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# Our Mission

*To provide investors, RIBA Free, stable and regular income from a diversified portfolio of equity securities and Islamic income instruments.*

*To offer superior financial services to our valued investors, developing, nurturing and maintaining relationship with them and complying with the code of professional and ethical conduct that sets highest standards in corporate ethics and service to society.*

# Our Vision

*To be the leading Islamic closed end balanced scheme in the country, setting performance and best practices standards for the industry.*

# FUND INFORMATION

## INVESTMENT ADVISOR

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

## BOARD OF DIRECTORS OF THE INVESTMENT ADVISOR

Mr. Ariful Islam	Chairman
Mr. Najmul Hassan	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Mr. Muhammad Adrees	Director
Syed Owais Wasti	Director
Mr. Mohammad Shoab, CFA	Chief Executive

## CFO & COMPANY SECRETARY OF THE INVESTMENT ADVISOR

Syed Owais Wasti

## AUDIT COMMITTEE

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

## TRUSTEE

Central Depository Company of Pakistan Limited  
Suite # M 13-16, Mezzanine Floor, Progressive Plaza,  
Beaumont Road, Karachi.

## AUDITORS

KPMG Taseer Hadi & Co.  
Chartered Accountants  
First Floor, Sheikh Sultan Trust Building No. 2  
Beaumont Road, Karachi-75530, Pakistan.

## BANKERS TO THE FUND

Meezan Bank Limited  
Bank Al Habib Limited  
MCB Bank Limited  
Habib Metropolitan Bank Limited  
Al Baraka Islamic Bank B.S.C (E.C)  
Bank Alfalah Islamic Branch  
BankIslami Pakistan Limited  
Prime Bank Limited  
Dubai Islamic Bank Pakistan Limited

## LEGAL ADVISOR

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

## TRANSFER AGENT

THK Associates (Pvt.) Limited  
Ground Floor, State Life Building-3  
Dr. Ziauddin Ahmed Road, Karachi-75536  
Phone : (9221) 111-000-322  
Fax : (9221) 5655595  
P.O. Box No. 8533



Balanced Fund

## REPORT OF THE DIRECTORS OF THE INVESTMENT ADVISOR

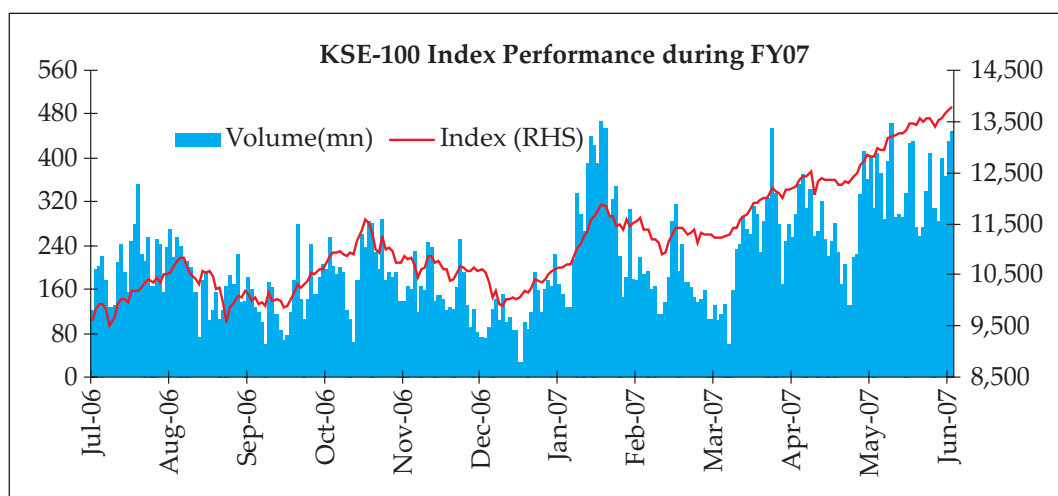
The Board of Directors of Al Meezan Investment Management Limited, the Investment Advisor of Meezan Balanced Fund (the Fund) is pleased to present the annual audited financial statements of the Fund for the year ended 30 June 2007.

### Market Review

The two halves of financial year 07 portrayed distinctly different trend. While the first half only witnessed 0.51% increase in KSE-100 Index due to rumours relating to foreign selling, enforcement of capital gains tax, investigation of March 2005 crisis and new risk management system, the second half of the year was much more rewarding. During the second half the KSE-100 Index rose 37% resulting in a full year appreciation of 37.8%.

During the first half, the market touched a peak of 11,566 before collapsing towards the end of the first half on rumours of a mandatory 4% minimum deposit rate on all banks, IMF's recommendation on devaluation to the tune of 10%, rumours of substantial foreign sell off in the market, rumours in applicability of capital gains tax from July-2007, investigation into the March-2005 crisis and uncertainty regarding the new risk management system. However none of these threats actually materialized.

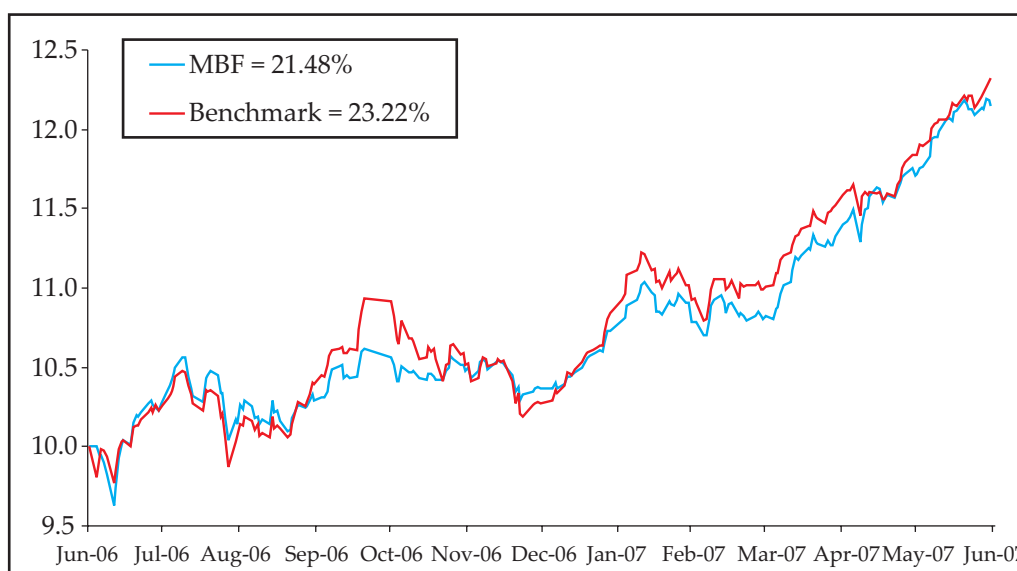
The unattractive performance of the Pakistani equity markets during first half of financial year 07 was a blessing in disguise as it stood out amongst the regional peers which had done reasonably well during the same period. This attracted substantial foreign interest which resulted in strong portfolio inflows into the country. In the last six months of the fiscal year under review, foreign portfolio inflows in the country amounted to around US\$750 million which took the number for the whole year to roughly US\$970 million which was around 3 times higher than the amount received in fiscal year 2006. The confidence showed by foreign investors in Pakistan's economy and policies despite a noisy political environment also increased the confidence and optimism of local investors taking the index up by 37% in the last six months of financial year 07.



## Operational Review

The Fund, during the year ended 30 June 2007 earned a total income of Rs. 381 million. The income for the year comprises of, mainly capital gains (net) on sale of investments of Rs.118 million and dividend income of Rs.55 million. The un-realized gain on investments at fair value through profit or loss account for the year was Rs. 150 million. After accounting for expenses of Rs. 56 million, the net income for the year was Rs. 325 million, which translates into the earning of Rs. 2.71 per certificate as at 30 June 2007. The net assets of the fund as at 30 June 2007 were Rs. 1,598 million as compared to Rs. 1,513 million as at 30 June 2006. The net asset value of the fund as at 30 June 2007 was Rs. 13.32 per certificate.

In accordance with the provision of the Trust Deed of the fund an amount of Rs.1.158 million was also set aside as charity to purify the income earned from the non-shariah complaint avenues by the investee companies.



## Mutual Fund Rating

Pakistan Credit Rating Agency (PACRA) has assigned its highest possible rating for mutual funds to Meezan Balanced Fund. MBF has been rated 5-Star which denotes superior performance of MBF versus its peers. We believe that this has been possible due to the untiring efforts of the management of Al Meezan Investments, the fund manager/ Investment Advisor of MBF.

## Investment Policy

MBF is a Shariah-complaint Balanced Fund. The investment objective of Meezan Balanced Fund is to generate long term capital appreciation as well as current income by creating a balanced portfolio that is invested both in high quality equity securities and Islamic Income Instruments such as TFCs, Certificates of Islamic Investments, Certificates of Musharika, Islamic Sukuk, Ready-future hedges, and other such Shariah compliant instruments.

## Future Outlook

We remain hopeful of the future prospects of the Fund, given the expected continuation of corporate profitability growth and economic growth. Reduction in operational risk of the Pakistani stock market on account of continuing reforms will also bode well for the market and hence for the Fund, in the coming years. In the medium term, the market may become jittery close to the upcoming general elections. However, this is likely to be a short term phenomenon as eventually fundamentally attractive valuations will retain investor interest.

## Compliance with Code of Corporate Governance

The Investment Advisor always strives to maintain the highest standards of corporate governance. In compliance with the code of corporate governance, the BOD declares that:

- ▶ These financial statements 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, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- ▶ The system of internal control is sound in design and has been effectively implemented and monitored.
- ▶ There are no significant doubts upon the Fund's ability to continue as a going concern.
- ▶ There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.
- ▶ The BOD and employees of the Investment Advisor have signed "Statement of Ethics and Business Practices".
- ▶ There were no transactions in certificates of the Fund carried out by the Directors, CEO, CFO and Company Secretary of the Investment Advisor including their spouse and minor children. The certificates held by above as at 30 June 2007 are as under:

Name		Certificates held
Mr. Irfan Siddiqui	Ex-Chairman	10,000
Mr. Tasnim ul Haq Farooqui	Director	12,370
Mr. Mohammad Shoaib	Chief Executive	11,975
Mrs. Shabana Shoaib	Spouse of Chief Executive	500

- ▶ Pattern of certificate holdings is given on page 37 of the financial statements.
- ▶ Key financial data for the year ended 30 June 2007 is given in note 20 of the financial statements.

### Board Meetings

During the year, six board meetings of the investment Advisor of the fund were held. The details of the attendance by each director in the board meetings are as given below:

Name		Dates of BOD Meetings & Directors' presence therein					
		07 July 2006	15 August 2006	18 October 2006	15 February 2007	22 March 2007	24 April 2007
Mr. Irfan Siddiqui	Ex-Chairman	-	✓	✓	✓	✓	✓
Mr. Ariful Islam	Director	✓	✓	✓	✓	-	✓
Mr. Tasnim ul Haq Farooqui	Director	✓	✓	-	✓	✓	✓
Mr. Najmul Hassan	Director	-	✓	✓	-	✓	-
Mr. Shabbir Hamza Khandwala	Director	✓	✓	-	-	✓	✓
Mr. Mazhar Sharif	Director	✓	✓	✓	-	✓	✓
Mr. Mohammad Shoaib, CFA	Chief Executive	✓	✓	✓	✓	✓	✓

During financial year 2006-07, Mr. Irfan Siddiqui and Mr. Shabbir Hamza Khandwala resigned and in their place Syed Owais Wasti and Mr. Muhammad Adrees were appointed as Directors on 17 May 2007 to fill in casual vacancies. Mr. Ariful Islam has been appointed as the Chairman of the company in place of Mr. Irfan Siddiqui.

The board appreciates the valuable services rendered by the outgoing Directors and welcomes the new Directors on the board.

### Appointment of Auditors

The Audit Committee in its meeting held on 09 August 2007 recommended the appointment of M/s A.F.Ferguson & Co. Chartered Accountants, as auditors of the Fund for the Financial Year 2007-08. The Board has approved the appointment. The retiring auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants have been recommended for appointment as auditors of the investment advisor to comply with the requirement of having the same auditor for the parent and the subsidiary company.

### Acknowledgement

We thank all our investors who have placed their confidence in us. We also offer our sincere gratitude to the Securities and Exchange Commission of Pakistan, the Trustee - Central Depository Company of Pakistan Limited and the management of the Karachi Stock Exchange. We also wish to place on record our appreciation for the personnel of the Investment Advisor.

09 August 2007  
Karachi.

For and on behalf of the Board  
**Mohammad Shoaib, CFA**  
Chief Executive

# REPORT OF THE TRUSTEE TO THE CERTIFICATE HOLDERS

## MEEZAN BALANCED FUND

**Report of the trustee pursuant to the Rule 45(g) of the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003**

The Meezan Balanced Fund, a Closed-end Scheme established under a trust deed executed between Al Meezan Investment Management Limited as the Investment Advisor and Central Depository Company of Pakistan Limited as Trustee on June 15, 2004. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on September 08, 2004.

In our opinion, Al Meezan Investment Management Limited, the Investment Advisor of Meezan Balanced Fund has in all material respects managed Meezan Balanced Fund during the year ended June 30, 2007 in accordance with the provision of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003

Karachi: August 31, 2007

**Kamran Qazi**  
Company Secretary  
Central Depository Company of Pakistan Limited



## REPORT OF THE SHARIAH ADVISOR - MEEZAN BALANCED FUND

Karachi  
August 13, 2007

**Alhamdulillah**, the year under review was the third year of operations of Meezan Balanced Fund (the Fund). We Meezan Bank Limited (MBL) are the Shariah Advisor of the Fund and are issuing this report in accordance with clause 5.2(c) v of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah Compliance of the Fund's activities.

In the capacity of Shariah Advisor, we have prescribed a criteria for Shariah compliance of equity investments which comprises of five factors such as (i) Nature of business, (ii) Interest based Debt to total assets, (iii) Illiquid assets to total assets, (iv) Investment in non-Shariah compliant activities and income from non-compliant investments, and (v) Net liquid assets per share vs. share market price.

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

- i. We have reviewed and approved the modes of investments of MBF in light of Shariah requirements. The following is a list of equity investments of MBF as on June 30, 2007 and their evaluation according to the screening criteria established by us. (The latest half yearly or annual accounts of the Investee companies available as on June 30, 2007 have been used for the following calculations):

Company Name	(i)	(ii)*	(iii)	(iv)	(v)	(vi)	
	Nature of Business	Debt to Assets (<40%)	Illiquid Assets to Total Assets (>20%)	Non-Compliant Income to Gross Revenue (<5%)	% of Non-Shariah Compliant Investments (<33%)	Net Liquid Assets vs. Share Price (B>A)	Share Market Price (B)
Attock Cement Pakistan Limited	Cement Manufacturer	3.96%	91.75%	0.43%	0.00%	(28.85)	66.10
Cherat Cement Company Limited	Cement Manufacturer	26.85%	80.24%	3.11%	7.93%	(9.63)	41.00
Engro Chemical Pakistan Limited	Manufacturers of Fertilizers and Chemicals	26.77%	51.12%	0.28%	1.46%	7.14	169.00
Fauji Fertilizer Bin Qasim Limited	Manufacturers of Fertilizers	23.55%	59.71%	3.26%	1.83%	(8.05)	28.50
Fauji Fertilizer Company Limited	Manufacturers of Fertilizers	24.59%	46.53%	1.16%	12.43%	0.39	105.55
Indus Motor Company Limited	Automobile Assembling	0.06%	42.26%	2.46%	0.19%	17.71	195.00
Pak Suzuki Motors Limited	Automobile Assembling	0.47%	58.20%	2.11%	0.59%	(35.39)	420.00
National Refinery Limited	Refines crude oil to petroleum products	1.42%	37.17%	0.30%	0.00%	(7.85)	259.00
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	49.75%	3.54%	1.83%	7.11	114.70
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	44.92%	1.94%	0.32%	32.49	349.75
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.28%	33.56%	4.84%	0.22%	28.42	232.00

Company Name	(i)	(ii)*	(iii)	(iv)	(v)	(vi)	
	Nature of Business	Debt to Assets (<40%)	Illiquid Assets to Total Assets (>20%)	Non-Compliant Income to Gross Revenue (<5%)	% of Non-Shariah Compliant Investments (<33%)	Net Liquid Assets vs. Share Price (B>A)	Share Market Price (B)
Pakistan State Oil Company Limited	Distribution of Oil & Gas	19.44%	45.92%	0.04%	4.63%	(65.52)	294.00
The Hub Power Company Limited	Producer of Power & Energy	24.43%	82.62%	0.54%	0.00%	(5.21)	27.00
Nishat Mills Limited	Manufacturers of Textile Products	27.74%	42.44%	1.60%	3.51%	60.27	87.80
Packages Limited	Manufacturers of Paper and Board	32.45%	67.76%	0.76%	4.21%	(24.19)	210.00
Thal Limited	Manufacturers of Jute bags and Acs and Wire Harness of Cars	9.16%	59.35%	1.98%	2.13%	45.83	164.50
Meezan Bank Limited	Islamic Commercial Bank	N/A**					

\* All interest based debts

\*\* These ratios are for the calculation of Non Shariah Compliant Element in the business and are not relevant for Islamic Banks.

In light of the above, we hereby certify that all the provisions of the Scheme and investments made on account of MBF by AMIM are Shariah compliant and in accordance with the criteria established by us.

- ii. On the basis of information provided by the management, all operations of MBF for the year ended June 30, 2007 have been in compliance with the Shariah principles.
- iii. The Investment Advisor has been directed to set aside as charity amount earned as Interest from conventional banks. In addition, there are investments made by MBF where Investee companies have earned a part of their income from non-compliant sources (e.g. interest income). In such cases, the Investment Advisor has been directed to set aside as charity such proportion of the income from Investee companies in order to purify the earnings of the Fund (as mentioned in column iv of the calculations).

During the Year a provision of Rupees 1.158 million was transferred to charity account and an amount of 0.184 million was disbursed.

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

Dr. Muhammad Imran Ashraf Usmani  
For an on behalf of Meezan Bank Limited

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

We have performed our independent assurance engagement of **Meezan Balanced Fund** (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor in accordance with clause 5 of the Trust Deed of the Fund dated 15 June 2004 during the year ended 30 June 2007.

## *Investment Advisor's responsibility*

Investment Advisor of the Fund is responsible for the appointment of Shariah Advisor of the Fund and for compliance with the Shariah guidelines prescribed by the Shariah Advisor. This responsibility includes: designing, implementing and maintaining internal control to ensure compliance with the Shariah guidelines issued by the Shariah Advisor in accordance with clause 5 of the Trust Deed of the Fund dated 15 June 2004.

## *Responsibility of independent assurance providers*

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

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

## *Conclusion*

In our opinion, the Fund was, in all material respects, in compliance with the Shariah guidelines issued by the Shariah Advisor, in accordance with clause 5 of the Trust Deed of the Fund dated 15 June 2004 during the year ended 30 June 2007.

09 August 2007  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2007

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

1. The investment Advisor encourages representation of non-executive directors. All the directors except the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are non-executive directors.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the investment Advisor.
3. All the existing resident directors of the investment Advisor are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIL.
4. Two casual vacancies occurred on 29 March 2007 on the board which were subject to the approval of the Securities and Exchange Commission of Pakistan were filled in the same meeting. The approval of the SECP was received vide their letter dated 17 May 2007.
5. The board has formulated a Statement of Ethics and Business Practices for the Fund, which has been signed by the existing directors and employees of the investment Advisor.
6. The board of the investment Advisor has developed a vision and mission statement. The investment policy of the Fund has been disclosed in the offering document, while other significant policies have also been formalised and have been adopted by the board.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO of the investment Advisor, have been taken by the board.
8. The meetings of the board were presided over by the Chairman. The board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The orientation courses for the directors of the investment Advisor were arranged during the year on 15 August 2006 to apprise them of their duties and responsibilities and the requirements of the code of corporate governance.
10. The board has approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary.

11. The directors' report relating to the Fund, for the year ended 30 June 2007 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by the CEO and the CFO of the investment advisor before approval by the board.
13. The interest of the CEO and Directors in the certificates of the Fund is disclosed in the pattern of certificate holdings.
14. The investment advisor has complied with all the applicable corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It comprises of three non-executive directors of the investment advisor as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the board of the investment advisor and advised to the committee for compliance.
17. The board has outsourced the internal audit function of the Fund to a chartered accountant's firm.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the investment advisor or certificates of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

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

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

**09 August 2007**  
**Karachi.**

## **REVIEW REPORT TO THE CERTIFICATE HOLDERS OF MEEZAN BALANCED FUND ON THE 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 prepared by the Board of Directors of the Investment Advisor of the **Meezan Balanced Fund** to comply with the Listing Regulations No. 37 of the Karachi Stock Exchange, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Investment Advisor 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 Fund'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 Investment Advisor's personnel and review of various documents prepared by the Investment Advisor to comply with the Code.

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2007.

09 August 2007  
Karachi

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KPMG Taseer Hadi & Co.  
Chartered Accountants

## INDEPENDENT AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the accompanying financial statements of **Meezan Balanced Fund**, which comprise the statement of assets and liabilities as at 30 June 2007, and the income statement, distribution statement, statement of movement in equity and reserves per certificate and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Investment Advisor of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2007, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *Other matters*

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

09 August 2007  
Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

## STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2007

	Note	2007 (Rupees in '000)	2006
<b>Assets</b>			
Bank balances	5	515,628	53,138
Receivable against sale of investments		202,561	212,596
Investment in marketable securities - 'available-for-sale'		-	200,000
Investment in marketable securities - 'at fair value through profit or loss'	6	951,211	1,236,117
Dividend receivable		2,352	12,635
Derivative financial instruments	7	19,573	4,732
Advances, deposits, prepayments and other receivables	8	8,640	4,900
Preliminary expenses and floatation costs	9	3,334	5,002
<b>Total assets</b>		<b>1,703,299</b>	<b>1,729,120</b>
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited - Investment Advisor of the Fund	10	47,658	51,544
Payable to the Central Depository Company of Pakistan Limited - Trustee of the Fund	11	143	138
Payable to Securities and Exchange Commission of Pakistan	12	1,445	1,488
Payable to Meezan Bank Limited - Shariah Advisor of the Fund and holding company of the Investment Advisor		250	-
Payable against purchase of investments		45,600	149,965
Accrued expenses and other liabilities	13	2,256	1,157
Derivative financial instruments	7	4,573	8,523
Unclaimed dividend		3,208	3,101
<b>Total liabilities</b>		<b>105,133</b>	<b>215,916</b>
<b>Net assets</b>		<b>1,598,166</b>	<b>1,513,204</b>
<b>Commitments</b>			
	7		
<b>Certificate holders' equity</b>			
<b>Issued, subscribed and paid-up capital</b>			
120,000,000 ordinary certificates of Rs.10 each issued as fully paid-up in cash		1,200,000	1,200,000
Unappropriated income carried forward		398,166	313,204
		<b>1,598,166</b>	<b>1,513,204</b>
		<b>(Rupees)</b>	
<b>Net assets value per certificate</b>		<b>13.32</b>	<b>12.61</b>

The annexed notes 1 to 23 form an integral part of these financial statements.

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

**Chief Executive**

**Director**



## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 (Rupees in '000)	2006
<b>Income</b>			
Gain on sale of investments (net)		118,118	315,657
Dividend income		55,009	57,073
Profit on deposit accounts with banks		24,628	9,697
Profit on term finance certificates		198	515
Profit on Sukuk certificates		13,832	9,244
Other income		221	-
		<u>212,006</u>	<u>392,186</u>
Unrealised gain / (loss) on investments 'at fair value through profit or loss'		149,823	(42,751)
Gain on derivative financial instruments (net)		18,791	3,493
		<u>168,614</u>	<u>(39,258)</u>
<b>Total income</b>		<u>380,620</u>	<u>352,928</u>
<b>Expenses</b>			
Remuneration to Al Meezan Investment Management Limited - Investment Advisor of the Fund	10.1	42,656	44,874
Remuneration to Central Depository Company of Pakistan Limited - Trustee of the Fund	11	1,630	1,666
Annual fee - Securities and Exchange Commission of Pakistan	12	1,445	1,488
Remuneration to Meezan Bank Limited - Shariah Advisor		250	-
Auditor's remuneration	14	386	381
Fees and subscription		252	303
Amortisation of preliminary expenses and floatation costs	9	1,668	1,668
Brokerage		6,076	14,516
Legal and professional charges		150	15
Bank and settlement charges		1,145	1,449
		<u>55,658</u>	<u>66,360</u>
<b>Net income for the year</b>		<u>324,962</u>	<u>286,568</u>
		<b>(Rupees)</b>	
<b>Basic and diluted earnings per certificate</b>	15	<u>2.71</u>	<u>2.39</u>

The annexed notes 1 to 23 form an integral part of these financial statements.

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

**Chief Executive**

**Director**

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	2007 (Rupees in '000)	2006
Unappropriated income brought forward as at 01 July	313,204	146,636
Less : Final distribution in the form of cash dividend for the year ended 30 June 2006 (comparative 30 June 2005)	(240,000)	(120,000)
Net income for the year	324,962	286,568
Unappropriated income carried forward as at 30 June	<u>398,166</u>	<u>313,204</u>

The annexed notes 1 to 23 form an integral part of these financial statements.

For Al Meezan Investment Management Limited  
(Investment Advisor)

Chief Executive

Director

**STATEMENT OF MOVEMENT IN  
EQUITY AND RESERVES PER CERTIFICATE  
FOR THE YEAR ENDED 30 JUNE 2007**

	<i>Note</i>	2007 (Rupees in '000)	2006
Net assets value per certificate at the beginning of the year		12.61	11.22
Gain on sale of investments (net)		0.98	2.63
Dividend income		0.46	0.48
Profit on deposit accounts with banks		0.21	0.08
Profit on Sukuk certificates		0.11	0.08
Unrealised gain / (loss) on investments 'at fair value through profit or loss'		1.25	(0.36)
Gain on derivative financial instruments (net)		0.16	0.03
Other net operating expenses		(0.46)	(0.55)
Net income for the year		2.71	2.39
Dividend distributed		(2.00)	(1.00)
Net assets per certificate as at 30 June		<u>13.32</u>	<u>12.61</u>

The annexed notes 1 to 23 form an integral part of these financial statements.

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

**Chief Executive**

**Director**

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	324,962	286,568
Adjustments for:		
Dividend income	(55,009)	(57,073)
Profit on deposit accounts with banks	(24,628)	(9,697)
Profit on term finance certificates	(198)	(515)
Profit on Sukuk certificates	(13,832)	(9,244)
Unrealised (gain) / loss on investments - 'at fair value through profit or loss'	(149,823)	42,751
Gain on derivative financial instruments - (net)	(18,791)	(3,493)
Amortisation of preliminary expenses and floatation costs	1,668	1,668
	<u>64,349</u>	<u>250,965</u>
<b>(Increase) / decrease in assets</b>		
Receivable against sale of investments	10,035	(212,596)
Investment in marketable securities - 'available-for-sale'	200,000	(200,000)
Investment in marketable securities - 'at fair value through profit or loss'	434,729	12,962
Advances, deposits, prepayments and other receivables	-	213
	<u>644,764</u>	<u>(399,421)</u>
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan Investment Management Limited - Investment Advisor of the Fund	(3,886)	20,391
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund	5	15
Payable to Securities and Exchange Commission of Pakistan	(43)	738
Payable to Meezan Bank Limited - Shariah Advisor	250	-
Accrued expenses and other liabilities	1,099	777
Payable against purchase of investments	(104,365)	76,409
	<u>(106,940)</u>	<u>98,330</u>
Cash generated / used in operations	602,173	(50,126)
Dividend received	65,292	56,346
Profit received on deposit accounts with banks	18,438	9,274
Profit received on term finance certificates	237	476
Profit received on Sukuk certificates	16,243	5,512
<b>Net cash inflow from operating activities</b>	<u>702,383</u>	<u>21,482</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(239,893)	(116,899)
<b>Net cash outflow from financing activities</b>	<u>(239,893)</u>	<u>(116,899)</u>
Net increase / (decrease) in cash and cash equivalents during the year	462,490	(95,417)
Cash and cash equivalents at the beginning of the year	53,138	148,555
Cash and cash equivalents at the end of the year	<u>515,628</u>	<u>53,138</u>

The annexed notes 1 to 23 form an integral part of these financial statements.

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

**Chief Executive**

**Director**

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

## 1. LEGAL STATUS AND NATURE OF BUSINESS

Meezan Balanced Fund (the Fund) was established as a closed-end scheme under a Trust Deed executed between Al Meezan Investment Management Limited (AMIML) as Investment Advisor and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 15 June 2004 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 8 September 2004 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The registered office of the Investment Advisor is situated at Finance & Trade Centre, Sharah-e-Faisal, Karachi, Pakistan.

The investment objective of the Fund is to generate long-term capital appreciation as well as current income by creating a balanced portfolio that is invested both in high quality equity securities and Islamic income instruments such as Term Finance Certificates, Certificates of Islamic investment, Musharika Certificates, Islamic Sukuk Certificates and other Shariah compliant instruments. Under the Trust Deed all the conducts and acts of the Fund are based on Shariah. The Investment Advisor has appointed Meezan Bank Limited as Shariah Advisor to ensure that the activities of the Fund are in compliance with the principles of Islamic Shariah. The Investment Advisor of the Fund is registered with SECP as a Non-Banking Finance Company under NBFC Rules.

The Fund is a close-end mutual fund and its certificates are listed on the Karachi Stock Exchange.

## 2. BASIS OF PRESENTATION

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

These financial statements have been prepared in accordance with the requirements of approved accounting standards as applicable in Pakistan, the requirements of the Companies ordinance, 1984, the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003 and the directives issued by the Securities and Exchange Commission of Pakistan. Approved accounting standards comprise of such International Accounting Standards and International Financial Reporting Standards (IFRS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003 and the said directives differ with the requirements of these standards, the requirements of the companies ordinance, 1984, the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003 and the said directives take precedence.

### 3.1 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 July 2007 and are not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures in certain cases:

- IAS 1 - Presentation of Financial Statements - Amendments relating to Capital Disclosures
- IAS 23 - Borrowing Costs- Amendments relating to mandatory capitalization of borrowing costs relating to qualifying assets
- IAS 41 - Agriculture
- IFRS 2 - Share-based Payments;
- IFRS 3 - Business Combinations;
- IFRS 5 - Non-current Assets Held for sale and Discontinued Operations;
- IFRS 6 - Exploration for and Evaluation of Mineral Resources;
- IFRS 10 - Interim Financial Reporting and Impairment;
- IFRS 11 - Group and Treasury Share Transactions;
- IFRS 12 - Service Concession Arrangements.
- IFRS 13 - Customer Loyalty Progmmes.

#### 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 Basis of preparation

These financial statements have been prepared under the historical cost convention, except for investments and derivatives which are carried at fair value.

##### 4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the Investment Advisor to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experiences and various other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgment made by the Investment Advisor in the application of the approved accounting standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year is as follows:

##### *Fair values of financial instruments*

The fair value of investment in marketable securities is based on the closing market prices ruling at the day-end. The Investment Advisor is of the view that the fair market values of the financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short-term in nature.

Furthermore the Investment Advisor estimates that the fair value of Sukuk Certificates is equal to its carrying amount, therefore no gains and losses on these Certificates have been recognised in the financial statements.

## 4.3 Financial instruments

### (i) Classification

The Fund classifies its debt and equity investments and related derivatives in the following categories:

#### a) *Financial instruments at fair value through profit or loss*

A financial instrument 'at fair value through profit or loss' is a financial instrument that meets either of the following conditions.

##### i) *Financial instruments held for trading*

A financial asset or financial liability is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- a derivative.

All derivatives in a net receivable position (positive fair value) are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value) are reported as financial liabilities held for trading.

##### ii) *Financial instruments designated 'at fair value through profit or loss upon initial recognition'*

A financial instrument may be designated when initially recognised as a financial instrument at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Financial instruments that do not fall under the aforementioned category are loans and receivables originated by the enterprise and available-for-sale financial instruments which are as follows:

#### b) *Loans and receivables originated by the enterprise*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the short term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

c) *Available-for-sale*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

(ii) *Recognition*

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

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

(iii) *Measurement*

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

Subsequent to initial recognition, financial instruments classified as '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 financial instruments classified as 'available-for-sale' are recognised in equity until derecognised or impaired, when the accumulated fair value adjustments recognised in equity are included in the income statement. Financial instrument that is not quoted on the stock exchange is measured at cost as per NBFC Rules.

Financial assets classified as loans and receivables are carried at amortized 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 amortized cost using the effective yield method.

(iv) *Fair value measurement principles*

The fair value of marketable securities and derivatives 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.

(v) *Impairment*

Financial assets not carried at 'fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Income Statement.



If in a subsequent period, the amount of an impairment loss decreases, the reduction in impairment loss on financial asset other than equity securities classified as 'available-for-sale' are recognised in the Income Statement. However, the decrease in impairment loss on equity securities classified as 'available-for-sale' is recognised in equity.

**(vi) Derecognizing**

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, 'Financial Instrument: Recognition and Measurement'.

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 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.

#### **4.5 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 amortized over a period of five years commencing from 30 November 2004.

#### **4.6 Net assets value per certificate**

The net assets value (NAV) per certificate is calculated by dividing the net assets of the Fund by the number of certificates in issue (paid-up capital).

#### **4.7 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 among the certificate holders.

##### *Deferred*

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and 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.

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 certificate holders every year. Accordingly, no current and deferred tax has been recognised in these financial statements.

#### **4.8 Revenue recognition**

Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

Unrealised gains / (losses) arising on revaluation of securities classified as 'at fair value through profit or loss' are included in the Income Statement in the period in which they arise.

Gains / (losses) arising on the revaluation of derivatives to the fair value are taken to the Income Statement.

Dividend income is recognised when the right to receive the payment is established.

Profit on deposit accounts with banks and all investments in debt instruments (irrespective of classification) are recognised on an accrual basis using the effective yield method.

#### **4.9 Expenses**

All expenses, including Investment Advisor fee and Trustee fee, are recognised in the Income Statement on an accrual basis.

#### **4.10 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.

#### **4.11 Zakat**

Certificates held by resident Pakistani certificate holders are subject to zakat at 2.5% of the nominal value or the market value based on the closing rate at the Karachi Stock Exchange, whichever is lower, of certificates under the Zakat and Ushr Ordinance, 1980 (XVII of 1980), except those exempted. Zakat is deducted at source from the dividend amount.

#### **4.12 Transactions with connected persons**

Transactions between the Fund and its connected persons as defined in NBFC Rules are carried out on an arm's length basis substantiated in a manner set out in note 16.

#### **4.13 Cash and cash equivalents**

Cash comprises current deposits 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.

#### 4.14 Dividend and bonus certificates

Dividends declared subsequent to the balance sheet date are considered as a non-adjusting event and are recognised in the period in which they are authorised or approved.

	Note	2007 (Rupees in '000)	2006
<b>5. BANK BALANCES</b>			
In current accounts		37	-
In deposit accounts		515,591	53,138
		<u>515,628</u>	<u>53,138</u>

#### 6. INVESTMENT IN MARKETABLE SECURITIES - classified as investments 'at fair value through profit or loss'

Held for trading	6.1	669,918	1,115,415
Investments 'at fair value through profit or loss upon initial recognition.'	6.2	281,293	120,702
		<u>951,211</u>	<u>1,236,117</u>

#### 6.1 INVESTMENT IN MARKETABLE SECURITIES - classified as investments 'held for trading'

Shares of listed companies	6.1.1	644,254	1,115,415
Sukuk certificates	6.1.5	25,664	-
		<u>669,918</u>	<u>1,115,415</u>

#### 6.1.1 Held for trading - shares of listed companies

Name of the investee company	As at 1 July 2006	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30 June 2007	Carrying value as at 30 June 2007	Market value as at 30 June 2007	Unrealised gain / (loss) as at 30 June 2007	Percentage in relation to			
									Net assets of the Fund on the basis of market value of investments (see note 6.1.3 below)	Paid-up capital of investee company (with face value of investments)	Total market value (carrying value of investments)	
						Number of shares of listed companies			(Rupees in '000)			
<b>Commercial Banks</b>												
BankIslami Pakistan Limited	475,000	10,255,000	-	10,730,000	-	-	-	-	-	-	-	-
<b>Textile composite</b>												
Nishat Mills Limited	343,000	1,386,300	66,300	1,417,500	378,100	40,208	49,323	9,115	3.09	0.24	7.66	
<b>Synthetic and rayon</b>												
Dewan Salman Fibres Limited	-	50,000	-	50,000	-	-	-	-	-	-	-	
<b>Jute</b>												
Thal Limited (Note 6.1.2)	82,400	-	16,480	10,000	88,880	12,521	24,797	12,276	1.55	0.76	3.85	
<b>Cement</b>												
Attock Cement Pakistan Limited	5,000	120,000	-	-	125,000	13,395	15,306	1,911	0.96	0.17	2.38	
Cherat Cement Company Limited	166,750	-	12,832	131,200	48,382	2,735	2,734	(1)	0.17	0.05	0.42	
D.G. Khan Cement Company Limited	130,500	766,100	43,050	939,650	-	-	-	-	-	-	-	
Maple Leaf Cement Factory Limited	558,500	-	-	558,500	-	-	-	-	-	-	-	
Fauji Cement Company Limited	100,000	200,000	-	300,000	-	-	-	-	-	-	-	
<b>Automobile Assembler</b>												
Pak Suzuki Motor Company Limited	-	49,300	7,500	-	56,800	20,772	22,266	1,494	1.39	0.07	3.46	
<b>Refinery</b>												
National Refinery Limited	159,000	10,000	-	79,500	89,500	23,833	30,519	6,686	1.91	0.13	4.74	

Name of the investee company	As at 1 July 2006	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30 June 2007	Carrying value as at 30 June 2007	Market value as at 30 June 2007	Unrealised gain / (loss) as at 30 June 2007	Percentage in relation to			
									Net assets of the Fund on the basis of market value of investments (see note 6.1.3 below)	Paid-up capital of investee company (with face value of investments)	Total market value (carrying value of investments)	
Number of shares of listed companies						(Rupees in '000)						
<b>Power generation and distribution</b>												
Kot Addu Power Company Limited	254,500	-	-	254,500	-	-	-	-	-	-	-	-
The Hub Power Company Limited	3,752,500	1,670,000	-	3,366,000	2,056,500	52,109	75,474	23,365	4.72	0.18	11.71	
<b>Oil and gas marketing companies</b>												
Pakistan State Oil Company Limited	183,100	1,006,900	-	1,169,400	20,600	7,227	8,064	837	0.50	0.01	1.25	
Shell Pakistan Limited	17,796	-	4,449	22,245	-	-	-	-	-	-	-	
Sui Southern Gas Company Limited	50,000	-	-	50,000	-	-	-	-	-	-	-	
<b>Oil and gas exploration companies</b>												
Oil and Gas Development Company Limited	823,000	2,229,266	-	2,489,500	562,766	67,773	67,419	(354)	4.22	0.01	10.46	
Pakistan Oilfields Limited	195,500	541,500	-	651,500	85,500	29,081	27,104	(1,977)	1.70	0.04	4.21	
Pakistan Petroleum Limited	229,500	1,125,000	-	1,178,500	176,000	44,115	46,191	2,076	2.89	0.03	7.17	
<b>Technology and communication</b>												
Pakistan Telecommunication Company Limited 'A'	1,153,000	3,541,000	-	4,694,000	-	-	-	-	-	-	-	
<b>Fertilizer</b>												
Engro Chemical Pakistan Limited	280,370	167,000	58,410	258,710	247,070	49,594	62,509	12,915	3.91	0.15	9.70	
Fauji Fertilizer Bin Qasim Limited	871,000	1,973,000	-	1,953,000	891,000	31,942	34,749	2,807	2.17	0.10	5.39	
Fauji Fertilizer Company Limited	603,219	999,000	-	1,144,600	457,619	53,069	55,486	2,417	3.47	0.09	8.61	
<b>Securities sold under deferred sale arrangements</b>												
<b>Textile Composite</b>												
Nishat Mills Limited	373,500	2,803,500	-	3,177,000	-	-	-	-	-	-	-	
<b>Cement</b>												
D.G. Khan Cement Company Limited	-	844,500	-	844,500	-	-	-	-	-	-	-	
Pioneer Cement Limited	-	3,477,000	-	3,477,000	-	-	-	-	-	-	-	
<b>Power generation and distribution</b>												
The Hub Power Company Limited	400,000	-	-	400,000	-	-	-	-	-	-	-	
<b>Oil and gas marketing companies</b>												
Pakistan State Oil Company Limited	52,500	409,000	-	461,500	-	-	-	-	-	-	-	
<b>Oil and gas exploration companies</b>												
Oil and Gas Development Company Limited	600,000	2,643,000	-	3,043,000	200,000	24,086	23,960	(126)	1.50	-	3.72	
Pakistan Oilfields Limited	174,000	178,500	-	352,500	-	-	-	-	-	-	-	
Pakistan Petroleum Limited	222,500	1,451,000	-	1,673,500	-	-	-	-	-	-	-	
<b>Technology and communication</b>												
Pakistan Telecommunication Company Limited 'A'	1,783,000	5,816,000	-	5,873,500	1,725,500	93,778	98,353	4,575	6.15	0.05	15.27	
<b>Fertilizer</b>												
Engro Chemical (Pakistan) Limited	-	1,303,200	91,300	1,394,500	-	-	-	-	-	-	-	
Fauji Fertilizer Bin Qasim Company Limited	1,200,000	14,116,000	-	15,316,000	-	-	-	-	-	-	-	
Fauji Fertilizer Company Limited	292,500	871,500	-	1,164,000	-	-	-	-	-	-	-	
<b>Total</b>						<b>566,238</b>	<b>644,254</b>	<b>78,016</b>				
<b>Total cost of investment</b>						<b>609,196</b>						

**6.1.2** All shares have a face value of Rs. 10 each except for the shares of Thal Limited which have a face value of Rs. 5 each.

**6.1.3** Net assets are defined in Rule, 2 (xxxiv) of NBFC Rules.

6.1.4 SECP through its letter NO.SEC/NBFC-DD-I/476/2004 dated 26 May 2004 has increased the investment limits prescribed in rule 49(3) and (4) of NBFC Rules to fifteen percent and thirty percent respectively.

### 6.1.5 Sukuk Certificates

Name of the investee company	As at 1 July 2006	Purchases during the year	Sales during the year	Redemptions during the year	As at 30 June 2007	Market value as at 30 June 2007	Percentage of net assets on the basis of cost (see note 6.1.3 above)
Number of shares of listed companies						(Rupees in '000)	
WAPDA First Sukuk Company Limited	-	20,000	15,000	-	5,000	25,664	1.61

6.1.6 The nominal value of the Sukuk certificates are Rs. 5,000 each.

6.1.7 These certificates carry a return at the rate of 10.88% receivable on a semi annual basis with principal redeemable on maturity.

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

	Note	2007 (Rupees in '000)	2006
Shares of listed companies	6.2.1	191,293	115,702
Sukuk certificates	6.2.2	90,000	-
Term finance certificates		-	5,000
		<u>281,293</u>	<u>120,702</u>

#### 6.2.1 Shares of listed companies

Name of the investee company	As at 1 July 2006	Purchases during the year	Bonus / rights issue	Sales during the year	As at 30 June 2007	Carrying value as at 30 June 2007	Market value as at 30 June 2007	Unrealised gain / (loss) as at 30 June 2007	Percentage in relation to		
									Net assets of the Fund on the basis of market value of investments (see note 6.1.3 below)	Paid-up capital of investee company (with face value of investments)	Total market value (carrying value of investments)
Number of shares of listed companies						(Rupees in '000)					
Automobile assembler Indus Motor Company Limited	206,100	-	-	-	206,100	39,365	62,964	23,599	3.94	0.26	32.91
Commercial Banks Meezan Bank Limited	-	352,500	-	-	352,500	6,976	11,280	4,304	0.71	0.09	5.90
Paper and board Packages Limited	364,637	-	18,231	16,000	366,868	73,146	117,049	43,903	7.32	0.50	61.19
						<u>119,487</u>	<u>191,293</u>	<u>71,806</u>			
Total cost of investment						<u>209,486</u>					

#### 6.2.2 Sukuk certificates

Name of the investee company	As at 1 July 2006	Purchases during the year	Sales during the year	Redemptions during the year	As at 30 June 2007	Market value as at 30 June 2007	Percentage of net assets on the basis of cost (see note 6.1.3 above)
Number of shares of listed companies						(Rupees in '000)	
Sitara Chemical Sukuk Certificates	-	18,000	-	-	18,000	90,000	5.63

6.2.3 The nominal value of the sukuk certificates are Rs. 5,000 each.

6.2.4 These certificates carry a return at the rate of 11.90% receivable on a semi annual basis with principal redeemable on maturity.

## 7. DERIVATIVE FINANCIAL INSTRUMENTS

Type of contract	Settlement	Underlying	Notional amount	2007	
				(Assets)	(Liabilities)
				Fair value	
				(Rupees in '000)	
Deferred sale	August 2007	Equity indices	119,174	410	4,573
Letter of right	August 2007	Equity indices	-	19,163	-
				<u>19,573</u>	<u>4,573</u>
				2006	
				Fair value	
				(Rupees in '000)	
Type of contract	Settlement	Underlying	Notional amount	(Assets)	(Liabilities)
Deferred sale	August 2006	Equity indices	388,927	-	8,523
Letter of right	July 2006	Equity indices	-	4,732	-
				<u>4,732</u>	<u>8,523</u>

7.1 Deferred sale transactions are commitments to sell a designated financial instrument at a specified future date for a specified price and settled in cash. Deferred sales are standardized exchange-traded contracts. Deferred sale contracts have little credit risk because the counter parties are stock exchanges.

It results in exposure to market risk based on changes in market prices related to contracted amounts. Market risk arises due to the possibility of movement in indices and securities value underlying these instruments.

Notional amounts are the underlying reference amounts to stock exchange indices, upon which the fair value of the deferred sale contracts, traded by the Fund are based. While notional amounts do not represent the current fair value and are not necessarily indicative of the future cash flows of the Fund's deferred sale contracts, the underlying price changes in relation to the variables specified by the notional amounts affect the fair value of these derivative financial instruments.

	Note	2007 (Rupees in '000)	2006
<b>8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Advance tax recoverable		10	10
Security deposits with CDC		300	300
Profit receivable on deposit accounts with banks		7,009	819
Profit receivable on term finance certificates		-	39
Profit receivable on Sukuk certificates		1,321	3,732
		<u>8,640</u>	<u>4,900</u>
<b>9. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Preliminary expenses and floatation costs		5,002	6,670
Less: Amortisation during the year		1,668	1,668
		<u>3,334</u>	<u>5,002</u>
<b>10. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED - INVESTMENT ADVISOR OF THE FUND</b>			
Remuneration for the year	10.1	42,656	44,874
Preliminary expenses and floatation costs		5,002	6,670
		<u>47,658</u>	<u>51,544</u>
<b>10.1</b>	Under the provisions of NBFC Rules, the Investment Advisor 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 an amount equal to two percent of such assets of the Fund. The remuneration of the Investment Advisor has been charged at the rate of three percent for the year ended 30 June 2007.		
<b>11. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE OF THE FUND</b>			
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.			
<b>12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)</b>			
This represents proportionate annual fee at the rate of one tenth of one percent of the average annual net assets of the Fund payable to SECP under rule 54 of NBFC Rules.			
		2007	2006
	Note	(Rupees in '000)	
<b>13. ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditor's remuneration		275	275
Withholding tax payable		-	3
Charity payable	13.1	1,828	854
Legal and Professional Fee payable		140	-
Others		13	25
		<u>2,256</u>	<u>1,157</u>

13.1 According to the instructions of the Shariah Advisor, any income earned by the Fund from investments whereby portion of the investment of such investees has been made in non-Shariah compliant avenues, such proportion of income of the Fund from those investee companies should be given away for charitable purposes directly by the Fund. Accordingly, an amount of Rs. 1.828 million (2006: Rs. 0.854 million) is outstanding in this regard. Rs. 0.18 million charity has been paid to Marie Adelaide Leprosy Centre during the year. None of the Directors of the Investment Advisor of the Fund were interested in the donee.

	2007	2006
	(Rupees in '000)	
<b>14. AUDITOR'S REMUNERATION</b>		
Audit fee	175	175
Half yearly review fee	75	75
Other certifications	100	100
Out of pocket expenses	36	31
	<u>386</u>	<u>381</u>
<b>15. BASIC AND DILUTED EARNINGS PER CERTIFICATE *</b>		
Net income for the year	<u>324,962</u>	<u>286,568</u>
	(In numbers)	
Number of certificates in issue	<u>120,000,000</u>	<u>120,000,000</u>
	(Rupees)	
Basic earnings per certificate	<u>2.71</u>	<u>2.39</u>

\* There is no effect of dilution during the year.

#### 16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

The connected persons include Al Meezan Investment Management Limited being the Management Company, Central Depository Company Limited being the Trustee, Meezan Bank Limited being the holding company of the Management Company, Pakistan Kuwait Investment Company (Private) Limited and Al Meezan Mutual Fund Limited, Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund and Meezan Islamic 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 Investment Advisor and the Trustee is determined in accordance with the provisions of NBFC Rules and the Trust Deed respectively.

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



**Transactions and balances with connected persons - unsecured Al Meezan Investment Management Limited - Investment Advisor of the Fund**

	2007 (Rupees in '000)	2006
Balance at the beginning of the year	51,544	31,153
Remuneration for the year	<u>42,656</u>	<u>44,874</u>
	94,200	76,027
Amount paid during the year	<u>(46,542)</u>	<u>(24,483)</u>
Balance at the end of the year	<u><u>47,658</u></u>	<u><u>51,544</u></u>

Dividend for the year ended 30 June 2006 (comparative 30 June 2005)	<u>6,917</u>	<u>46</u>
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**Meezan Bank Limited - Shariah Advisor of the Fund and holding company of the Investment Advisor**

Bank balance at the end of the year	<u>74,369</u>	<u>16,293</u>
Profit on deposit accounts with the bank	<u>20,199</u>	<u>2,397</u>
Shariah advisor fee for the year	<u>250</u>	<u>-</u>
Dividend for the year ended 30 June 2006 (comparative 30 June 2005)	<u>31,882</u>	<u>16,134</u>

**Central Depository Company of Pakistan Limited - Trustee of the Fund**

Balance at the beginning of the year	138	123
Trustee Fee for the year	<u>1,630</u>	<u>1,666</u>
CDS charges for the year	<u>304</u>	<u>686</u>
	1,934	2,352
Amount paid during the year	<u>2,072</u>	<u>2,475</u>
Balance at the end of the year	<u><u>(1,929)</u></u>	<u><u>(2,337)</u></u>
	<u>143</u>	<u>138</u>

**Pakistan Kuwait Investment Company (Private) Limited**

Dividend for the year ended 30 June 2006 (comparative 30 June 2005)	<u>21,850</u>	<u>11,058</u>
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**Directors & Executives of the Investment Advisor**

Dividend for the year ended 30 June 2006 (comparative 30 June 2005)	<u>80</u>	<u>34</u>
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## 18. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION

		2007										
		-----Exposed to MROR risk-----										
Effective rate of profit / return (%)		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Not exposed to MROR risk	Total
		-----Rupees in '000-----										
<b>Financial assets</b>												
Bank balances	3 to 12.57	515,591	-	-	-	-	-	-	-	-	37	515,628
Receivable against sale of investments		-	-	-	-	-	-	-	-	-	202,561	202,561
Investment in marketable securities - 'at fair value through profit or loss'	10.88 to 11.50	-	-	-	-	-	-	115,664	-	-	835,547	951,211
Dividend receivable		-	-	-	-	-	-	-	-	-	2,352	2,352
Derivative financial instruments		-	-	-	-	-	-	-	-	-	19,573	19,573
Advances, deposits, prepayments and other receivables		-	-	-	-	-	-	-	-	-	8,640	8,640
<b>Total financial assets</b>		<b>515,591</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115,664</b>	<b>-</b>	<b>-</b>	<b>1,068,710</b>	<b>1,699,965</b>
<b>Financial liabilities</b>												
Payable to Al Meezan Investment Management Limited - Investment Advisor of the Fund		-	-	-	-	-	-	-	-	-	47,658	47,658
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund		-	-	-	-	-	-	-	-	-	143	143
Payable to Securities and Exchange Commission of Pakistan		-	-	-	-	-	-	-	-	-	1,445	1,445
Payable to Meezan Bank Limited - Shariah Advisor of the Fund and holding company of the Investment Advisor		-	-	-	-	-	-	-	-	-	250	250
Payable against purchase of investments		-	-	-	-	-	-	-	-	-	45,600	45,600
Accrued expenses and other liabilities		-	-	-	-	-	-	-	-	-	2,256	2,256
Derivative financial instruments		-	-	-	-	-	-	-	-	-	4,573	4,573
Unclaimed dividend		-	-	-	-	-	-	-	-	-	3,208	3,208
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>105,133</b>	<b>105,133</b>
<b>Total MROR sensitivity gap</b>		<b>515,591</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115,664</b>	<b>-</b>	<b>-</b>	<b>963,577</b>	<b>1,594,832</b>
<b>Cumulative MROR</b>		<b>515,591</b>	<b>515,591</b>	<b>515,591</b>	<b>515,591</b>	<b>515,591</b>	<b>515,591</b>	<b>631,255</b>	<b>631,255</b>	<b>1,594,832</b>		

		2006										
		-----Exposed to MROR risk-----										
Effective rate of profit / return (%)		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Not exposed to MROR risk	Total
		-----Rupees in '000-----										
<b>Financial assets</b>												
Bank balances	3.0 to 8.0	-	53,138	-	-	-	-	-	-	-	-	53,138
Receivable against sale of investments		-	-	-	-	-	-	-	-	-	212,596	212,596
Investment in marketable securities - 'available-for-sale'		-	-	-	200,000	-	-	-	-	-	-	200,000
Investment in marketable securities - 'at fair value through profit or loss'		-	-	-	5,000	-	-	-	-	-	1,231,117	1,236,117
Dividend receivable		-	-	-	-	-	-	-	-	-	12,635	12,635
Derivative financial instruments		-	-	-	-	-	-	-	-	-	4,732	4,732
Advances, deposits, prepayments and other receivables		-	-	-	-	-	-	-	-	-	4,890	4,890
<b>Total financial assets</b>		<b>-</b>	<b>53,138</b>	<b>-</b>	<b>205,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,465,970</b>	<b>1,724,108</b>
<b>Financial liabilities</b>												
Payable to Al Meezan Investment Management Limited - Investment Advisor of the Fund		-	-	-	-	-	-	-	-	-	51,544	51,544
Payable to Central Depository Company of Pakistan Limited - Trustee of the Fund		-	-	-	-	-	-	-	-	-	138	138
Payable to Securities and Exchange Commission of Pakistan		-	-	-	-	-	-	-	-	-	1,488	1,488
Payable against purchase of investments		-	-	-	-	-	-	-	-	-	149,965	149,965
Accrued expenses and other liabilities		-	-	-	-	-	-	-	-	-	1,154	1,154
Derivative financial instruments		-	-	-	-	-	-	-	-	-	8,523	8,523
Unclaimed dividend		-	-	-	-	-	-	-	-	-	3,101	3,101
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>215,913</b>	<b>215,913</b>
<b>Total MROR sensitivity gap</b>		<b>-</b>	<b>53,138</b>	<b>-</b>	<b>205,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,250,057</b>	<b>1,508,195</b>
<b>Cumulative MROR</b>		<b>-</b>	<b>53,138</b>	<b>53,138</b>	<b>53,138</b>	<b>258,138</b>	<b>258,138</b>	<b>258,138</b>	<b>258,138</b>	<b>258,138</b>	<b>1,508,195</b>	

## 18. RISK MANAGEMENT

The Fund is a balanced fund which invests both in high quality equity securities and Islamic income instruments. Investment in equity securities carries a risk that is considered higher than that of investment in debt securities. The risk emanates from various factors that include, but are not limited to market, credit, liquidity and market rate of return.

### 18.1 Market risk

Market risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. The value of investments may fluctuate due to change in business cycles affecting the business of the 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 certificate holders by maintaining a balance between equity securities and Shariah Compliant income instruments. The Fund, in addition to equities, deferred sale transaction and riba-free bank deposits, is also permitted to place funds in Islamic TFC's, Islamic Sukuk Certificates, other Islamic investments and other asset backed securities allowed by SECP and confirmed by the Fund's Shariah Advisor. Fund is allocated among various asset classes based on the attractiveness of the particular asset class.

The Fund follows a policy of value investing, in which major emphasis is placed on the investee company's growth prospects and / or dividend yield. The market risk is managed by monitoring exposure to marketable securities, following the internal risk management policies and regulations laid down in NBFC Rules. The risk is also mitigated by investing consistently in dividend paying companies having growth prospects and securities which are actively traded in the stock exchange.

### 18.2 Credit risk and concentration of credit risk

Credit risk is the risk that a counter party of financial instruments will fail to discharge an obligation commitment that it has entered into with the Fund. The Fund's investment manager has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At 30 June 2007, the financial assets that are exposed to credit risk are investments in debt instruments, amounts receivable from brokers against sale of investments, derivative financial assets and other receivables. The total carrying amount of financial assets exposed to credit risk amounted to Rs. 1,184.337 million (2006: Rs. 1,670.970 million).

Credit risk arising on debt instruments is mitigated by investing in rated instruments or instruments issued by rated counter party of credit rating of at least "A".

Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and others.

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.

### 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 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.

### 18.4 Market rate of return (MROR) risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund is exposed to an insignificant MROR risk as it makes investments in equity securities and shariah compliant income instruments.

## 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

As the assets and liabilities are essentially short term in nature the carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values except for investments in Sukuk certificates carried at cost.

20. PERFORMANCE TABLE	2007	2006	2005*
Net assets (Rupees in '000)	1,598,166	1,513,204	1,346,636
Net income (Rupees in '000)	324,962	286,568	146,636
Net assets value (NAV) per certificate as at 30 June (Rs.)	13.32	12.61	11.22
Basic earnings per certificate (Rs.)	2.71	2.39	1.22
Dividend distribution (%)	20%	10%	-
Highest NAV per certificate during the year / period (Rs.)	13.90	13.95	11.74
Lowest NAV per certificate during the year / period (Rs.)	10.92	10.83	10.00

\* First period of operations from 30 November 2004 to 30 June 2005.

## 21. NON ADJUSTING EVENTS

The Board of Directors of the Investment Advisor in its meeting held on 09 August 2007 has announced a cash dividend of 16% (2006: 20%) amounting to Rs. 192 million (2006: Rs. 240 million). The financial statements for the year ended 30 June 2006 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending 30 June 2008.

## 22. DATE OF AUTHORISATION

These financial statements have been authorised for issue on 09 August 2007 by the Board of Directors of the Investment Advisor.

## 23. GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise stated.

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

Chief Executive

Director

## PATTERN OF CERTIFICATE HOLDING AS OF 30 JUNE 2007

No. of Certificate holders	Having Certificates		Certificates held	Percentage
	From	To		
2	1	100	23	
275	101	500	137,089	0.11
89	501	1,000	89,000	0.07
380	1,001	5,000	1,235,000	1.03
174	5,001	10,000	1,636,500	1.36
36	10,001	15,000	475,752	0.40
32	15,001	20,000	598,109	0.50
15	20,001	25,000	361,500	0.30
14	25,001	30,000	376,818	0.31
6	30,001	35,000	198,005	0.17
7	35,001	40,000	269,601	0.22
18	40,001	45,000	755,666	0.63
16	45,001	50,000	786,000	0.66
2	50,001	55,000	102,901	0.09
4	55,001	60,000	237,000	0.20
3	65,001	70,000	201,500	0.17
6	80,001	85,000	490,456	0.41
1	90,001	95,000	94,000	0.08
7	95,001	100,000	700,000	0.58
1	105,001	110,000	108,500	0.09
2	120,001	125,000	244,000	0.20
2	125,001	130,000	255,000	0.21
1	130,001	135,000	135,000	0.11
1	140,001	145,000	141,606	0.12
1	155,001	160,000	159,000	0.13
1	160,001	165,000	161,000	0.13
1	170,001	175,000	175,000	0.15
1	195,001	200,000	200,000	0.17
1	235,001	240,000	239,145	0.20
1	240,001	245,000	241,000	0.20
3	245,001	250,000	750,000	0.63
2	290,001	295,000	587,000	0.49
3	295,001	300,000	900,000	0.75
1	305,001	310,000	308,500	0.26
5	395,001	400,000	1,996,449	1.66
1	405,001	410,000	406,500	0.34
1	460,001	465,000	460,500	0.38
1	465,001	470,000	468,000	0.39
1	470,001	475,000	474,000	0.40
7	495,001	500,000	3,500,000	2.92
1	505,001	510,000	510,000	0.43
1	600,001	605,000	602,000	0.50
2	695,001	700,000	1,400,000	1.17
1	795,001	800,000	800,000	0.67
1	805,001	810,000	808,500	0.67
1	925,001	930,000	928,500	0.77

No. of Certificate holders	Having Certificates		Certificates held	Percentage
	From	To		
1	985,001	990,000	986,000	0.82
8	995,001	1,000,000	8,000,000	6.67
1	1,015,001	1,020,000	1,019,329	0.85
1	1,080,001	1,085,000	1,082,500	0.90
1	1,635,001	1,640,000	1,635,500	1.36
1	1,680,001	1,685,000	1,685,000	1.40
1	1,815,001	1,820,000	1,816,000	1.51
1	1,880,001	1,885,000	1,882,000	1.57
1	1,995,001	2,000,000	2,000,000	1.67
1	2,005,001	2,010,000	2,008,000	1.67
5	2,495,001	2,500,000	12,500,000	10.42
1	3,535,001	3,540,000	3,536,100	2.95
1	3,895,001	3,900,000	3,900,000	3.25
1	3,950,001	3,955,000	3,952,868	3.29
2	4,995,001	5,000,000	10,000,000	8.33
1	5,000,001	5,005,000	5,000,324	4.17
1	7,030,001	7,035,000	7,034,468	5.86
1	7,155,001	7,160,000	7,157,791	5.96
1	9,095,001	9,100,000	9,100,000	7.58
1	9,995,001	10,000,000	10,000,000	8.33
<b>1,164</b>			<b>120,000,000</b>	<b>100</b>

## CATEGORIES OF CERTIFICATE HOLDERS AS OF 30 JUNE 2007

Particulars	Certificate holders	Certificate holding	Percentage
DIRECTORS, CEO & CHILDREN	3	34,345	0.03
ASSOCIATED COMPANIES	5	32,192,583	26.83
NIT & ICP	1	5,000,000	4.17
BANKS, DFI & NBFI	13	15,719,000	13.10
INSURANCE COMPANIES	2	400,000	0.33
MODARABAS & MUTUAL FUNDS	3	2,602,000	2.17
GENERAL PUBLIC (LOCAL)	1,072	16,548,351	13.79
GENERAL PUBLIC (FOREIGN)	10	5,059,870	4.22
OTHERS	54	40,561,851	33.80
FOREIGN COMPANIES	1	1,882,000	1.57
<b>COMPANY TOTAL</b>	<b>1,164</b>	<b>120,000,000</b>	<b>100</b>

**PATTERN OF CERTIFICATE HOLDINGS AS PER  
REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE  
AS AT 30 JUNE 2007**

Particulars	No. of Certificates held
Individuals	57,109,702
Non-resident	5,059,870
Associated companies	
- Al Meezan Investment Management Limited	5,000,324
- Meezan Bank Limited	16,134,468
- Pakistan Kuwait Investment Company (Private) Limited	11,057,791
National Investment Trust	5,000,000
Investment Corporation of Pakistan	-
Chief Executive & his spouse	
- Mr. Mohammad Shoaib, CFA	11,975
- Mrs. Shabana Shoaib	500
Directors and their spouses	
- Mr. Irfan Siddiqui	10,000
- Mr. Tasnimul Haq Farooqui	12,370
Executives	-
Public sector companies and corporations	9,013,325
Banks	5,205,675
Development financial institutions	-
Non-banking finance companies	3,382,000
Non-banking finance institutions	-
Insurance companies	400,000
Modarabas	594,000
Mutual funds	2,008,000
Shareholders holding ten percent or more other than associated companies and directors	-
<b>Total</b>	<b>120,000,000</b>

**STATEMENT OF INCOME & EXPENDITURE  
IN RELATION TO THE FUND  
FOR THE YEAR ENDED 30 JUNE 2007**

<b>INCOME</b>	<b>2007</b>	<b>2006</b>
	<b>(Rupees in '000)</b>	
Investment Advisor's remuneration	42,656	44,874
Dividend Income	4,101	51
	<u>46,757</u>	<u>44,925</u>
<b>OPERATING EXPENSES</b>		
Salaries and other benefits	7,300	6,280
Motor vehicle running expenses	192	208
Fees and subscription	152	111
Insurance expense	66	80
Printing and stationery	273	342
Audit fee	27	39
Financial charges	19	48
Telephone, fax, postage & stamps	324	316
Depreciation	767	997
Amortization	44	60
Traveling and conveyance	136	126
Entertainment	37	55
Legal and professional charges	261	317
Repair and maintenance	34	50
Other office supplies	45	131
CDC Charges	12	9
Rent, rates and taxes	710	978
Utilities	180	164
Miscellaneous expense	21	48
	<u>10,600</u>	<u>10,358</u>
<b>Net income for the year</b>	<u><u>36,157</u></u>	<u><u>34,567</u></u>

Note: The above expenses are allocated based on the average net assets of the respective funds managed by the investment Advisor. Other revenue and expense not relating to the fund has not been included in the above statement.