoted by Mutual Funds Association of Pakistan (MUFAP). The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009 issued by the SECP.

A security whose fair value is not quoted by MUFAP due to being non-performing or non-investment grade, then the fair value of such security is determined in accordance with the Circular 1 of 2009 dated January 6, 2009.

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:

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

The following table presents the assets that are measured at fair value as at June 30, 2012

Assets	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Investments - 'fair value through profit or loss'				
Financial assets held for trading				
- Debt securities	-	625,000	-	625,000
Financial assets designated at fair value through profit or loss upon initial recognition				
- Debt securities	-	378,500	-	378,500
	<u>-</u>	<u>1,003,500</u>	<u>-</u>	<u>1,003,500</u>

The following table presents the assets that are measured at fair value as at June 30, 2011:

Assets	Level 1	Level 2	Level 3	Total
Investments - 'fair value through profit or loss'	----- (Rupees in '000) -----			
Financial assets held for trading	-----	-----	-----	-----
- Debt securities	=	= 225,000	=	= 225,000

During the year ended June 30, 2012 and 2011, no transfers were made between the aforementioned levels.

21. PERFORMANCE TABLE	2012	2011	2010	2009
Net assets (Rs '000) (ex-distribution)	7,418,771	5,955,829	5,224,268	623,857
Net Income (Rs '000)	708,427	623,075	418,517	2,050
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution)*	50.08	50.03	50.00	50.01
Offer price per unit as at June 30 (Rs) (ex-distribution)*	50.08	50.03	50.00	50.01
Distribution (%)				
- First interim distribution	1.70	2.45	3.50	-
- Second interim distribution	0.90	2.50	3.00	-
- Third interim distribution	0.88	2.70	-	-
- Fourth interim distribution	0.98	1.70	-	-
- Fifth interim distribution	0.80	-	-	-
- Sixth interim distribution	0.86	-	-	-
- Seventh interim distribution	0.88	-	-	-
- Eighth interim distribution	0.80	-	-	-
- Ninth interim distribution	0.80	-	-	-
- Tenth interim distribution	0.90	-	-	-
- Eleventh interim distribution (Final distribution)	0.64	1.16	3.38	0.30
Dates of distribution				
- First interim distribution	Aug 23, 2011	Sep 30, 2010	Jan 04, 2010	-
- Second interim distribution	Sep 23, 2011	Dec 31, 2010	Apr 02, 2010	-
- Third interim distribution	Oct 20, 2011	Mar 29, 2011	-	-
- Fourth interim distribution	Nov 22, 2011	May 23, 2011	-	-
- Fifth Interim distribution	Dec 21, 2011	-	-	-
- Sixth interim distribution	Jan 22, 2012	-	-	-
- Seventh interim distribution	Feb 22, 2012	-	-	-
- Eighth interim distribution	Mar 19, 2012	-	-	-
- Ninth interim distribution	Apr 22, 2012	-	-	-
- Tenth interim distribution	May 22, 2012	-	-	-
- Eleventh interim distribution (Final distribution)	Jun 21, 2012	Jun 28, 2011	Jul 7, 2010	Jul 6, 2009
Income distribution (Rupees in '000)	125,485	50,126	12,104	-
Growth distribution (Rupees in '000)	576,365	569,253	406,583	1,865
Highest offer price per unit (Rs)	50.86	51.69	52.48	50.16
Lowest offer price per unit (Rs)	50.01	50.01	50.11	50.00
Highest redemption price per unit (Rs)	50.86	51.69	52.48	50.16
Lowest redemption price per unit (Rs) *	49.96	50.01	50.11	50.00
Total return (%)	10.55	11.03	10.10	10.62
	One Year	Two Year	Three Year	Four Year
Average annual return (%) as at June 30, 2012	10.55	10.79	10.55	10.57

*Back end load will apply as per the requirements of the offering document of the Fund.

Investment portfolio composition of the Fund

The Fund is a money market fund as per the categorisation of open end collective investment scheme defined in Circular 7 of 2009 dated March 6, 2010. Investment avenues for money market fund as defined in the said circular are restricted to government securities, debt securities, cash and near cash instruments which includes cash in bank accounts (excluding term deposit receipts), treasury bill, money market placements, deposits, certificate of deposits (COD), certificate of Musharakas (COM), commercial paper and reverse repo. The Fund has, therefore, placed all its assets in savings accounts and placements with banks and has invested in debt securities as disclosed in note 6.

Weighted average time to maturity of the Fund's placements and debt securities as at June 30, 2012 is 48 days (2011: 77 days).

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate as described in note 18.

22. INVESTMENT COMMITTEE MEMBERS

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

Name	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Twenty two years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA level II / MBA	Sixteen years
3. Ms. Sanam Ali Zaib	Head of Research	CFA / MBA	Eight years
4. Mr. Muhammad Ali	AVP Investments / Fund Manager	CFA / FRM / MBA / MS	Eighteen years
5. Mr. M. Farhan Lakhani	Manager Research and Investments	CFA / MBA	Three years
6. Ms. Bushra Tariq	Senior Manager	BBA	Three years
7. Mr. Shakil Ahmed	Senior Manager	CFA / MBA	Five years

22.2 The Fund Manager of the Fund is Mr. Muhammad Ali, other funds being managed by the Fund Manager are as follows:

- Meezan Islamic Income Fund
- Meezan Sovereign Fund."

23. PATTERN OF UNIT HOLDING

	As at June 30, 2012		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment %
Individuals	4,781	3,508,083	47.29
Associated companies / directors	3	14,577	0.20
Insurance companies	11	83,049	1.12
Banks / DFIs	7	1,435,114	19.34
Retirement Funds	43	125,748	1.69
Public limited companies	23	1,135,956	15.31
Others	125	1,116,244	15.05
Total	4,993	7,418,771	100.00

As at June 30, 2011

	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment %
Individuals	2,528	2,782,516	46.72
Associated companies / directors	3	6,181	0.10
Insurance companies	8	32,293	0.54
Banks / DFIs	2	640,759	10.76
Retirement Funds	26	121,999	2.05
Public limited companies	3	578,461	9.71
Others	52	1,793,620	30.12
Total	2,622	5,955,829	100.00

24. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present therein					
		July 7, 2011	Aug 16, 2011	Sep 28, 2011	Oct 24, 2011	Feb 23, 2012	April 27, 2012
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib	Chief Executive	No	Yes	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Independent Director	No	Yes	Yes	No	Yes	No
Mr. Rana Ahmed Humayun	Nominee Director	Yes	Yes	Yes	No	Yes	-
Mr. Mazhar Sharif	Nominee Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Rizwan Ata***	Nominee Director	Yes	Yes	Yes	No	-	-
Mr. Salman Sarwar Butt	Independent Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Tasnimul Haq Farooqui*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali Zaidi**	Nominee Director	-	-	-	-	-	Yes

* Appointed in December, 2011

** Appointed in place of Mr. Rana Ahmed Humayun

*** Resigned in December, 2011

25. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the Board of Directors of the management company.



Mohammad Shoaib, CFA
Chief Executive

For AI Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



PATTERN OF HOLDING (UNITS) AS PER THE REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2012

Units held by	Units Held	%
Associated Companies	-	-
Directors		
Mr. Ariful Islam	243,398	0.16
Mr. Tasnimul Haq Farooqui	38,820	0.03
Chief Executive		
Mr. Mohammad Shoaib, CFA	8,853	0.01
Executives	479,694	0.32
Public Limited Companies	22,664,735	15.30
Banks and financial institutions	28,656,438	19.34
Individuals	69,583,709	46.98
Retirement funds	2,510,942	1.69
Other corporate sector entities	22,997,093	15.52
Non-Profit Organization	968,521	0.65
Total	148,152,204	100.00



Annual Report 2012



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. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoaib, CFA	Chief Executive

CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, CFA	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

Dubai Islamic Bank Pakistan Limited
Habib Metropolitan Bank Limited - Islamic Banking
Meezan Bank Limited

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 FUND MANAGER

Meezan Capital Protected Fund II (MCPF-II) is an open end capital protected fund investing in Shariah compliant fixed income securities and listed equity securities. The Capital Protection Segment is invested in Government of Pakistan Ijarah Sukuk, while the Investment Segment is invested in listed equity securities.

The objective of MCPF-II is to pay investors, with certain conditions, their Principal Investment and to provide them with a high level of total return over the life of the Fund in a Shariah compliant manner.

Strategy, Investment Policy and Asset Allocation

The benchmark of MCPF-II is the rate of return on Bank Deposits for three Islamic Banks and KMI-30 in weightages of the Capital Protection and Investment Segments of the Fund respectively. The Fund Manager, Al Meezan Investment Management Limited, manages the fund with the aim to preserve investor's capital and provide them with high returns through investment in listed equity securities.

During the year, the fund increased its equity exposure to 19% in line with the market trend, while 75% of the Net Assets is invested in Government of Pakistan Ijarah Sukuk. Within the Investment Segment, the Fund has 87.75% exposure in equity securities.

Performance Review

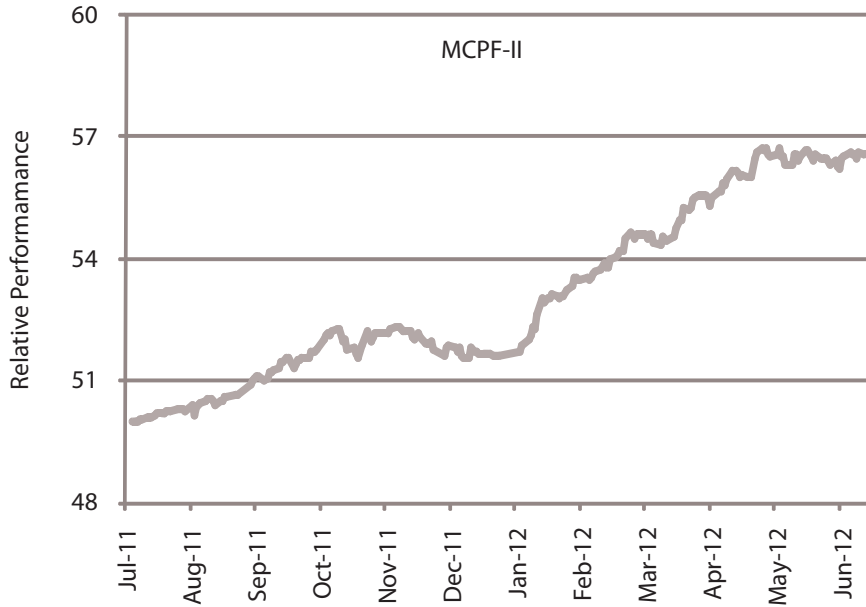
During the fiscal year 2012, Meezan Capital Protected Fund II (MCPF-II) provided a return of 13.52% to its investors.

Meezan Capital Protected Fund - II posted a total income of Rs. 63 million in the period ended June 30, 2012. The main contributors to total income were profit on GoP Ijara Sukuk, realized gain on investments and dividend income amounting to Rs. 32 million, Rs. 15 million and Rs. 6 million respectively. After accounting for the expenses and adjusting for element of income and capital income in prices of units issued less those in units redeemed, the Fund posted net income of Rs. 53 million. The net assets of the fund amounted to Rs. 443 million, equivalent to a pre-dividend NAV per unit of Rs. 56.76.

Distributions:

The Board of Directors in its meeting held on July 9, 2012 approved distribution at the rate of Rs. 6.25 per unit (12.5%) out of the profits of the Fund for the year ended June 30, 2012.

	MCPF - II
Net Asset Value (NAV) as on June 30, 2011 (Dividend Adjusted)	50.00
Net Asset Value (NAV) as on June 30, 2012	56.76
Return During the Period	13.52%



Charity Statement

According to the Trust Deed of MCPF-II, 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, 2012 an amount of Rs. 0.1 million was accrued as charity payable.

Breakdown of unit holdings by size:

Range (Units)	No. of investors
1 - 9,999	160
10,000 - 49,999	56
50,000 - 99,999	9
100,000 - 499,999	5
500,000 and above	2
Total	232

Fund Rating

JCR-VIS Credit Rating Company has assigned the 'AA (cpf)' rating to Meezan Capital Protected Fund - II.



Meezan Bank

The Premier Islamic Bank

Report of the *Shar'iah* Advisor – Meezan Capital Protected Fund-II

September 28, 2012/ Ziq'a'ad 10, 1433

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) Illiquid assets to total assets (iv) Investment in non- *Shar'iah* compliant activities to Total assets (v) *Shar'iah* Non Compliant Income to Gross Revenue, 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 equity investments of MCPF-II in light of *Shar'iah* requirements. Following is a list of investments of MCPF-II as on June 30, 2012 and their evaluation according to the screening criteria established by us. (December 31, 2011 accounts of the Investee companies have been used).

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<37%)	(iii) % of Non- <i>Shar'iah</i> Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>25%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Attock Petroleum Ltd.	Oil and Gas	0.00%	4.02%	1.23%	26%	48.00	412.50
DG Khan Cement Ltd.	Construction and Materials	33.52%	3.22%	4.85%	71%	(15.76)	19.03
Engro Foods	Food Producers	34.85%	7.78%	0.01%	81%	(92.40)	22.60
Fauji Fertilizer Bin Qasim.	Chemicals	20.73%	22.00%	2.14%	56%	(9.47)	42.43
Fauji Fertilizer Company Ltd.	Chemicals	24.89%	30.55%	1.64%	56%	(24.41)	149.54
Hub Power Co. Ltd.	Electricity	32.75%	0.00%	0.05%	37%	(41.87)	34.20
ICI Chemicals Pakistan Ltd.	Chemicals	0.00%	0.00%	0.57%	67%	2.49	120.27
Lucky Cement	Construction and Materials	16.00%	0.00%	0.00%	94%	(31.19)	75.04
Millat Tractors	Industrial Engineering	0.04%	10.46%	0.69%	66%	3.20	365.21
National Refinery	Oil and Gas	0.00%	1.53%	1.05%	46%	(38.82)	242.69

Meezan Bank Ltd.

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



Oil & Gas Development Co. Ltd.	Oil and Gas	0.00%	18.49%	4.24%	41%	23.88	151.62
Pakistan Oil Fields	Oil and Gas	0.00%	3.33%	4.09%	69%	2.10	346.45
Pakistan Petroleum Ltd.	Oil and Gas	0.12%	32.60%	4.68%	35%	50.64	168.32
Pakistan State Oil Company Ltd.	Oil and Gas	5.09%	0.00%	0.27%	33%	(316.41)	227.21
Pakistan Telecommunication Co. Ltd.	Fixed Line Telecommunication	7.41%	2.87%	1.22%	79%	(9.25)	10.39
Tripak Films Ltd.	General Industrials	26.50%	4.24%	0.16%	70%	(69.73)	160.30

* All interest based debts.

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

- ii. The capital protection element of the fund is covered through Murabaha transaction of Shares and Sukuk with Meezan bank. Documents and procedure of this arrangement have been evaluated by us and found to be in compliance with the principles of *Shar'iah*. The capital is protected through structure and not guaranteed.
- iii. On the basis of information provided by the management, all operations of MCPF-II for the year ended June 30, 2012 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 MCPF-II 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 0.086 million was created and an amount of Rupees 0.105 million was disbursed into charity.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
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Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
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Email: info@cdcpak.com



ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

MEEZAN CAPITAL PROTECTED FUND-II

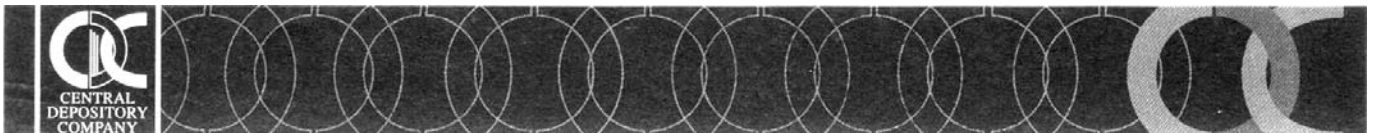
Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Capital Protected Fund-II (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from July 05, 2011 to June 30, 2012 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, October 05, 2012





STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE PERIOD ENDED JUNE 30, 2012

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 management company has applied the principles contained in the CCG in the following manner:

1. The management company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed Mr. Salman Sarwar Butt
Executive Director	Mr. Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies including the management company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the 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 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on February 16, 2012 was filled up by the directors within 30 days.
5. The Management Company has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision / mission statement, overall corporate strategy and significant policies of the management company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors of the Company is pursuing the 'Directors Training Certification' and such certification shall be completed in the ensuing year.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including the CEO, all other members are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program at the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Mohammad Shoaib, CFA
Chief Executive

Karachi
September 21, 2012



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

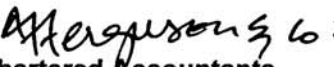
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the period July 5, 2011 to June 30, 2012 prepared by the Board of Directors of Al Meezan Investment Management Limited (the Management Company) of **Meezan Capital Protected Fund-II** (the Fund) to comply with the Listing Regulation No. 35 of the Islamabad 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

Further, regulation (x) of the Listing Regulations No. 35 notified by the Islamabad 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 and have ensured compliance of requirement to the extent of approval of 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 prices 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 status of the Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period July 5, 2011 to June 30, 2012.


Chartered Accountants
Karachi, October 19, 2012

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**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS
REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of **Meezan Capital Protected Fund - II**, which comprise the statement of assets and liabilities as at June 30, 2012, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period July 5, 2011 to June 30, 2012, 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, 2012, and of its financial performance, cash flows and transactions for the period July 5, 2011 to June 30, 2012 in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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, October 19, 2012

Audit Engagement Partner: Saad Kaliya

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STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2012

	Note	2012 (Rupees in '000)
Assets		
Balances with banks	5	21,328
Investments	6	418,473
Profit receivable	7	5,738
Dividend receivable		129
Deposit with Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund		100
Preliminary expenses and floatation costs	8	1,536
Total assets		<u>447,304</u>
Liabilities		
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	9	657
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	10	58
Payable to Securities and Exchange Commission of Pakistan (SECP)	11	303
Payable against purchase of investments		1,930
Accrued expenses and other liabilities	12	1,111
Total liabilities		<u>4,059</u>
Net assets		<u>443,245</u>
Contingency	13	
Unit holders' fund (as per statement attached)		<u>443,245</u>
Number of units		
Number of units in issue	16	<u>7,809,472</u>
Rupees		
Net assets value per unit		<u>56.76</u>

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



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



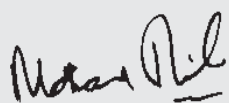
Mazhar Sharif
Director

INCOME STATEMENT

FOR THE PERIOD JULY 5, 2011 TO JUNE 30, 2012

	Note	For the period July 5, 2011 to June 30, 2012 (Rupees in '000)
Income		
Net realised gain on sale of investments		14,790
Dividend income - net of charity		6,397
Profit on savings accounts with banks		6,892
Profit on Government of Pakistan (GoP) Ijarah Sukuk		32,439
Back end load		446
		60,964
Unrealised gain on re-measurement of investments -'fair value through profit or loss' (net)	6.2	2,477
Total income		63,441
Expenses		
Remuneration to Al Meezan - management company of the Fund	9.1	6,018
Sindh sales tax on management fee	9.2	963
Remuneration to CDC - trustee of the Fund	10	694
Annual fee to SECP	11	303
Auditors' remuneration	14	345
Fees and subscription		60
Amortisation of preliminary expenses and floatation costs	8	717
Amortisation of premium - GoP Ijarah Sukuk		879
Securities transaction cost		704
Legal and professional charges		175
Bank and settlement charges		32
Printing charges		150
		11,040
Total expenses		11,040
Net income from operating activities		52,401
Element of income and capital gains included in prices of units issued less those in units redeemed (net)		370
Net income for the period		52,771

The annexed notes 1 to 28 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 PERIOD JULY 5, 2011 TO JUNE 30, 2012

	For the period July 5, 2011 to June 30, 2012 (Rupees in '000)
Undistributed income at the beginning of the period	-
Net income for the period	52,771
Undistributed income carried forward as at June 30, 2012	<u>52,771</u>

The annexed notes 1 to 28 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' FUNDS

FOR THE PERIOD JULY 5, 2011 TO JUNE 30, 2012

	For the period July 5, 2011 to June 30, 2012 (Rupees in '000)
Net assets at the beginning of the period	-
Issue of 7,900,661 units	395,926
Redemption of 91,189 units	(5,082)
	390,844
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	(370)
Net realised gain on sale of investments	14,790
Unrealised appreciation in value of investments	2,477
Other net income for the period	35,504
Net assets at the end of the period	443,245
Net assets value per unit at the beginning of the period - Rupees	-
Net assets value per unit at the end of the period - Rupees	56.76

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



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director

CASH FLOW STATEMENT

FOR THE PERIOD JULY 5, 2011 TO JUNE 30, 2012

	For the period July 5, 2011 to June 30, 2012 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the period	52,771
Adjustments for:	
Net realised gain on sale of investments	(14,790)
Dividend income	(6,502)
Charity expense	105
Profit on savings accounts with banks	(6,892)
Profit on GoP Ijarah Sukuk	(32,439)
Unrealised gain on re-measurement of investments - 'fair value through profit or loss' (net)	(2,477)
Amortisation of preliminary expenses and floatation costs	717
Amortisation of premium - GoP Ijarah Sukuk	879
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	(370)
	<u>(8,998)</u>
Increase in assets	
Investments - net	(402,085)
Deposits with CDC	(100)
	<u>(402,185)</u>
Increase in liabilities	
Payable to Al Meezan - management company of the Fund	657
Payable to CDC - trustee of the Fund	58
Payable to SECP	303
Payable against purchase of investments	1,930
Accrued expenses and other liabilities	1,006
	<u>3,954</u>
Net cash utilised in operating activities	<u>(407,229)</u>
Preliminary expenses and floatation costs paid	(2,253)
Profit received on GoP Ijarah Sukuk	28,160
Profit received on savings accounts with banks	5,433
Dividend received	6,373
Net cash outflow from operating activities	<u>(369,516)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Receipt from issuance of units	395,926
Payments against redemption of units	(5,082)
Net cash inflow from financing activities	<u>390,844</u>
Net cash inflow during the period	21,328
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	<u>21,328</u>

The annexed notes 1 to 28 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 PERIOD JULY 5, 2011 TO JUNE 30, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Capital Protected Fund-II (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee of the Fund. The trust deed was executed on May 12, 2011 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund is a capital protected fund with an objective to pay unit holders, with certain conditions, their principal investment at maturity and to provide them with high level of total return over the life of the Fund in a shariah compliant manner. Under the trust deed all the conducts and acts of the Fund are based on shariah. Meezan Bank Limited (MBL) acts as its shariah advisor to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end fund with maturity of three years and six weeks and is listed on the Islamabad Stock Exchange. The issuance of units has been discontinued since August 15, 2011. The management company of the Fund has been given a quality rating of AM2 and the stability rating of the Fund is AA(cpf) given by JCR - VIS. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 This is the first year of establishment of the Fund, therefore, there are no corresponding figures in these financial statements. These financial statements have been prepared from July 5, 2011, being the date on which the 'deposited property' was first transferred to the trustee.
- 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 advisor are accounted for on substance rather than the form prescribed by the aforementioned guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

3. STATEMENT OF COMPLIANCE

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

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



3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current period:

The following standards, amendments and interpretation to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures'. This amendment is effective from January 1, 2011. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements.
- b) IFRS 7, 'Financial instruments: Disclosures'. This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current period.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Presentation of financial statements' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment do not address which items are presented in OCI. The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments - Presentation' (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management company is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Accounting Convention

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

4.2 Critical accounting estimates and judgements

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

- (a) Classification and valuation of financial instruments (notes 4.3.1, 4.3.2, 4.3.3 and 6);
- (b) impairment (note 4.3.5);
- (c) recognition of provision for current taxation and deferred taxation (note 4.10); and
- (d) amortisation of preliminary expenses and floatation costs (notes 4.8 and 8).

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

4.3 Financial instruments

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

- a) Investments - 'fair value through profit or loss'

- Financial instruments categorised as '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 - '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 up to 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 asset or financial liability 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 the income statement.

Dividend income from the financial assets at fair value through profit and loss and available for sale securities is recognised in the income statement when the Fund's right to receive the payments is established. Profit on debt securities is recognised in the income statement based on the effective interest method.

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

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

4.3.4 Fair value measurement principles

The fair value of debt securities and derivatives were determined as follows:

- Effective January 10, 2009 the carrying value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in circular No. 1/2009 (the circular) dated January 6, 2009 issued by the SECP.
- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further the reversal of provisions are also made in accordance with the said circulars and subsequent clarifications.

The fair value of shares of listed companies / units of funds, derivatives and financial instruments sold on deferred settlement basis is based on their price quoted on the Karachi Stock Exchange at the balance sheet date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

4.3.5 Impairment

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

In case of investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If, any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is removed from equity and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is recognised in other comprehensive income. If in any subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through income statement.

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 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.

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

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

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 distributors and the management company.



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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

The element is recognised in the income statement to the extent that it is represented by income earned during the period and unrealised appreciation / (diminution) arising during the period on 'available for sale' securities is included in the distribution 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 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of three years and six weeks commencing from July 5, 2011 in accordance with the requirements of the trust deed of the Fund.

4.9 Net assets value per unit

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

4.10 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. Accordingly, the Fund has not recorded a tax liability in respect of income relating to the current period as the Fund intends to avail this exemption.

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

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in the future years by distributing at least 90 percent of its accounting income for the period as reduced by capital gains, whether realised or unrealised to its unit holders every year.

4.11 Revenue recognition

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

4.12 Expenses

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

4.13 Offsetting of financial instruments

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

4.14 Zakat

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

4.15 Cash and cash equivalents

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

4.16 Segment Reporting

Operating segments are reported in the manner consistent with the internal reporting used by the investment committee. The investment committee of the management company makes the strategic resource allocations on behalf of the Fund. The Fund has determined the operating segments based on the requirements of the trust deed and reports reviewed by its investment committee for taking strategic decisions.

4.17 Dividend and bonus units

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

	Note	2012 (Rupees in '000)
5. BALANCES WITH BANKS		
On savings accounts	5.1 & 5.2	21,269
On current accounts	5.2	59
		<u>21,328</u>

5.1 The balances in savings accounts bear expected profit which ranges from 5.04% to 12.10% per annum.

5.2 The balance includes Rs 0.556 million with related party, Meezan Bank Limited, on which return is earned at 5.65% per annum.

	Note	2012 (Rupees in '000)
6. INVESTMENTS		
Investments - 'available for sale'	6.1	333,706
Investments - 'fair value through profit and loss'	6.2	84,767
		<u>418,473</u>

6.1 Investments categorised as 'available for sale'

Name of the Issuer	Maturity date	Profit rate	Purchases during the year	Sales / redemptions during the period	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage of market value of total investment
									-----Number of certificates-----
GoP Ijarah Sukuk Certificates - VIII (note 6.1.1)	May 16, 2014	Weighted Average 6 months T-Bills	2,800	-	2,800	281,706	281,706	-	67.32
GoP Ijarah Sukuk Certificates - IX (note 6.1.1)	December 26, 2014	Weighted Average 6 months T-Bills	220	-	220	22,000	22,000	-	5.26
GoP Ijarah Sukuk Certificates - XII (note 6.1.1)	June 28, 2015	Weighted Average 6 months T-Bills	300	-	300	30,000	30,000	-	7.17
						<u>333,706</u>	<u>333,706</u>	<u>-</u>	
Total cost of investment						<u>333,706</u>			

- 6.1.1 The nominal value of the sukuk certificates is Rs 100,000 each.
- 6.1.2 For the purpose of capital protection, the Fund has allocated 75.5% of the initial fund size to the capital protected segment. In this respect the Fund has provided capital protection by placing the assets of the segment in GoP Ijarah sukuks and islamic banks for the period July 5, 2011 to Aug 3, 2011. For the remaining period, from August 4, 2011 to June 30, 2012, the Fund had invested the deposits placed in the banks in GoP Ijarah sukuks.
- 6.1.3 The remaining assets of the Fund are allocated to investment segment (note 15).
- 6.1.4 The duration of the capital protection segment is 3 years and 6 weeks from the first day of initial offering period.

6.2 Investments at fair value through profit or loss

6.2.1 Held for trading - shares of listed companies

Name of the investee company	Purchases during the period	Bonus issue	Demerger effect / (adjustment)	Sales during the period	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss) as at June 30, 2012	Percentage of market value of total investment
	-----Number of shares-----					----- (Rupees in '000) -----			%
Construction and materials									
DG Khan Cement Company Limited	409,401	-	-	296,000	113,401	3,464	4,466	1,002	1.07
Lucky Cement Limited	418,848	-	-	357,300	61,548	6,971	7,102	131	1.70
									2.77
Electricity									
The Hub Power Company Limited	787,500	-	-	544,630	242,870	9,162	10,174	1,012	2.43
Oil and gas									
Oil and Gas Development Company Limited	71,300	-	-	33,000	38,300	5,799	6,145	346	1.47
Pakistan Petroleum Limited	86,700	2,500	-	62,000	27,200	5,019	5,121	102	1.22
Pakistan Oil Fields Limited	55,900	-	-	39,900	16,000	5,745	5,871	126	1.40
Pakistan State Oil Company Limited	75,507	-	-	51,800	23,707	6,029	5,591	(438)	1.34
National Refinery Limited	45,323	-	-	44,332	991	299	229	(70)	0.05
Attock Petroleum Limited	27,700	-	-	13,700	14,000	5,529	6,641	1,112	1.59
									7.07
Automobile and parts									
Pak Suzuki Motor Company Limited	3,677	-	-	3,677	-	-	-	-	-
Automobile assembler									
Millat Tractors Company Limited	2,302	-	-	-	2,302	998	1,112	114	0.27
Fixed line telecommunication									
Pakistan Telecommunication Company Limited 'A'	1,165,000	-	-	670,810	494,190	6,253	6,765	512	1.62
Chemicals									
Fauji Fertilizer Bin Qasim Company Limited	634,680	-	-	445,200	189,480	8,332	7,735	(597)	1.85
Fauji Fertilizer Company Limited	335,834	-	-	215,834	120,000	14,070	13,326	(744)	3.18
ICI Pakistan Limited (note 6.2.3)	22,000	-	(3,843)	10,516	7,641	1,114	1,001	(113)	0.24
									5.27
General industrials									
Tri Pack Films Limited	5,000	-	-	-	5,000	1,019	1,050	31	0.25
Personal goods									
Nishat Mills Limited	96,000	-	-	96,000	-	-	-	-	-
Food producers									
Engro Foods Limited	60,000	-	-	30,000	30,000	1,927	1,934	7	0.46
Unquoted company									
AkzoNobel Pakistan Limited (note 6.2.3)	-	-	3,843	-	3,843	560	504	(56)	0.11
Total						82,290	84,767	2,477	
Total cost of investments							82,290		

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

This represents annual fee payable to the SECP at the rate of 0.075% of the average annual net assets of the Fund under regulation 62 read with Schedule II of NBFC Regulations.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

		2012
		(Rupees in '000)
Auditors' remuneration		225
Charity payable	12.1	105
Printing charges payable		122
Profit payable to Pre-IPO investors		659
		<u>1,111</u>

- 12.1 According to the instructions of the shariah advisor, 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 0.105 million is outstanding in this regard to renowned charitable institutions. None of the directors of the management company were interested in any of the donees.

13. 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.

Prior to 2011, 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.

During the current period, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional. The management company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

However, a Fund under the common management of the management company has received a notice of demand under section 137 of the Income Tax Ordinance, 2001 for the payment of levy of WWF for the period ended June 30, 2009. The management company has filed an appeal against such notice of demand to the Commission Inland Revenue (Appeals) which is pending adjudication.

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 not recognised WWF charge for the period July 5, 2011 to June 30, 2012 amounting to Rs 1.035 million. Had the same been made, the net asset value per unit of the Fund would have been lower by Rs 0.13 (0.23%).

There were no other contingencies and commitments outstanding as at June 30, 2012.

	For the period July 5, 2011 to June 30, 2012 (Rupees in '000)
14. AUDITORS' REMUNERATION	
Audit fee	150
Half yearly review	75
Other certifications	110
Out of pocket expenses	10
	345
	345

15. OPERATING SEGMENTS

The investment committee of the management company makes the strategic resource allocations on behalf of the Fund. The Fund has determined the operating segments based on the requirements of the trust deed and the reports reviewed by the investment committee for taking strategic decisions.

In accordance with the trust deed, the Fund consists of two segments, a capital protection segment and an investment segment. The capital protected segment includes that part of the Fund property which will be invested in such a way that it grows to the level of principal investment upon the level of maturity of the Fund where as the investment segment includes that portion of the Fund property that will be invested in assets with minimum investment grade, wherever applicable, that have the potential to give a high return to investors.

The capital protection segment policy aims at protecting investors' capital by placing the assets of the segment in Shariah Compliant GoP Ijarah Sukuk. Alternatively, the assets of the Fund may be placed with a Scheduled Islamic Bank or Islamic windows having at least minimum rating AA- (Double A minus) at the time of placement as directed by the SECP. However, the investment segment policy aims at investing in asset classes as and when determined by the management company. The asset classes includes shares of shariah compliant securities, shariah compliant debt and money market securities / instruments including sukuku issued by Federal Government, bank deposits in islamic banks.

The reportable operating segments derive their income by seeking investments to achieve targeted returns that consummate with an acceptable level of risk within each portfolio. These returns consist of profit on sukuk certificates and GoP Ijarah sukuku, dividends, gain on disposal of investments and unrealised gain on the appreciation in the value of the investments.

There were no changes in the reportable segments during the period.

The segment information provided to the investment committee and the Fund manager for the reportable segments is as follows:

For the period July 5, 2011 to June 30, 2012			
Investment Segment	Capital Protected Segment	Total	
(Rupees in '000)			
Net realised gain on sale of investments	14,790	-	14,790
Dividend income (net of charity expense)	6,397	-	6,397
Profit on savings accounts with banks	6,892	-	6,892
Profit income on GoP Ijarah Sukuk	10,989	21,450	32,439
Unrealised gain on re-measurement of investments - 'fair value through profit or loss'	2,477	-	2,477
Remuneration to Al Meezan	(1,113)	(4,905)	(6,018)
Sindh sales tax on management fee	(178)	(785)	(963)
Amortisation of premium - GoP Ijarah Sukuk	(456)	(422)	(878)
Securities transaction cost	(666)	(38)	(704)
Settlement Charges	(18)	-	(18)
Total net segment income	39,114	15,300	54,414
Total segment assets	237,884	207,784	445,668
Total segment liabilities	2,157	535	2,692

For the period July 5, 2011 to June 30, 2012			
Investment Segment	Capital Protected Segment	Total	
(Rupees in '000)			
Total segment assets include:			
Investments - 'fair value through profit or loss'	84,767	-	84,767
Investments - 'available for sale'	147,372	186,334	333,706
Profit receivable on savings accounts	1,459	-	1,459
Profit receivable on sukuk certificates	1,483	2,796	4,279
Dividend receivable	129	-	129
Balances with banks	2,674	18,654	21,328
	237,884	207,784	445,668
Total segment liabilities include:			
Payable to Al Meezan	122	535	657
Payable against purchase of investments	1,930	-	1,930
Charity payable	105	-	105
	2,157	535	2,692

There were no transactions between reportable segments.

A reconciliation of total net segmental income to total income is provided as follows:

	For the period July 5, 2011 to June 30, 2012 (Rupees in '000)
Total net segment income	54,414
Back end load	446
Expenses other than segment expenses	(2,459)
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	<u>370</u>
Net income for the period	<u>52,771</u>

The amounts provided to the investment committee with respect to total assets are measured in a manner consistent with International Accounting Standards as applicable in Pakistan, except for investments, which are based on the quoted market prices at the close of the trading in case of listed securities. The Fund's other receivables and prepayments are not considered to be segment assets and are managed by the administration function.

Reportable segments' assets are reconciled to total assets as follows:

	2012 (Rupees in '000)
Segment assets for reportable segments	445,668
Deposit with CDC	100
Preliminary expenses and floatation costs	<u>1,536</u>
Total assets	<u>447,304</u>

The amounts provided to the investment committee with respect to liabilities are measured in a manner consistent with International Financial Reporting Standards as applicable in Pakistan. The Fund's payables for trustee fee, SECP fee and other administration fees are not considered to be segment liabilities and are managed by the administration function.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2012 (Rupees in '000)
Segment liabilities for reportable segments	2,692
Payable to CDC - trustee of the Fund	58
Payable to SECP	303
Accrued expenses and other liabilities	<u>1,006</u>
Total liabilities	<u>4,059</u>

16. CLASSES OF UNITS IN ISSUE

16.1 Units of the Fund have been classified as follows:

Class	Description
--------------	--------------------

- | | |
|---|--|
| A | Units that shall be charged with front-end and back-end load. |
| B | Units that shall be offered for subscription if and when the Fund is re-opened for subscription and shall be charged with front-end and back-end load. |
| C | Units that shall be announced from time to time and shall be charged with back-end load. |

16.2 The units in issue as at June 30, 2012 and their par values were as follows:

	As at June 30, 2012	
	Number of units in issue	Rupees in '000
Units	<u>7,809,472</u>	<u>390,474</u>

The par value of each unit is Rs 50. The management company of the Fund has set a minimum initial investment limit of Rs 5,000. All units carry equal rights and are entitled to dividends and payment of net asset value on liquidation. The units were continuously offered for public subscription till August 15, 2011.

17. 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, directors and officers of the management company and Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Cash Fund, Meezan Sovereign Fund, Al Meezan Mutual Fund, Meezan Islamic Fund and KSE Meezan Index 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 provisions of NBFC Rules, NBFC Regulations and the trust deed respectively.

Details of transactions with connected persons and balances with them for the period July 5, 2011 to June 30, 2012 and as of that date are as follows:

	As at June 30, 2012 (Rupees in '000)
Al Meezan - management company of the Fund	
Remuneration payable	541
Sindh sales tax payable on management fee	87
Sales load payable	29
Investment of 2,000,000 units	113,520
MBL	
Balances with bank	556
Profit receivable	22
Investment of 2,000,000 units	113,520
CDC - trustee of the Fund	
Trustee fee payable	58
Deposit with CDC	100
Officer of the management company	
Investment of 1,000 units	57

**For the period
July 5, 2011 to
June 30, 2012
(Rupees in '000)**

Al Meezan - management company of the Fund

Remuneration for the period	6,018
Sindh sales tax on management fee	963
Investment of 2,000,000 units	100,000
Preliminary expenses and floatation costs paid	2,253

MBL

Profit on savings account with bank	31
Investment of 2,000,000 units	100,000

CDC - trustee of the Fund

Trustee fee	694
CDS charges	16

Officer of the management company

Investment of 1,000 units	50
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18. FINANCIAL INSTRUMENTS BY CATEGORY

	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
	2012 (Rupees in '000)				
On balance sheet - financial assets					
Balances with banks	21,328	-	-	-	21,328
Investments	-	84,767	333,706	-	418,473
Profit receivable	5,738	-	-	-	5,738
Dividend receivable	129	-	-	-	129
Deposit with CDC	100	-	-	-	100
	27,295	84,767	333,706	-	445,768
On balance sheet - financial liabilities					
Payable to Al Meezan - management company of the Fund	-	-	-	570	570
Payable to CDC - trustee of the Fund	-	-	-	58	58
Payable to SECP	-	-	-	303	303
Payable against purchase of investments	-	-	-	1,930	1,930
Accrued expenses and other liabilities	-	-	-	1,006	1,006
	-	-	-	3,867	3,867

19. 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.

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

Risks managed and measured by the Fund are explained as follows:

19.1 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 profit receivable on savings account, dividend receivable on equity securities and receivable against sale of investments.

Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The credit rating wise analysis of investments in debt instruments have been tabulated as follows:

	2012 (%)
Government guaranteed	79.74

Credit risk arising on other 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 Fund manager monitors the credit position on a daily basis which is reviewed by the Board of Directors of the management company on a quarterly basis.

Credit rating wise analysis of balances with bank of the Fund are tabulated below:

	2012 (%)
AA+	97.21
AA-	2.61
A	0.18
	<u>100.00</u>

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, 2012 is tabulated below:

	2012 (Rupees in '000)
Financial assets	
Balances with banks	21,328
Profit receivable	1,459
Dividend receivable	129
Deposit with CDC	100
	<u>23,016</u>

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

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

In accordance with the regulation 58(1)(k) of the NBFC Regulations, 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 66.487 million as at June 30, 2012. However, no such borrowing has been obtained during the period.

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

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

An analysis of the Fund's financial liabilities into relevant maturity grouping as at June 30, 2012 is tabulated below:

	2012 Maturity upto				Total
	Three months	Six months	One year	More than one year	
	----- (Rupees in '000) -----				
Payable to Al Meezan - management company of the Fund	570	-	-	-	570
Payable to CDC - trustee of the Fund	58	-	-	-	58
Payable to SECP	303	-	-	-	303
Payable against purchase of investments	1,930	-	-	-	1,930
Accrued expenses and other liabilities	1,006	-	-	-	1,006
	<u>3,867</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,867</u>

19.3 Market risk

19.3.1 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 objectives. The primary objective to pay unit holders, with certain conditions, their principal investment at maturity and to provide them with high level of total return over the life of the Fund in a shariah compliant manner for the given level of risks. The Fund's market risk is managed on a daily basis by the Fund manager in accordance with the policies and procedures laid down by the SECP. The funds are allocated among various asset classes based on the attractiveness of the particular asset class. The allocation among these is dependent on the time horizon for investments and liquidity requirements of the portfolio. The market risk is managed by monitoring exposure to marketable securities and by complying with the internal risk management policies and regulations laid down in NBFC Regulations, 2008.

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

Details of the Fund's investment portfolio exposed to price risk, at the balance sheet date are disclosed in note 6.2.1 to these financial statements. As 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 KSE Meezan Index (KMI) 30 index. 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 Fund's policy also limits individual equity securities to no more than 10% of net assets.

The net assets of the Fund will increase / (decrease) by approximately Rs 0.024 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 30 index increases / (decreases) by 0.1% 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.

19.3.2 Interest rate risk

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

Cash flow interest rate risk

The Fund's interest rate risk arises from the balances in savings accounts and investment in debt securities. As at June 30, 2012, if there had been increase / decrease of 100 basis points in interest rates, with all other variables held constant, net assets of the Fund for the period would have been higher / (lower) by Rs 3.550 million mainly as a result of finance income.

Fair value interest rate risk

Since the Fund does not have investment in fixed rate security, therefore, is not exposed to fair value interest rate risk.



19.3.3 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pakistani Rupees.

20. CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to distributions 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's objectives when managing capital is to safeguard its ability to continue returns for units holders and to maintain a strong capital base to meet unexpected losses or opportunities.

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

21. 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 period 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 fair value of financial assets (e.g. sukuk) that are not traded in an active market is determined with reference to the values quoted by MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009.

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).

The following table presents the assets that are measured at fair value as at June 30, 2012:

Assets	Level 1	Level 2	Level 3	Total
..... (Rupees in '000)				
Investments - 'available for sale'				
Financial assets available for sale	-	333,706	-	333,706
Investments - 'fair value through profit or loss'				
Financial assets held for trading	84,767	-	-	84,767
	<u>84,767</u>	<u>333,706</u>	<u>-</u>	<u>418,473</u>

During the period July 5, 2011 and June 30, 2012, no transfers were made between the aforementioned levels.

22. PERFORMANCE TABLE

2012

Net assets value (Rs '000) (ex-distribution)**	443,245
Net assets value per unit as at June 30 (Rs) (ex-distribution)**	50.51
Offer price per unit as at June 30 (Rs) (ex-distribution)**	N/A
Redemption price per unit as at June 30 (Rs) (ex-distribution)**	50.51*
Highest offer price per unit (Rs)	52.04
Lowest offer price per unit (Rs)	51.55
Highest redemption price per unit (Rs)	56.77
Lowest redemption price per unit (Rs)	50.03
Distribution	12.50%
Date of distribution (annual)	July 9, 2012
Growth distribution (Rupees in '000)	48,809
Total return (%)	13.52

* Back end load will apply where applicable, as per the Offering Document of the Fund

** The distribution for the period July 5, 2011 to June 30, 2012 is made subsequent to the period end, therefore is not accounted for in these financial statements as also explained in note 27.

Average annual return as at June 30, 2012 13.52%

Investment portfolio composition of the Fund

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

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate as described in note 19.

23. INVESTMENT COMMITTEE MEMBERS

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

	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoab	Chief Executive Officer	CFA / MBA	Twenty two years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA level II / MBA	Sixteen years
3. Mrs. Sanam Ali Zaib	Head of Research	CFA / MBA	Eight years
4. Mr. Muhammad Ali	AVP Investments	CFA / FRM / MBA / MS	Eighteen years
5. Mr. M. Farhan Lakhani	Manager Research and Investments / Fund Manager	CFA / BBA	Three years
6. Ms. Bushra Tariq	Senior Manager	BBA	Three years
7. Mr. Shakil Ahmed	Senior Manager	CFA / MBA	Five years

23.2 The Fund manager of the Fund is Mr. M. Farhan Lakhani. Other funds being managed by the Fund manager are as follows:

- KSE Meezan Index Fund
- Meezan Balanced Fund

24. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE **2012**
%

Broker's name	2012 %
Foundation Securities (Private) Limited	12.02
Topline Securities (Private) Limited	10.69
KASB Securities Limited	9.14
Ample Securities (Private) Limited	8.23
Global Securities Limited	7.92
Elixir Securities Pakistan (Private) Limited	7.20
Invest Capital Investment Bank Limited	7.00
Fortune Securities Limited	6.78
Optimus Capital Management (Private) Limited	4.97
Taurus Securities Limited	3.99

25. PATTERN OF UNITHOLDING

	2012		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment ----- % -----
Individuals	219	135,303	30.53
Associated companies / directors	2	227,040	51.22
Insurance companies	2	28,380	6.40
Retirement funds	4	15,685	3.54
Public limited companies	4	34,042	7.68
Others	1	2,795	0.63
Total	232	443,245	100.00

26. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present there in					
		July 07, 2011	August 16, 2011	September 28, 2011	October 24, 2011	February 23, 2012	April 27, 2012
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib	Chief Executive	No	Yes	Yes	Yes	Yes	Yes
Mr. Salman Sarwar Butt	Independent Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Independent Director	No	Yes	Yes	No	Yes	No
Mr. Rana Ahmed Humayun	Nominee Director	Yes	Yes	Yes	No	Yes	-
Mr. Rizwan Ata***	Nominee Director	Yes	Yes	Yes	No	-	-
Mr. Mazhar Sharif	Nominee Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Tasnimul Haq Farooqui*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali*	Nominee Director	-	-	-	-	Yes	Yes
Syed Amir Ali Zaidi**	Nominee Director	-	-	-	-	-	Yes

* Appointed in December, 2011

** Appointed in place of Mr. Rana Ahmed Humayun

*** Resigned in December, 2011

27. NON ADJUSTING EVENTS

The Board of Directors in its meeting held on July 9, 2012 has announced a payout of 12.50% of par value amounting to Rs 48.809 million equivalent to 966,327 bonus units. The financial statements for the period July 5, 2011 to June 30, 2012 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ended June 30, 2013.

	2012
	Number of units
The effect of issue of bonus units is as follows:	
Number of units in issue before bonus units	7,809,472
Number of units in issue after bonus units	8,775,799
	Rupees per unit
Net assets value per unit before distribution	56.76
Net assets value per unit after distribution	50.51

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the Board of Directors of the management company.



Mohammad Shoaib, CFA
Chief Executive

For Al Meezan Investment Management Limited
(Management Company)



Mazhar Sharif
Director



PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2012

Units held by	Units Held	%
Associated Companies		
Al Meezan Investment Management Limited	2,000,000	25.61
Meezan Bank Limited	2,000,000	25.61
Directors		
Chief Executive		
Executives	1,000	0.01
Public Limited Companies	599,781	7.68
Banks and financial institutions	-	0.00
Individuals	2,383,071	30.53
Retirement funds	276,352	3.54
Insurance Companies	500,023	6.40
Non-Profit Organization	49,245	0.63
Total	7,809,472	100



(AM2 rating by JCR-VIS)

Al Meezan Investment Management Ltd.

A subsidiary of Meezan Bank

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