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**Our Vision**

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

**Our Mission**

To provide investors, in a shariah compliant manner, capital protection at maturity of the Fund and maximize returns through investments in Pakistani equity markets.

## 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](http://www.almeezangroup.com)  
E-mail: [info@almeezangroup.com](mailto:info@almeezangroup.com)

### BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

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

### CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

### AUDIT COMMITTEE

Mr. Ariful Islam	Chairman
Mr. Aliuddin Ansari	Member
Mr. Mazhar Sharif	Member

### TRUSTEE

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

### AUDITORS

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

### SHARIAH ADVISER

Meezan Bank Limited

### BANKERS TO THE FUND

Meezan Bank Limited  
Al Baraka Islamic Bank B.S.C (E.C)  
Bank Islami Pakistan Limited  
MCB Bank Limited

### LEGAL ADVISER

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

### DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited, the management company of Meezan Capital Protected Fund - I (MCPF-I) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2010.

### Market Review

Pakistan economy remained in consolidation phase during fiscal year 2010 with a gradual and steady improvement on the macroeconomic front. GDP grew by 4.10% in fiscal year 2010 driven by 4.9% growth in the manufacturing sector (as compared to 8% decline in fiscal year 2009) and 4.6% expansion in services. However, growth in agriculture was rather disappointing at 2% against a target of 3.8% and in comparison to 4% in fiscal year 2009.

A major macroeconomic achievement of this year has been the sharp reduction of 62% in current account deficit - from US\$ 9.3 billion (5.6% of GDP) in fiscal year 2009 to US\$ 3.5 billion (2.0% of GDP) this year. Release of funds from international donor agencies namely IMF and improved balance of trade figures provided a strong support to the external account of the country. Moreover, remittance inflows made new records, with the annual figure totaling US\$ 8.91 billion. As a result, foreign exchange reserves reached an all-time high of US\$ 16.6 billion. On domestic front, the provisional tax collection for the year was approximately Rs. 1,328 billion, representing an impressive 15.7% growth year on year.

On the monetary front, with the start of new financial year, as inflation started easing off, State Bank continued with its expansionary monetary policy by reducing the discount rates by another 150 basis points to 12.5% in first half of fiscal year 2010. However, later on the policy rate remained unchanged owing to resurgence and persistence in inflation and weak fiscal position of the government. Average yearly inflation stood at 11.7% in fiscal year 2010 as compared to 20.8% in the preceding year. Moreover, to meet IMF requirements and to stabilize interest rates, the State Bank introduced an interest rate corridor, providing a reverse repo facility at 300 basis points below the repo rate.

During the fiscal year 2010, the stock market performed well as KSE-100 Index appreciated by 35.74% as compared to 42% decline in fiscal year 2009. Cheap valuations and improving macroeconomic situation attracted investors, particularly foreign institutions, to the market. In the fiscal year 2010, average traded volume expanded to 161 million shares as compared to 105 million shares in fiscal year 2009. The stock market also embraced a handful of new listings in chemical, textile, and telecom sectors, most of which were fully subscribed.

The much-anticipated capital gain tax (CGT) was announced in the budget on June 5, 2010 being effective from July 1, 2010. Since there was a lack of clarity regarding the modalities of CGT, the investors initially remained cautious and hence the volumes temporarily dried up from the market. However, towards the close of the year, trading volumes gradually improved in anticipation of introduction of leveraged product.

## Outlook

Pakistan's economy has seen a steady turnaround in the year 2010. The S&P rating upgrade has accelerated a pickup in foreign investment in Pakistan's equity market. Since June 2009, when Pakistan market entered the MSCI Frontier Index, nearly US\$ 570 million has flowed into the stock market, as compared to a net outflow of US\$ 445 million in the previous year. The significant build up of foreign exchange reserves has also improved confidence in country's ability in meeting its financial commitments.

However, the recent floods along with law & order situation and energy crisis have derailed the macro economic stability of the country, with estimated losses being quoted in billions of dollars. As a result, GDP growth forecast has been revised down by 1-2% from earlier target of 4.5%. The exact losses and the materialization of foreign pledges in this regard will take time to firm up. Moreover, as inflation is expected to remain in double digits, interest rates will likely remain firm in the short term. As economy gradually improves, we expect interest rates to decline marginally in the long term.

The implementation of capital gain tax from July 1, 2010 has negatively impacted volumes but we believe, the introduction of the leverage product in the market will improve the liquidity position and attract the investors back to the equity market. Moreover, Pakistan's stock market is trading at a P/E multiple of under 7, which is almost at 45% discount to other regional markets. This makes KSE an attractive option for foreign investors, who are expected to make their investments at the local bourses. Hence, despite the above mentioned challenges, outlook for the coming year is cautiously optimistic.

## Compliance with Code of Corporate Governance

Al Meezan Investment Management Limited always strives to maintain the highest standards of corporate governance. In compliance with the Code of Corporate Governance, the Board of Directors declares that:

- These financial statements, prepared by the management company of the Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in unit holder's fund.
- The Fund has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes in accounting policies stated in note 3.3 to 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.
- The fund is no longer a going concern as it will cease on June 29, 2011 as stated in note 1.5 to the financial statements.
- There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.



- The Board of Directors and employees of the management company have signed "Statement of Ethics and Business Practices".
- There is no 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 during the year.
- Pattern of holding of units is given in note no.24 of the financial statements.
- Financial highlights are given in note no. 21 of the financial statements.

### **Board Meetings**

Please refer to note no. 25 provided in the financial statements.

### **Appointment of Auditors**

M/s A.F. Ferguson & Co. Chartered Accountants retire and being eligible offers themselves as the auditors of the Fund for fiscal year 2011. The Board of Directors of the management company has approved their re-appointment.

### **Acknowledgement**

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments and making it the largest Shariah Compliant asset management company in Pakistan. 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 28, 2010  
Karachi.**

**Mohammad Shoaib, CFA  
Chief Executive**

**PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT  
OF THE CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2010**

<b>Units Held by</b>	<b>Units held</b>	<b>%</b>
<b>Individuals</b>	2,532,775	22.61%
<b>Associated companies</b>		
-Meezan Bank Limited	5,035,120	44.95%
-Al Meezan Investment Management Limited	253,666	2.26%
<b>Chief Executive Officer</b>		
-Mr.Mohammad Shoaib, CFA	9,777	0.09%
<b>Insurance companies</b>	586,616	5.24%
<b>Retirement trusts</b>	554,904	4.95%
<b>Others</b>	2,227,988	19.89%
<b>Total</b>	<b>11,200,846</b>	<b>100%</b>



## REPORT OF THE FUND MANAGER

Meezan Capital Protected Fund - I (MCPF-1) is a listed open end capital protected fund, investing primarily in a Murabaha Structure to ensure capital protection and Shariah compliant listed equities to attain capital growth.

The primary objective of MCPF-I is to provide the maximum total return to the share holders from investment in Shariah Compliant investments while guaranteeing the initial principal amount invested upon maturity. The investments are made by giving due consideration to the Non-Banking Finance Companies Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2008 and any other prevailing rules and regulations. Total return refers to returns from capital gains, realized and unrealized, and dividend income (from investment in secondary and primary equities - Musharaka), rental income (from operating leases - Ijara), mark-up (from cost-plus sales - Murabaha), and other Shariah Compliant investments.

### Strategy and Investment Policy

Being a capital protected fund, majority of the funds have been invested in a Murabaha (Cost plus profit basis) structure with Meezan Bank Limited. Al Meezan Investment Management Limited actively manages the remaining funds with an aim to provide maximum risk adjusted total return to the investors. This involves a combination of stock selection, sector allocation, and asset allocation. Therefore, the fund manager aims to reduce exposure to equities in times when the market risk increases. While this may result in temporary underperformance as exposure is increased in a rising market, it pays off when the market corrects.

### Economic Review

Pakistan economy remained in consolidation phase during fiscal year 2010 with a gradual and steady improvement on the macroeconomic front. GDP grew by 4.10% in fiscal year 2010 driven by 4.9% growth in the manufacturing sector (as compared to 8% decline in fiscal year 2009) and 4.6% expansion in services. However, growth in agriculture was rather disappointing at 2% against a target of 3.8% and in comparison to 4% in fiscal year 2009.

A major macroeconomic achievement of this year has been the sharp reduction of 62% in current account deficit - from US\$ 9.3 billion (5.6% of GDP) in fiscal year 2009 to US\$ 3.5 billion (2.0% of GDP) this year. Release of funds from international donor agencies namely IMF and improved balance of trade figures provided a strong support to the external account of the country. Moreover, remittance inflows made new records, with the annual figure totaling US\$ 8.91 billion. As a result, foreign exchange reserves reached an all-time high of US\$ 16.6 billion which is equivalent to almost 6 months of imports.

On domestic front, the provisional tax collection for the year was approximately Rs. 1,328 billion. Although this is less than the targeted amount of Rs. 1,380 billion, it represents an impressive 15.7% growth from the previous year's figures. However, government's fiscal deficit and its financing via borrowing from the central bank remained a key source of concern for monetary authorities and for donor agencies during fiscal year 2010. Fiscal deficit stood at 5.8% of GDP in fiscal year 2010, against an original target of 4.9% and revised target of 5.2% agreed with the IMF. Consequently, government was also unable to achieve the target of net zero borrowing from the central bank during the year, overshooting it by Rs. 41.9 billion.

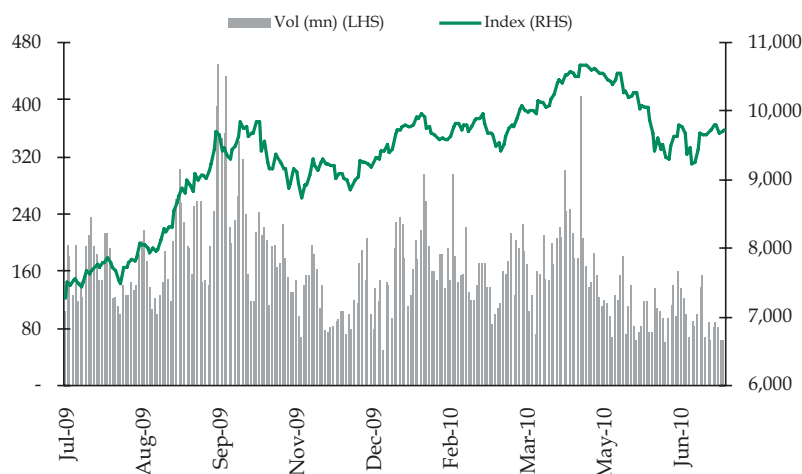
## Equity Market Review

The equity market continued to perform well in the fiscal year ended June 30, 2010 as KSE-100 Index appreciated by 35.74% to close at 9,722, following negative returns for two consecutive years (-11% in fiscal year 2008 and -42% in fiscal year 2009). Cheap valuations and improving macroeconomic situation attracted investors, particularly foreign institutional investors, to the market. In the fiscal year 2010, average daily traded value increased to Rs. 7 billion as compared to Rs. 4.4 billion in the previous year, while average traded volume expanded to 161 million shares as compared to 105 million shares in fiscal year 2009. Our benchmark KSE - Meezan Index appreciated by 36.87% during the same period.

At the beginning of the financial year, uncertainty about the discount rate cut by the State Bank and late release of IMF tranche caused some concern in the minds of investors and hence the market moved at a slow pace. However, it quickly regained its momentum with the discount rate cut, disbursement of IMF tranche, continuous decline in inflation and foreign inflows.

This momentum was arrested in mid October as uncertain law and order situation led to apprehension amongst investors. Also on the domestic political front, the uproar relating to conditions attached to the Kerry Lugar Bill and controversy regarding National Reconciliation Ordinance (NRO) kept the investors sidelined from the market. The index continued to hover below 10,000 level with volumes remaining thin. However, this lackluster behavior did not continue for long. Continuous inflow of foreign portfolio investment, improved law and order situation, replacement of Finance Minister, coupled with improvements reported in macroeconomic indicators helped KSE 100 index to cross 10,000, for the first time since August 2008 (after 19 months). The index touched highest level of 10,677 in mid of April 2010.

Subsequently, uncertainty with respect to the impact of budget along with capital gain tax (CGT) made the investors cautious and hence KSE 100 index shed over 1,500 points. The much-anticipated CGT was announced in the budget on June 5, 2010 being effective from July 1, 2010. Since there was a lack of clarity regarding the modalities of CGT, the investors continued to maintain a cautious stance and hence the volumes temporarily dried up from the market. However, trading volumes gradually improved in anticipation of introduction of leveraged product with KSE 100 index eventually closing the year at 9,722.





## Foreign Flows

Macroeconomic recovery and inclusion of Pakistan in MSCI Frontier Market Index in June 2009 attracted offshore investors to Pakistan with a net inflow of US\$ 568 million in the fiscal year 2010 as compared to massive outflow of US\$ 445 million the year before. These inflows were concentrated in a few scrips particularly in OGDC. As a result, OGDC made an important contribution of 1,100 points (44%) in the total rise of 2,560 points in KSE-100 Index in fiscal year 2010. With interest rates in most developed countries hitting rock bottom and Pakistan's stock market trading at a significant discount to the regional markets, it seems that foreign investors have realized the growth potential in Pakistani market and foreign portfolio investment will continue to flow.

## New Developments

### New Sector Classification

KSE has introduced new sector classifications in line with international standards. As per the new classification, the total number of sectors has been reduced from 35 to 32. Three major sectors of the old classification namely the oil and gas exploration, oil marketing companies and refineries have been merged in one sector called 'oil and gas' sector which has weight of 39% and 52% in KSE-100 index and KMI-30 Index respectively.

### New Listings

In the fiscal year 2010, there was significant improvement in new listings as 8 new Initial Public Offerings (IPOs) were done compared to only 4 IPOs the year before. These 8 IPOs were worth Rs. 4.3 billion compared to last year's IPOs of Rs. 1.4 billion. Out of 8 IPOs, 6 of the issues were oversubscribed (with Fatima Fertilizer being the largest offering) while Nishat Chunian Power and Agritech (Pak American Fertilizer) were undersubscribed.

### Implementation and Sector Allocation

At inception, 76.97% of the assets were secured in a Murabaha agreement with Meezan Bank, to ensure capital protection, while the remaining amount was invested in the equity market. The equity portion stood at 13.6% of the net assets of the fund at the end of fiscal year 2010. Within the equities portfolio, the fund maintained significant holdings in the Oil & Gas and Chemical sectors in order to benefit from rising international oil and fertilizer prices.

## Performance Review

The fiscal year 2010 was an auspicious year for MCPF-I. The fund posted a return of 14.07% during the year. The total income earned by the fund was Rs. 93 million. The primary contributor to total income was profit on Murabahah placement amounting to Rs. 60 million. Realized Gain on investments aggregated to Rs. 21 million while its unrealized gains amounted to Rs. 3 million. Dividend income worth Rs. 7 million was also received during the period. MCPF-I incurred expenses of Rs. 13 million during the year and after adjusting for element of loss and capital losses in prices of units issued less those in units redeemed of Rs. 1.6 million, the net income recorded by the Fund was Rs. 79 million. The net assets of the fund amounted to Rs. 637 million, equivalent to a pre dividend NAV per unit of Rs. 56.84.

**Distributions:**

Rs. 6.05 per unit was paid out as final dividend for the year ended June 30, 2010.

**Break Down of units**

Range of units	Number of unitholders
1-9,999	516
10,000-49,999	51
50,000-99,999	8
100,000-499,999	6
500,000 and above	3
<b>Total</b>	<b>584</b>

**Future Outlook**

Pakistan's economy has seen a steady turnaround in the year 2010. The S&P rating upgrade has accelerated a pickup in foreign investment in Pakistan's equity market. Since June 2009, when Pakistan market entered the MSCI Frontier Index, nearly US\$ 570 million has flowed into the stock market, as compared to a net outflow of US\$ 445 million in the previous year. The significant build up of foreign exchange reserves has also improved confidence in country's ability in meeting its financial commitments.

However, the recent floods along with law & order situation and energy crisis have derailed the macro economic stability of the country, with estimated losses being quoted in billions of dollars. As a result, GDP growth forecast has been revised down by 1-2% from earlier target of 4.5%. The exact losses and the materialization of foreign pledges in this regard will take time to firm up. Moreover, as inflation is expected to remain in double digits, interest rates will likely remain firm in the short term. As economy gradually improves, we expect interest rates to decline marginally in the long term.

The implementation of capital gain tax from July 1, 2010 has negatively impacted volumes but we believe, the introduction of the leverage product in the market will improve the liquidity position and attract the investors back to the equity market. Moreover, Pakistan's stock market is trading at a P/E multiple of under 7, which is almost at 45% discount to other regional markets. This makes KSE an attractive option for foreign investors, who are expected to make their investments at the local bourses. Hence, despite the above mentioned challenges, outlook for the coming year is cautiously optimistic.



## Meezan Bank

The Premier Islamic Bank

### Report of the Shar'iah Advisor – Meezan Capital Protected Fund-I

Karachi

September 16, 2010/ Shawwal 06, 1431 A.H

In the capacity of *Shar'iah Adviser*, 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 investments of MCPF-I in light of Shar'iah requirements. Following is the list of investments of MCPF-I as on June 30, 2010 and their evaluation according to the screening criteria established by us. (December 31, 2009 accounts of the Investee companies have been used for the following calculations):

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<40%)	(iii) % of Non-Shar'iah Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>20%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Attock Cement	Cement Manufacturer	0.12%	15.45%	1.14%	74.00%	(3.39)	52.00
Fauji Fertilizer Bin Qasim Limited	Manufacturer of Fertilizer	23.37%	0.00%	2.51%	70.00%	(15.82)	26.13

#### Meezan Bank Ltd

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Tel: (92-21) 35610582 Fax: (92-21) 35610375, 35611451 www.meezanbank.com



Fauji Fertilizer Company Limited	Manufacturer of Fertilizer	30.04%	8.93%	1.92%	58.00%	(31.23)	102.93
ICI Pakistan Limited	Manufacturers of Paints, Soda Ash, Staple Fibre and Chemicals	0.17%	0.01%	0.51%	65.00%	2.09	168.9
Indus Motors Company Limited	Automobile Assembler	0.05%	0.00%	2.43%	44.00%	17.88	196.52
Lucky Cement	Cement Manufacturer	25.91%	0.00%	0.00%	94.00%	(37.13)	66.24
Meezan Bank Limited	Islamic Commercial Bank	**					
National Refinery Limited	Oil Refinery & Marketing	0.00%	1.45%	0.66%	39.00%	(9.90)	176.82
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	6.38%	0.81%	50.00%	7.55	110.61
Pak. Telecommunication. Co. Ltd	Provider of Telecommunication Services	9.76%	11.52%	3.22%	75.00%	(9.37)	17.65
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	0.53%	2.33%	79.00%	(8.36)	230.77
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.17%	22.92%	3.24%	42.00%	30.97	189.59
Pakistan State Oil Company Limited	Distribution of Oil & Gas	11.27%	0.00%	0.06%	39.00%	(232.69)	297.44
Tripak Films Ltd	Manufacturer of Biaxially Oriented Polypropylene	32.76%	0.00%	0.32%	73.00%	(56.03)	103.00

\* 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. The capital protection element of the fund is covered through Murabaha transactions of Shares and Sukuks with Meezan bank. Documents and procedure of this arrangement have been evaluated by us and found to be in compliance with the principles of Shari'ah. The capital is protected through structure and not guaranteed.
- iii. On the basis of information provided by the management, all operations of MCPF-I for the year ended June 30, 2010 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-I 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.

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**Dr. Muhammad Imran Ashraf Usmani**  
Shar'iah Advisor

**A.F.FERGUSON & CO.**

A member firm of

**PRICEWATERHOUSECOOPERS** 

A.F.Ferguson & Co  
Chartered Accountants  
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Telephone: (021) 32426682-6 / 32426711-5  
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## **INDEPENDENT ASSURANCE PROVIDER'S REPORT ON SHARIAH COMPLIANCE TO THE UNIT HOLDERS**

We have performed our independent assurance engagement of Meezan Capital Protected Fund - I (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor of the Fund for the year ended June 30, 2010.

### **Management company's responsibility**

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

### **Responsibility of independent assurance providers**

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

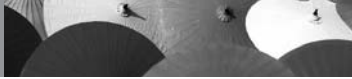
The procedures selected depend on our judgement, including the assessment of the risks of material non-compliances with the Shariah guidelines. In making those risk assessments, we have considered internal controls relevant to the entity's compliance with the guidelines in order to design our procedures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

### **Conclusion**

In our opinion, the Fund was, in all material respect, in compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund for the year ended June 30, 2010.

*A.F. Ferguson & Co.*  
Chartered Accountants  
Karachi, October 8, 2010

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Islamabad Office: PIA Building, 3<sup>rd</sup> 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 Office : House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel : (93-799) 315320-203424

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED****Head Office**

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URL: [www.cdcpakistan.com](http://www.cdcpakistan.com)  
Email: [info@cdcpak.com](mailto:info@cdcpak.com)

**TRUSTEE REPORT TO THE UNIT HOLDERS****MEEZAN CAPITAL PROTECTED FUND-I****Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the  
Non-Banking Finance Companies and Notified Entities Regulations, 2008**

Meezan Capital Protected Fund-I (the Fund), an open-end scheme was established under a trust deed dated February 25, 2008, executed between Al Meezan Investment Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2010 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 07, 2010

## STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

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

1. The management company encourages representation of independent non-executive directors. At present the board consists of seven directors, including two independent directors, all other directors except the Chief Executive Officer (CEO) are non-executive directors. The management company of the Fund is not listed at any stock exchange and therefore, does not have any minority interest.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the management company.
3. All the existing resident directors of the management company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBF. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. During the year two casual vacancies occurred on the BoD. Mr. P. Ahmed was appointed as independent director in place of Syed Owais Wasti in the board meeting held on September 01, 2009 and Mr. Rana Ahmed Humayun was appointed in place of retiring director Mr. Tasnimul Haq Farooqui in the board meeting held on February 15, 2010 for the remaining term of the board.
5. The board has formulated a Statement of Ethics and Business Practices for the management company, which has been signed by the existing directors and employees of the management company.
6. The board of the management company has developed a vision and mission statement. The investment policy of the Fund has been disclosed in the offering document, while other significant policies have also been formalized and have been adopted by the board.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO of the management company, have been taken by the board.
8. The meetings of the board were presided over by the Chairman. The board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for the emergent meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of the board are aware of their responsibilities, an orientation course was held during previous years. The new Directors as and when appointed are provided with all the relevant statutory laws, rules and regulations to keep themselves acquainted.

10. The Board of Directors of the Management Company had, in earlier years, approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary and has approved the appointment of the Head of Internal Audit during the current year including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report relating to the Fund, for the year ended June 30, 2010 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by the CEO and the CFO of the management company before approval by the Board.
13. The interest of the CEO, Directors and the Executives in the units of the Fund is disclosed in the pattern of unit holdings.
14. The management company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The board has formed an audit committee. It comprises of three non-executive directors of the management company as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the Board of the management company and advised to the committee for compliance.
17. The board has set up an effective internal audit function headed by the Head of Internal Audit & Compliance. The staff of the Fund is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function of the Fund on a full time basis.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the management company or units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions entered during the year ended June 30, 2010 have been placed before the audit committee and approved by the board in its subsequent meetings.
21. We confirm that all other material principles contained in the Code have been complied with.

**Syed Owais Wasti**  
Chief Financial Officer  
**Karachi.**  
**September 28, 2010**

**Mohammad Shoab, CFA**  
Chief Executive

**A.F.FERGUSON & CO.**

A member firm of

**PRICEWATERHOUSECOOPERS** 

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**REVIEW REPORT TO THE MEMBERS 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, 2010 prepared by the Board of Directors of Al Meezan Investment Management Limited (the management company) of Meezan Capital Protected Fund - I (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 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 personnel and review of various documents prepared by the management company to comply with the Code.

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

Further, Sub-Regulation (xiii a) of Listing Regulation 35 of the Karachi Stock Exchange (Guarantee) Limited requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the subject requirement to the extent of approval of the related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the management company compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2010.

  
Chartered Accountants  
Karachi, October 8, 2010

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## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Meezan Capital Protected Fund - I**, which comprise the statement of assets and liabilities as at June 30, 2010, 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 the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2010 and of its financial performance, cash flows and transactions for the year then ended in accordance with the requirements of the approved accounting standards as applicable in Pakistan.

### Emphasis of matter

Without qualifying our opinion we draw attention to note 1.5 to the annexed financial statements which inter alia states that as per the offering document of the fund, the fund is due to mature on June 29, 2011. Accordingly, the annexed financial statements are not prepared on the going concern basis. However, no adjustments are required as the assets and liabilities are stated at values at which these are expected to be realised or settled.

### Other matters

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

  
Chartered Accountants

Karachi, October 8, 2010

**Audit Engagement Partner: Saad Kaliya**

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## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2010

Assets	Note	2010 (Rupees in '000)	2009
<b>Capital protection segment</b>			
Loans and receivables	5	570,373	510,337
<b>Investment segment</b>			
Balances with banks	6	18,901	1,773
Investments at fair value through profit or loss	7	67,489	80,020
Receivable against sale of investments		-	283
Profit receivable on savings accounts		207	115
		86,597	82,191
Dividend receivable		175	631
Deposit with Central Depository Company of Pakistan Limited (CDC)		100	100
Preliminary expenses and floatation costs	8	931	1,859
<b>Total assets</b>		658,176	595,118
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	9	18,744	10,714
Payable to CDC - trustee of the Fund	10	63	62
Payable to Meezan Bank Limited (MBL)	11	-	252
Payable to Securities and Exchange Commission of Pakistan (SECP)	12	459	479
Payable on redemption of units		-	1
Payable against purchase of investments		-	865
Accrued expenses and other liabilities	13	2,269	461
<b>Total liabilities</b>		21,535	12,834
<b>Net assets</b>		636,641	582,284
<b>Unitholders' funds (as per statement attached)</b>		636,641	582,284
<b>Number of units</b>			
<b>Number of units in issue</b>	15	11,200,846	11,604,852
<b>Rupees</b>			
<b>Net assets value per unit</b>		56.84	50.18

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 (Rupees in '000)	2009
<b>Income</b>			
Net realised gain / (loss) on sale of investments		20,930	(28,177)
Dividend income		7,067	5,567
Profit on savings accounts with banks		616	1,026
Profit on murabaha		60,036	53,427
Back end load		1,024	482
		89,673	32,325
Unrealised gain / (loss) on re-measurement of investments at fair value through profit or loss (net)	7.1	3,340	(17,176)
<b>Total income</b>		<b>93,013</b>	<b>15,149</b>
<b>Expenses</b>			
Remuneration to Al Meezan - management company of the Fund	9.1	8,030	7,793
Remuneration to CDC - trustee of the Fund	10	799	737
Remuneration to MBL	11	-	219
Annual fee to SECP	12	459	479
Auditors' remuneration	14	357	387
Fees and subscription		35	35
Amortisation of preliminary expenses and floatation costs	8	928	925
Brokerage		196	201
Bank and settlement charges		37	40
Workers' welfare fund - current	13.2	1,574	-
- prior		86	-
Printing charges		270	82
<b>Total expenses</b>		<b>12,771</b>	<b>10,898</b>
<b>Net income from operating activities</b>		<b>80,242</b>	<b>4,251</b>
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed (net)		(1,623)	143
<b>Net income</b>		<b>78,619</b>	<b>4,394</b>

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	2010			2009		
	Unrealised gains / (losses)	Realised gains / (losses)	Total	Unrealised gains / (losses)	Realised gains / (losses)	Total
	------(Rupees in '000)-----					
Unappropriated income / (loss) brought forward as at July 1	(18,607)	20,648	2,041	(6,499)	4,146	(2,353)
Less: Final distribution for the year ended June 30, 2009 on July 6, 2009 -bonus units @ 0.70%	-	(4,062)	(4,062)	-	-	-
Net income for the year	3,340	75,279	78,619	(17,176)	21,570	4,394
Loss realised on disposal of investments	10,691	(10,691)	-	5,068	(5,068)	-
Unappropriated income carried forward as at June 30	<u>(4,576)</u>	<u>81,174</u>	<u>76,598</u>	<u>(18,607)</u>	<u>20,648</u>	<u>2,041</u>

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees in '000)	
Net assets at the beginning of the year	582,284	579,207
Issue of Nil (2009: 176,988 ) units	-	8,655
Redemption of 485,517 (2009: 203,332 ) units	(25,885)	(9,829)
	(25,885)	(1,174)
	556,399	578,033
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed (net)	1,623	(143)
Net income for the year less distribution	74,557	4,394
Issue of 81,511 bonus units for the year ended June 30, 2009	4,062	-
Net assets at the end of the year	636,641	582,284
Net assets value per unit at the beginning of the year - Rupees	50.18	49.80
Net assets value per unit at the end of the year - Rupees	56.84	50.18

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2010 (Rupees in '000)	2009
Net income		78,619	4,394
<b>Adjustments for:</b>			
Dividend income		(7,067)	(5,567)
Profit on savings accounts with banks		(616)	(1,026)
Profit on murabaha		(60,036)	(53,427)
Unrealised (gain) / loss on re-measurement of investments at fair value through profit or loss (net)		(3,340)	17,176
Amortisation of preliminary expenses and floatation costs		928	925
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed (net)		1,623	(143)
		10,111	(37,668)
<b>Decrease / (increase) in assets</b>			
Loans and receivables		-	(110,690)
Receivable against sale of investments		283	(283)
Investments at fair value through profit or loss		15,871	(953)
		16,154	(111,926)
<b>Increase / (decrease) in liabilities</b>			
Payable to Al Meezan - management company of the Fund		8,030	5,340
Payable to CDC - trustee of the Fund		1	(15)
Payable to MBL		(252)	(4,966)
Payable to SECP		(20)	420
Payable against purchase of investments		(865)	865
Accrued expenses and other liabilities		1,808	(332)
		8,702	1,312
Profit received on savings accounts with banks		524	1,409
Dividend received		7,523	6,988
<b>Net cash inflow / (outflow) from operating activities</b>		43,014	(139,885)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from sale of units		-	8,655
Payments against redemption of units		(25,886)	(9,828)
<b>Net cash outflow from financing activities</b>		(25,886)	(1,173)
Net cash inflow / (outflow) during the year		17,128	(141,058)
Cash and cash equivalents at the beginning of the year		1,773	142,831
Cash and cash equivalents at the end of the year	6	18,901	1,773

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

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

**Mohammad Shoab, CFA**  
Chief Executive

**Mazhar Sharif**  
Director



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Capital Protected Fund-I (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 February 25, 2008 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, 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 consists of two segments, a capital protection segment and an investment segment. The capital protection segment aims at protecting investors' capital by placing the assets of the segment in murabaha arrangement with a scheduled islamic bank having atleast 'A' rating at the time of the arrangement. The investment segment generally invests in high return / high risk investments with an objective of providing unitholders a higher return than the minimum protection provided by the capital protection segment. Under the trust deed all the conducts and acts of the Fund are based on shariah. Meezan Bank Limited (MBL) acts as its shariah adviser to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end fund with maturity of three years and six weeks and is listed on the Karachi Stock Exchange. The Fund shall cease to operate on maturity. The units are transferable and can be redeemed by surrendering them to the Fund. The issuance of units has been discontinued since July 31, 2008. The rating of the Fund has not been conducted as of June 30, 2010. 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 held in the name of CDC as a trustee of the Fund.
- 1.5 As per the offering document dated May 16, 2008, the Fund will cease to exist on June 29, 2011, the date on which the period specified for the Fund is expiring. Since the Fund was established for a specified period and the said period is expiring within the twelve months period from the balance sheet date, accordingly these financial statements are not prepared on going concern basis. The management has assessed that, except for preliminary expenses and floatation costs, which will be amortised as stated in note 4.10 to the financial statements, this will not result in any impact on the carrying amount of the assets and liabilities of the Fund as these are already stated at the amounts expected to be realised or settled.

### 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 2003, 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.

- 3.2.1 Standards, amendments to published approved accounting standards and interpretations becoming effective in the year ended June 30, 2010:

The following standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after July 1, 2009:

- (i) IAS 1 (Revised), 'Presentation of Financial Statements' (effective January 1, 2009) IAS 1 (Revised) prohibits the presentation of items of income and expenses (i.e., 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a statement of other comprehensive income, but entities can choose whether to present one statement of comprehensive income or two statements (the statement of comprehensive income and statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the earliest comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present one statement (the income statement) as more fully explained in note 3.3.1 below.
- (ii) IAS 39 (amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have an impact on the Fund's financial statements.
- (iii) IFRS 7 'Financial instruments – Disclosures' (amendment) (effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, the amendment is not expected to have a significant effect on the fund's financial statements as more fully explained in note 3.3.2 below.

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2009 but are considered not to be relevant or have any significant effect on the fund's operations and are, therefore, not disclosed in these financial statements.

### 3.2.2 Standards, amendments to published approved accounting standards and interpretations as adopted in Pakistan, that are not yet effective:

The following standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after July 1, 2010 or later periods:

- (i) IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. This amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Fund will apply IAS 1 (amendment) from July 1, 2010. It is not expected to have a material 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, 2010 but are considered not to be relevant or do not have any significant effect on Fund's operations and are therefore not mentioned in these financial statements.

### 3.3 Changes in accounting policies

- 3.3.1 The Fund has applied IAS 1 (Revised) from July 1, 2009, and has elected to present one performance statement (Income statement). The change in accounting policy has not affected the assets and liabilities of the Fund for either the current or prior periods and hence restated statement of assets and liabilities has not been presented.

- 3.3.2 The Fund has applied IFRS 7 'Financial instruments - Disclosures' from July 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The amendment has only resulted in additional disclosures in the Fund's financial statements and does not have any impact on the classification and measurement of the Fund's financial statements. The change in accounting policy has not affected the assets and liabilities of the Fund for either the current or prior periods and hence restated statement of assets and liabilities has not been presented.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Accounting Convention

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

### 4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of critical accounting estimates. It also requires the management company to exercise its judgment in the process of applying its accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumption and estimates are significant to the financial statements, are as follows:

- (a) Classification and valuation of financial instruments (notes 4.3, 4.7, 4.8 and 7)
- (b) Impairment (note 4.3.5)
- (c) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.12)
- (d) Amortisation of preliminary expenses and flotation costs (notes 4.10 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 '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 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 fair value through profit or loss or available for sale.

d) Available for sale

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

#### 4.3.2 Recognition

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

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

#### 4.3.3 Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on 'financial 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. Effective July 1, 2009 the Fund has changed its policy and now 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. Previously these changes were recognised in the statement of unit holders' fund.

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, derivatives and financial instruments sold on deferred settlement basis 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 investments other than 'available for sale' is recognised in the income statement whenever the carrying amount of investment exceeds its recoverable amount. If in a subsequent period, the amount of an impairment loss recognised decreases the impairment is reversed through the income statement.

In case of investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in 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 not 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 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 Unitholders' fund

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

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

4.7 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.

4.8 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.

4.9 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 three years and six weeks commencing from May 8, 2008 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 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 asset 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 future years by distributing at least 90 percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised to its unit holders every year.

## 4.13 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 when the Fund's right to receive the dividend is established.
- (vi) Profit on murabaha is recognised on an accrual basis over the term of the murabaha.

## 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, 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 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.

#### 4.18 Dividend and bonus units

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

	Note	2010 (Rupees in '000)	2009
<b>5. LOANS AND RECEIVABLES</b>			
Principal amount		453,720	453,720
Profit receivable	5.1	<u>116,653</u>	<u>56,617</u>
Total		<u>570,373</u>	<u>510,337</u>
5.1 For the purpose of capital protection, the Fund has allocated 76% of the initial fund size in murabaha with MBL (an associated undertaking) such that it fulfills the requirement of capital protection as outlined in the trust deed and the offering document.			
5.2 The duration of capital protection segment is 3 years and 6 weeks from first day of initial offering period with profit receivable at the rate of 11.75% on maturity.			
<b>6. BALANCES WITH BANKS</b>			
	Note	2010 (Rupees in '000)	2009
On savings accounts	6.1	18,678	1,668
On current accounts		<u>223</u>	<u>105</u>
		<u>18,901</u>	<u>1,773</u>
6.1 The balances in savings accounts bear expected profit which ranges from 5.00% to 11.25% (2009: 4.97% to 11.5%) per annum.			

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

### 7.1 Shares in listed companies

Name of the investee company	As at July 1, 2009	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2010	Carrying value as at June 30, 2010	Market value as at June 30, 2010	Unrealised gain / (loss) as at June 30, 2010	Percentage of market value of total investment
	-----Number of shares-----					----- (Rupees in '000) -----			
<b>Commercial Bank</b>									
Meezan Bank Limited (an associate of Fund)	221,381	-	7,219	77,000	151,600	1,588	2,206	618	0.35
<b>Automobile assembler</b>									
Indus Motor Company Limited	16,190	12,300	-	18,976	9,514	1,552	2,496	944	0.39
<b>Textile Composite</b>									
Nishat Mills Limited	51,000	-	-	51,000	-	-	-	-	-
<b>Cement</b>									
Attock Cement Pakistan Limited	-	3,000	100	2,500	600	42	39	(3)	0.01
DG Khan Cement Company Limited	9,580	-	-	9,580	-	-	-	-	-
Lucky Cement Limited	30,000	57,500	-	20,000	67,500	4,584	4,194	(390)	0.66
									<b>0.67</b>
<b>Chemical</b>									
ICI Pakistan Limited	14,800	18,877	-	20,000	13,677	2,184	1,622	(562)	0.25
<b>Power generation and distribution</b>									
The Hub Power Company Limited	198,000	115,500	-	313,500	-	-	-	-	-
<b>Technology and communication</b>									
Pakistan Telecommunication Company Limited 'A'	307,900	-	-	207,900	100,000	1,724	1,780	56	0.28
<b>Miscellaneous</b>									
Tri Pack Films Limited	80,000	-	-	-	80,000	7,991	7,802	(189)	1.22
<b>Oil and gas exploration companies</b>									
Oil and Gas Development Company Limited	110,000	60,000	-	169,939	61	5	9	4	-
Pakistan Petroleum Limited	43,500	7,000	9,860	29,700	30,660	4,977	5,645	668	0.88
Pak Oil Fields Limited	64,900	32,000	-	56,200	40,700	7,215	8,787	1,572	1.38
									<b>2.26</b>
<b>Oil and gas marketing companies</b>									
Pakistan State Oil Company Limited	19,000	76,500	-	47,550	47,950	14,084	12,477	(1,607)	1.96
<b>Fertilizer</b>									
Engro Chemical Pakistan Limited	40,600	-	-	40,600	-	-	-	-	-
Fauji Fertilizer Bin Qasim Company Limited	415,000	255,340	-	466,000	204,340	4,143	5,321	1,178	0.83
Fauji Fertilizer Company Limited	93,775	47,000	-	19,000	121,775	11,417	12,551	1,134	1.97
									<b>2.80</b>
<b>Refinery</b>									
National Refinery Limited	-	14,000	-	-	14,000	2,643	2,560	(83)	0.40
<b>Total</b>						<u>64,149</u>	<u>67,489</u>	<u>3,340</u>	
<b>Total cost of investment</b>						<u>71,878</u>			

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



	Note	2010 (Rupees in '000)	2009
<b>8. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Preliminary expenses and floatation costs		1,859	2,784
Less: Amortisation during the year		928	925
		<u>931</u>	<u>1,859</u>
<b>9. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - management company of the Fund</b>			
Management fee	9.1 and 9.2	15,823	7,793
Preliminary expenses and floatation costs		2,921	2,921
		<u>18,744</u>	<u>10,714</u>

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 has been charged at the rate of three percent per annum of average annual net assets invested under the investment segment.

9.2 Further, an amount equal to one percent per annum of the average annual net assets invested under the capital protected segment has been charged by the management company to MBL which will be paid by the management company.

#### 10. PAYABLE TO 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.

	Note	2010 (Rupees in '000)	2009
<b>11. PAYABLE TO MEEZAN BANK LIMITED (MBL)</b>			
Shariah advisory fee payable	11.1	-	252
		<u>-</u>	<u>252</u>

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

## 12. 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, 2008.

	Note	2010 (Rupees in '000)	2009
<b>13. ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' remuneration		245	220
Charity payable	13.1	212	182
Workers' welfare fund	13.2	1,660	-
Printing charges payable		121	-
Withholding tax payable		-	10
Profit payable to Pre-IPO and core investors		-	3
Brokerage payable		-	11
Annual listing fee payable		30	35
Zakat payable		1	-
		<u>2,269</u>	<u>461</u>

13.1 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 0.212 million (2009: Rs 0.182 million) is outstanding in this regard after making charity payments of Rs 0.100 million (2009: nil) to renowned charitable institutions. None of the directors of the management company were interested in any of the donees.

13.2 The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) whereby the definition of "Industrial Establishment" was amended to include therein any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it may be construed that all Collective Investment Schemes (CIS) whose income exceeds Rs 0.5 million in a tax year have been brought within the purview and 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. Accordingly, the management company has recognised WWF charge in the books of the Fund.

	Note	2010 (Rupees in '000)	2009
<b>14. AUDITORS' REMUNERATION</b>			
Audit fee		120	120
Half yearly review		60	40
Other certification		150	200
Out of pocket expenses		27	27
		<u>357</u>	<u>387</u>



## 15. CLASSES OF UNITS IN ISSUE

15.1 The Fund may issue following classes of units:

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.

15.2 The units in issue as at June 30, 2010 and 2009 and their par values were as follows:

	2010		2009	
	Number of units in issue	Rupees in '000	Number of units in issue	Rupees in '000
Class A units	<u>11,200,846</u>	<u>560,042</u>	<u>11,604,852</u>	<u>580,243</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 July 31, 2008.

## 16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the shariah adviser of the Fund and holding company of the management company, Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Cash Fund, Meezan Sovereign Fund and Meezan Islamic Income Fund being the Funds under the management of the management company and the directors and officers 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, 2010 and as of June 30, 2009 are as follows:

	2010	2009
	(Rupees in '000)	
<b>Al Meezan - management company of the Fund</b>		
Remuneration payable	<u>15,823</u>	<u>7,793</u>
Preliminary expenses and floatation cost payable	<u>2,921</u>	<u>2,921</u>
Investment of 253,666 units (June 30, 2009: 181,097 units)	<u>14,418</u>	<u>9,087</u>
<b>MBL</b>		
Balances with bank	<u>351</u>	<u>114</u>
Shariah advisory fee payable	<u>-</u>	<u>252</u>
Investment - loans and receivables	<u>570,373</u>	<u>510,337</u>
Investment in 151,600 shares (June 30, 2009: 221,381)	<u>2,206</u>	<u>2,435</u>
Investment of 5,035,120 units (June 30, 2009: 5,000,000 units)	<u>286,190</u>	<u>250,880</u>
<b>CDC - trustee of the Fund</b>		
Trustee fee payable	<u>63</u>	<u>62</u>
<b>Director of the management company</b>		
Investment of 9,777 units (June 30, 2009: 9,709 units)	<u>556</u>	<u>487</u>
	2010	2009
	(Rupees in '000)	
<b>Al Meezan - management company of the Fund</b>		
Remuneration for the year	<u>8,030</u>	<u>7,793</u>
Bonus units issued : 1,272 units (2009: nil units)	<u>63</u>	<u>-</u>
Units issued : 71,297 units (2009: 181,097)	<u>3,955</u>	<u>8,656</u>
<b>MBL</b>		
Profit on savings account	<u>6</u>	<u>43</u>
Shariah advisory fee	<u>-</u>	<u>219</u>
Investment - loans and receivables	<u>60,036</u>	<u>164,117</u>
Bonus units issued : 35,120 units (2009: nil units)	<u>1,750</u>	<u>-</u>
Shares purchased during the year : nil shares ( 2009 : 151,000 shares)	<u>-</u>	<u>4,407</u>
Bonus shares received during the year : 7,219 shares (2009: 70,381 shares)	<u>-</u>	<u>-</u>
Shares sold during the year : 77000 share (2009 : nil shares)	<u>1,329</u>	<u>-</u>
<b>CDC - trustee of the Fund</b>		
Trustee fee	<u>799</u>	<u>737</u>
CDS charges	<u>8</u>	<u>10</u>
<b>Director of the management company</b>		
Bonus units issued: 68 units (2009: nil units)	<u>3</u>	<u>-</u>



## 17. FINANCIAL INSTRUMENTS BY CATEGORY

	2010			Total
	Loans and receivables	Financial assets at fair value through profit or loss	Financial liabilities measured at amortised cost	
	------(Rupees in '000)-----			
<b>On balance sheet - financial assets</b>				
Investments	570,373	67,489	-	637,862
Balances with banks	18,901	-	-	18,901
Profit receivable on savings accounts	207	-	-	207
Dividend receivable	175	-	-	175
Deposit with CDC	100	-	-	100
	<u>589,756</u>	<u>67,489</u>	<u>-</u>	<u>657,245</u>
<b>On balance sheet - financial liabilities</b>				
Payable to Al Meezan				
- management company of the Fund	-	-	18,744	18,744
Payable to CDC - trustee of the Fund	-	-	63	63
Accrued expenses and other liabilities	-	-	366	366
	<u>-</u>	<u>-</u>	<u>19,173</u>	<u>19,173</u>
	------(Rupees in '000)-----			
<b>On balance sheet - financial assets</b>				
Investments	510,337	80,020	-	590,357
Balances with banks	1,773	-	-	1,773
Receivable against sale of investment	283	-	-	283
Profit receivable on savings accounts	115	-	-	115
Dividend receivable	631	-	-	631
Deposit with CDC	100	-	-	100
	<u>513,239</u>	<u>80,020</u>	<u>-</u>	<u>593,259</u>
<b>On balance sheet - financial liabilities</b>				
Payable to Al Meezan				
- management company of the Fund	-	-	10,714	10,714
Payable to CDC - trustee of the Fund	-	-	62	62
Payable to MBL	-	-	252	252
Payable on redemption of units	-	-	1	1
Payable against purchase of investments	-	-	865	865
Accrued expenses and other liabilities	-	-	234	234
	<u>-</u>	<u>-</u>	<u>12,128</u>	<u>12,128</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.

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:

#### 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, 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. 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.

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

	2010	2009
	(%)	
AA+	0.14	0.68
A+	-	6.43
A	98.00	92.89
A-	1.86	-
	<u>100.00</u>	<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, 2010 along with comparative, is tabulated below:

	2010	2009
<b>Financial assets</b>	<b>(Rupees in '000)</b>	
Loans and receivables	570,373	510,337
Balances with banks	18,901	1,773
Receivable against sale of investments	-	283
Profit receivable on savings accounts	207	115
Dividend receivable	175	631
Deposit with CDC	100	100
	<u>589,756</u>	<u>513,239</u>

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

In accordance with the regulation 58(1)(k) of the NBFC Regulation 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 95.496 million as on June 30, 2010 (2009: Rs 87.343 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 next dealing day, had such requests exceed ten percent of the total numbers.

In accordance with the risk management policy of the Fund, the investment 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, 2010 and 2009 is tabulated below:

	2010				Total	2009
	Maturity upto					
	Three months	six months	one year	More than one year		
	----- (Rupees in '000) -----					
Payable to Al Meezan						
- management company of the Fund	15,823	-	2,921	-	18,744	10,714
Payable to CDC - trustee of the Fund	63	-	-	-	63	62
Payable to MBL	-	-	-	-	-	252
Payable on redemption of units	-	-	-	-	-	1
Payable against purchase of investments	-	-	-	-	-	865
Accrued expenses and other liabilities	366	-	-	-	366	234
2010	<u>16,252</u>	<u>-</u>	<u>2,921</u>	<u>-</u>	<u>19,173</u>	<u>12,128</u>
June 30, 2009	<u>9,207</u>	<u>-</u>	<u>-</u>	<u>2,921</u>	<u>12,128</u>	

## 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 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 reporting date are disclosed in note 7.1 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 (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 net assets of the Fund will increase / decrease by approximately Rs 0.05 million (2009: decrease / increase approximately Rs 0.05 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 all index increase / 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 effects cashflows pertaining to financial instruments and their fair values.

#### Cash flow interest rate risk

The fund's interest risk arises from the balances in savings accounts and investment in murabaha agreements.

During the year ended June 30, 2010, the net assets of the Fund will increase / decrease by Rs 3.002 million (2009: Rs 2.671 million) if the interest rate on murabaha (capital protection segment) increase / decrease by five percent.

During the year ended June 30, 2010, the net income would have been increased / (decreased) by Rs 0.031 million (2009: Rs 0.051 million) had the interest rates on profit and loss savings accounts increased / (decreased) by five percent.

## 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 share 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 are to safeguard its ability to continue as a going concern for a period of 3 years and 6 weeks 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, 2008, the Fund is required to distribute at least ninety percent of its income from sources other than capital gain whether realised or unrealised as reduced by such expenses as are chargeable to the Fund.

In accordance with risk management policies stated above, 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

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

Effective July 1, 2009, the Fund adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of assets and liabilities at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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 measured at fair value are classified under level 1 as at June 30, 2010.

21. PERFORMANCE TABLE	2010	2009	2008
Net assets value (Rs '000) (ex-distribution)*	636,641	582,284	579,207
Net assets value as at June 30 (Rs) (ex-distribution)*	50.79	49.83	49.80
Offer price per unit as at 30 June (Rs) (ex-distribution)*	N/A	51.32	51.29
Redemption price per unit as at 30 June (Rs) (ex-distribution)*	49.27	47.84	47.31
<b>Distribution (%)</b>			
- Annual	12.10	0.70	-
Date of distribution (annual)	July 7, 2010	July 6, 2009	-
Highest offer price per unit (Rs)	N/A	51.69	51.69
Lowest offer price per unit (Rs)	N/A	47.33	50.32
Highest redemption price per unit (Rs)	55.22	48.17	50.18
Lowest redemption price per unit (Rs)	48.71	43.65	48.85
Total return (%)	14.07	0.76	(2.81)

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

	One Year	Two Years	Three Years
Average annual return (%)	14.07	7.21	3.76

#### Investment portfolio composition of the Fund

Investment portfolio composition of the Fund is as described in note 7.

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:

	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Twenty years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA Level 2 / MBA	Forteen years
3. Ms. Sanam Ali Zaib	Head of Research	CFA Level 2 / MBA	Six years
4. Ms. Madiha Jawed	Manager Research and Product Development	CFA / FRM / BBA	Three years
5. Miss Ayesha Irfan *	Manager Investments and Research	MBA	Two years
6. Mr. Muhammad Ali *	AVP Investments	CFA / FRM / MBA / MS	Sixteen years

\* These member have been appointed in the Investment Committee subsequent to the year end on August 17, 2010.

22.2 The Fund Manager of the Fund is Ms. Aysha Irfan. Other funds being managed by the Fund Manager is Meezan Balanced Fund

<b>23. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE</b>	<b>2010</b>
	<b>%</b>
<b>Broker's name</b>	
KASB Securities Limited	15.32
Invisor Securities (Private) Limited	13.32
Invest Capital Investment Bank Limited	12.25
Invest & Finance Securities Limited	10.35
Foundation Securities (Private) Limited	8.43
Ample Securities (Private) Limited	6.06
JS Global Capital Limited	4.95
Fortune Securities Limited	4.49
Arif Habib Securities Limited	4.30
Ismail Iqbal (Private) Limited	4.28
	<b>2009</b>
	<b>%</b>
<b>Broker's name</b>	
Invest & Finance Securities Limited	22.84
Invest Capital Investment Bank Limited	17.27
Foundation Securities (Private) Limited	9.82
Ample Securities (Private) Limited	9.56
AKD Securities Limited	8.10
JS Global Capital Limited	5.70
Taurus Securities Limited	5.48
Invisor Securities (Private) Limited	4.72
Elixir Securities Pakistan (Private) Limited	4.48
Global Securities Pakistan Limited	2.90

#### 24. PATTERN OF UNITHOLDING

As at June 30, 2010

	Number of investors	Investment amount (Rupees in '000)	% of total investment
Individuals	553	143,392	22.52
Associated companies/directors	4	286,745	45.04
Insurance companies	4	33,342	5.24
Bank / DFIs	1	568	0.09
NBFCs	2	19,975	3.14
Retirement funds	12	31,540	4.95
Others	8	121,079	19.02
<b>Total</b>	<b>584</b>	<b>636,641</b>	<b>100.00</b>

## As at June 30, 2009

	Number of investors	Investment amount (Rupees in '000)	% of total investment
Individuals	503	149,788	25.72
Associated companies / directors	2	9,574	1.65
Insurance companies	2	29,229	5.02
Banks / DFIs	1	250,880	43.09
NBFCs	2	9,743	1.67
Retirement funds	12	27,650	4.75
Others	5	105,420	18.10
<b>Total</b>	<b>527</b>	<b>582,284</b>	<b>100.00</b>

## 25. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present therein-----									
		Jul 6, 2009	Aug 20, 2009	Sep 1, 2009	Oct 9, 2009	Oct 20, 2009	Nov 16, 2009	Dec 08, 2009	Feb 15, 2010	Apr 27, 2010	
Mr. Ariful Islam	Chairman	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Mr. Mohammad Shoab	Chief Executive	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Mr. Tasnimul Haq Farooqui *	Director	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No	
Mr. Aliuddin Ansari	Director	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Mr. P. Ahmed **	Director	No	No	No	No	No	Yes	Yes	Yes	Yes	
Mr. Rana Ahmed Humayun *	Director	No	No	No	No	No	No	No	No	Yes	
Mr. Rizwan Ata	Director	Yes	Yes	No	No	Yes	No	No	No	Yes	
Mr. Mazhar Sharif	Director	Yes	No	Yes	Yes	No	Yes	No	Yes	Yes	
Syed Owais Wasti **	Director	Yes	Yes	Yes	Yes	Yes	No	No	No	No	

\* During the year Mr. Tasnimul Haq Farooqui resigned and his place Mr. Rana Ahmed Humayun was appointed as Director for the remaining term of the Board.

\*\* During the year Syed Owais Wasti resigned and his place Mr. P. Ahmed was appointed as Director for the remaining term of the Board.

## 26. NON ADJUSTING EVENT

The Board of Directors in its meeting held on July 7, 2010 has announced a payout of 12.10 % (2009: 0.70 %) amounting to Rs 67.765 million (2009: Rs 4.062 million) equivalent to 1,334,222 bonus units (2009: 81,511 bonus units). The financial statements for the year ended June 30, 2010 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2011.



	2010	2009
The effect of issue of bonus units is as follows:		
	<b><u>Number of units</u></b>	
Number of units in issue before bonus units	<u>11,200,846</u>	<u>11,604,852</u>
Number of units in issue after bonus units	<u>12,535,068</u>	<u>11,686,363</u>
	<b>Rupees</b>	
Net assets value per unit before bonus issue	<u>56.84</u>	<u>50.18</u>
Net assets value per unit after bonus issue	<u>50.79</u>	<u>49.83</u>

## 27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 28, 2010 by the Board of Directors of the management company.

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

**Mohammad Shoaib, CFA  
Chief Executive**

**Mazhar Sharif  
Director**