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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) 5630722-6, 111-MEEZAN  
Fax: (9221) 5676143, 5630808  
Web site: www.almeezangroup.com  
E-mail: info@almeezangroup.com

## BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Chairman
Mr. Mohammad Shoaib, CFA	Chief Executive
Mr. Tasnimul Haq Farooqui	Director
Mr. Aliuddin Ansari	Director
Mr. Rizwan Ata	Director
Mr. Mazhar Sharif	Director
Syed Owais Wasti	Director

## CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

## AUDIT COMMITTEE

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

## TRUSTEE

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

## AUDITORS

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

## SHARIAH ADVISER

Meezan Bank Limited

## BANKERS TO THE FUND

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

## TRANSFER AGENT

Meezan Bank Limited  
37-A, Lalazar Branch, Lalazar Area,  
Off: M.T. Khan Road, Karachi, Pakistan.  
Phone: (9221) 5610582, 5610417  
Fax: (9221) 5611427  
Web site: www.meezanbank.com

## DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited



## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE PERIOD ENDED JUNE 30, 2008

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 period ended June 30, 2008.

### **Economic and Equity Market Review**

Despite international economic slowdown, Pakistan managed a GDP growth of 5.8% in FY08 as against 7%, a year earlier. The decline in GDP growth this year is mainly attributed to the slow down in key sectors, mainly agriculture and manufacturing. Nonetheless, service sector has again posted an impressive growth of 8.6%, which accounts for 53% of GDP growth.

The KSE 100 index, after posting an outstanding average return of 48% per annum for six consecutive years, marked the end of FY08 with a negative return of 11% YoY, closing at 12,289. Market capitalization during the year declined by 17% to US\$ 55.3 bn while the average daily turnover for the year stood at 241 mn shares, an increase of 14% YoY. The market remained volatile during the year due to political uncertainty, judicial crisis, imposition of emergency and the assassination of former prime minister Benazir Bhutto.

Although peaceful elections and creation of broad based coalition government led to a rebound in the stock market, the situation soon reversed as the country was faced with economic challenges mainly due to hikes in international crude oil and commodity prices, which led to inflationary pressures and widening current account deficit. Moreover, concerns regarding the deteriorating balance of payment position and the weakening of rupee led to further tightening of monetary policy, resulting in the weakening of the stock market.

The KSE 100 Index touched the lowest level of the year of 11,162 on June 23, 2008. To arrest the free fall of the market near year end, SECP took market stabilization measures. The market responded positively recording the highest single day increase of 960 points (9.6%), and eventually managed to close above 12,000 points.

### **Outlook**

Pakistan economy is facing an uphill task. However, we are optimistic about the long term growth trend in the economy. Therefore we remain confident about the future prospects of the stock market in general and of Meezan Capital Protected Fund-I in particular. Future direction of the market is likely to be driven by growth prospects, political stability, improved balance of payment and foreign investment. We continue to see the value in Pakistani equities and remain positive on the basis of relative attractive valuations and continuing double-digit earnings growth of listed companies.



## 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:

1. These financial statements, prepared by the management of 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 unitholders' fund.
2. The Fund has maintained proper books of accounts.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards and International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.
8. The Board of Directors and employees of the management company have signed "Statement of Ethics and Business Practices".
9. As the Fund suffered a loss during the relevant period, no distribution was made by the fund either in the form of dividend declaration or bonus shares issuance.
10. Purchase 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 is provided as follows:

Trades by		Number of units invested	Number of units redeemed
Mr. Mohammad Shoaib, CFA	Chief Executive	9,709	-

11. Pattern of holding of units as on June 30, 2008 is given on page no. 07 of the financial statements

## **Board Meetings**

Please refer to note no. 22 of the financial statements.

## **Appointment of Auditors**

The present auditors, M/s A.F. Ferguson & Co., Chartered Accountants retire and being eligible, offer themselves for reappointment. As recommended by the Audit Committee, the Board of Directors has approved their appointment as auditors of the Fund for the year ending June 30, 2009.

## **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 firm in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan, MCPF-I's trustee, Central Depository Company of Pakistan and management of Karachi Stock Exchange for all their support and guidance. Last but not the least; we would like to place on record our gratitude for Justice (Retd.) Muhammad Taqi Usmani, in special and other members of the Shariah Board of Meezan Bank Limited in general, for their continued guidance on Shariah aspects of fund management.

For and on behalf of the Board

**Karachi.**  
**August 7, 2008**

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

**PATTERN OF HOLDINGS (UNITS) AS PER REQUIREMENT  
OF THE CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2008**

Units held by	Units held
<b>Individuals</b>	3,186,502
<b>Associated companies</b>	
- Meezan Bank Limited	5,000,000
<b>Chief Executive Officer</b>	
- Mr. Mohammad Shoaib, CFA	9,709
<b>Public limited companies and corporations</b>	2,120,359
<b>Insurance companies</b>	679,612
<b>Retirement trusts</b>	547,558
<b>Charitable organisations</b>	87,456
<b>Total</b>	<b>11,631,196</b>

**PATTERN OF HOLDING (UNITS) BY SIZE  
AS ON JUNE 30, 2008**

No. of Shareholders	Unit holding		Units held	Percentage
	From	To		
43	1	100	4,184	0.0360
110	101	500	35,904	0.3087
75	501	1,000	68,762	0.5912
160	1,001	5,000	414,410	3.5629
74	5,001	10,000	558,272	4.7998
18	10,001	15,000	204,032	1.7542
33	15,001	20,000	627,061	5.3912
11	20,001	50,000	427,975	3.6795
6	50,001	75,000	392,483	3.3744
6	75,001	100,000	680,915	5.8542
5	100,001	300,000	1,213,592	10.4339
0	300,001	1,000,000	-	-
3	1,000,001	5,000,000	7,003,606	60.2140
<b>544</b>			<b>11,631,196</b>	<b>100.0000</b>





## REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2008

Meezan Capital Protected Fund - I 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 capital protection has been provided by Meezan Bank Limited, the largest Islamic Bank in the country with medium to long term credit rating of A+ and short term credit rating of A-1 from JCR - VIS.

The objective of MCPF-I is to provide the maximum total return to the unit holders from investment in Shariah compliant investments with capital protection of investment upon maturity, while abiding by the Non-Banking Finance Companies Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations, 2007 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.

### Implementation & Sector Allocation

During the period under review the Fund entered into Murabaha agreement with Meezan Bank Limited to ensure capital protection of the investment while the remaining amounts were invested in equity market. During the period under review, the growth segment of MCPF - I maintained significant exposure in equities with proactive rebalancing in oil and fertilizer sectors in order to benefit from rising international oil and fertilizer prices.

### Equity Market Review

The KSE 100 index, after posting an outstanding average return of 48% per annum for six consecutive years, marked the end of FY08 with a negative return of 11% YoY, closing at 12,289. During the same period, Dow Jones Islamic Market Pakistan Index, an index of Shariah compliant companies listed on Karachi Stock Exchange, registered an increase of 0.92%. Market capitalization during the year declined by 17% to US\$ 55.3 bn. Average daily turnover for the year stood at 241 mn shares, 14% higher than previous year's average of 211 mn shares.

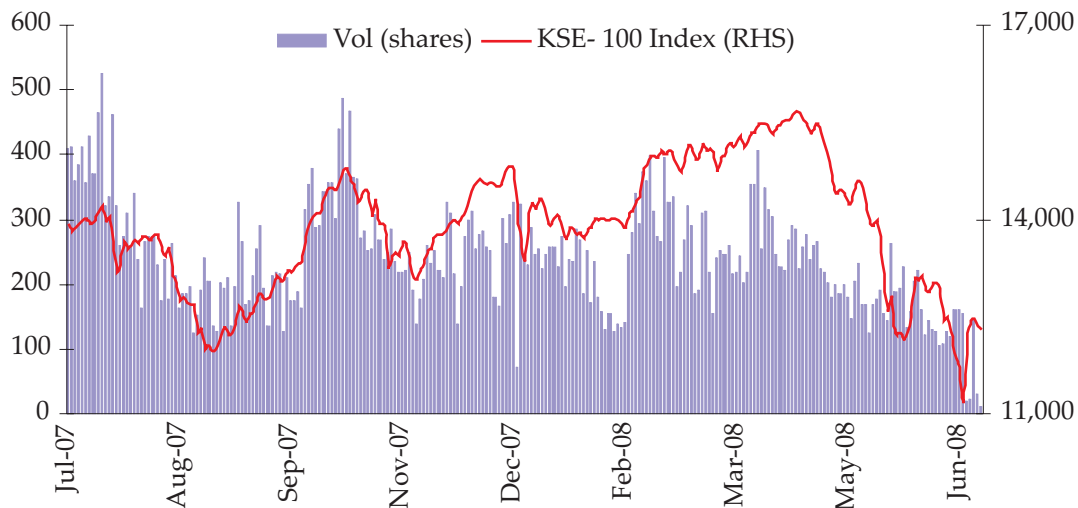
The market started with positive momentum but soon sentiments turned bearish as political uncertainty and judicial issue started to impact the market. Later, President's re-election led to stock market recovery which was short lived by the news of imposition of emergency and subsequently the assassination of former prime minister Benazir Bhutto; both events were followed by stock market losing over 600 points. Turn of the calendar year brought some relief to the market. Peaceful elections and creation of broad based coalition government led to a rebound in the stock market post elections with the index reaching its all time high of 15,676 on April 18, 2008.



After elections, the country was faced with economic challenges mainly due to hikes in international crude oil and commodity prices, which led to inflationary pressures. Moreover, concerns regarding the deteriorating balance of payment position and the weakening rupee led to a further tightening of monetary policy by increasing discount rate and reserve requirements. This resulted in the weakening of the stock market.

In early June, the news that capital gains tax was postponed for two more years helped in rebound of the market, but the rally could not sustain in the backdrop of rising inflation and interest rate worries. The KSE 100 Index touched the lowest level for the year of 11,162 as on June 23, 2008. To arrest the free fall of the market near year end, SECP took market stabilization measures. The market responded positively recording the highest single day increase of 960 points (9.6%), and eventually managed to close above 12,000 points. Overall during the year, the KSE 100 index was down 11%, to close at 12,289.

**KSE-100 Index Performance during FY08**



**Economic Review**

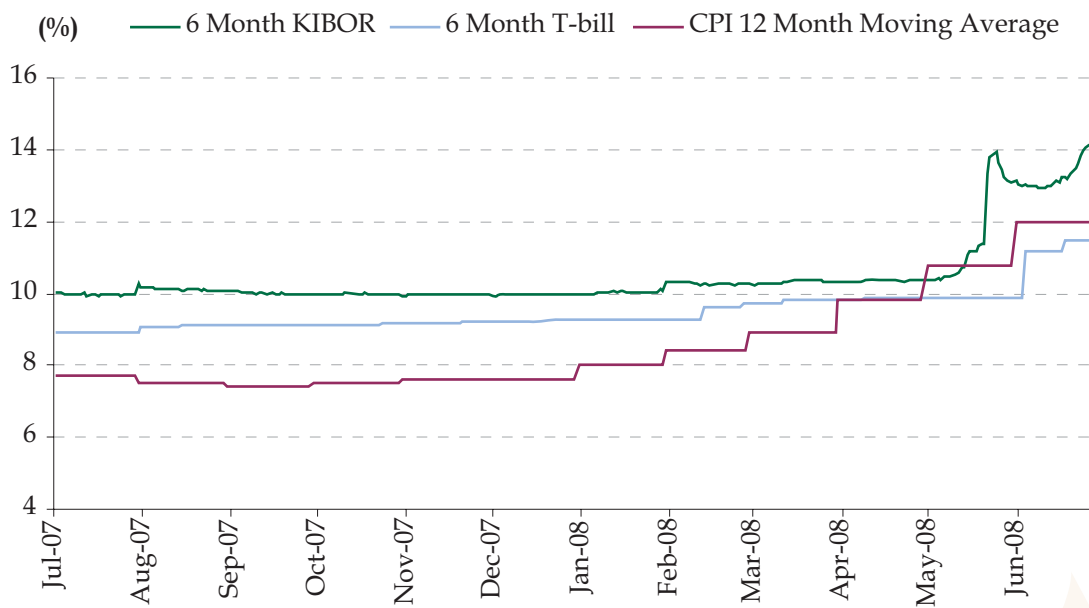
Despite international economic slowdown, Pakistan managed a GDP growth of 5.8% in FY08 as against 7%, a year earlier. The decline in GDP growth this year is mainly attributed to the slow down in key sectors, mainly agriculture and manufacturing. Nonetheless, service sector has again posted an impressive growth of 8.6%, which accounts for 53% of GDP growth.

The current account deficit has reached US \$ 14.01bn for FY08, almost twice as much as in the previous year. The main reason for widening current account deficit is the worsening of trade balance. Due to the extraordinary increase in international crude oil and food prices, Pakistan's trade deficit for FY08 reached US\$20.7 bn resulting in reduction of foreign exchange reserves from US\$15.7 bn in July 2007 to US\$11.2 bn in June 2008. This created further pressure on PKR value against US dollar, thus depreciating PKR by 12.7%. The economy was further hurt by the uncertain political situation as foreign investors remained cautious during the year, resulting in a decline in foreign direct and portfolio investment. However, the inflows of remittances remained strong and provided some support to the balance of payment situation, recording the highest ever amount of US\$6.45bn, 18% more than last year. More importantly, Government of Pakistan successfully achieved its unprecedented tax collection target of PKR 1 trillion, which also helped in providing some relief to the burgeoning budget deficit.

## Monetary Tightening

These are challenging times for the monetary authority. The inflation continues to inch upward primarily at the back of surging oil and food prices. The FY 08 inflation is 12% which is 5.4% more than the target of 6.6%. In order to curb inflation, State Bank of Pakistan (SBP) continued its monetary tightening to arrest the inflationary effect and increased the discount rate thrice in last one year from 9.5% to 12%. Going forward, in order to ensure a conservative budget deficit and to curtail its borrowings, the government aims to phase out subsidies through price adjustment of fuel. The concerted measures by GoP and central bank will have positive spill over effects on economy.

### Trends in 6-month KIBOR, 6-Month T-bill and CPI



## Performance Review

Meezan Capital Protected Fund - I (MCPF-I) yielded an NAV based return of -0.4% during the short period under review from May 08, 2008 to June 30, 2008. The Fund's returns are net of all expenses.

For the period ended June 30, 2008, the Fund earned gross income of PKR 6.681 mn, main contributors of which was profit on Murabaha with Meezan Bank Limited of PKR 3.190 mn. After accounting for expenses of PKR 2.034 mn and revaluation loss of PKR 6.499 mn the Fund recorded a net loss of PKR 2.353 mn for the period. This translates into loss per Unit of PKR 0.20. The net assets of MCPF-I as at June 30, 2008 stood at PKR 578 mn which translates into net asset value per unit of PKR 49.80.

## **Future Outlook**

Pakistan economy is facing an uphill task. However, we are optimistic about the long term growth trend in the economy. Therefore we remain confident about the future prospects of the stock market in general and of Meezan Capital Protected Fund-I in particular. Future direction of the market is likely to be driven by growth prospects, political stability, improved balance of payment and foreign investment. We continue to see the value in Pakistani equities and remain positive on the basis of relative attractive valuations and continuing double-digit earnings growth of listed companies.

## **Unitholdings by size**

Pattern of holding of units by size as on June 30, 2008 is given on page no. 08 of the financial statements.

## REPORT OF THE SHARIAH ADVISER

Karachi

September 10, 2008 / Ramadhan 09, 1429

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

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

- i. We have reviewed and approved the modes of investments of MCPF-I in the light of Shariah requirements. The following is a list of stock investments of MCPF-I as on June 30, 2008 and their evaluation according to the screening criteria established by us. (The latest accounts of the investee companies available as on March 31, 2008 have been used for the following calculations):

Company Name	(i)	(ii)*	(iii)	(iv)	(v)	(vi)	
	Nature of Business	Debt to Assets (<40%)	Illiquid Assets to Total Assets (>20%)	Non-Compliant Income to Gross Revenue (<5%)	% of Non-Shariah Compliant Investments (<33%)	Net Liquid Assets vs. Share Price (B>A)	Share Market Price (B)
						Net Liquid Assets per Share (A)	
D.G. Khan Cement Company Limited	Cement Manufacturer	30.42%	98%	4.86%	4.74%	(72.86)	94.70
Engro Chemical Pakistan Limited	Manufacturers of Fertilizers and Chemicals	38.94%	82%	1.56%	8.45%	(118.18)	323.9
Fauji Fertilizer Bin Qasim Limited	Manufacturers of Fertilizers	27.92%	81.31%	4.26%	13.1%	(16.18)	42.05
Fauji Fertilizer Company Limited	Manufacturers of Fertilizers	24.00%	78%	0.91%	5.88%	(20.39)	118.75
ICI Pakistan Limited	Manufacturers of Paints, Soda Ash, Staple Fibre and Chemicals	0.00%	64.05%	0.17%	0.01%	2.63	196.65
Indus Motors Company Limited	Automobile Assembling	0.01%	55.74%	2.21%	0.00%	11.49	319.2
Nishat Mills Limited	Manufacturers of Textile Products	23.79%	94.69%	1857%	4.61%	(58.68)	105.2
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	63%	1.73%	2.02%	3.06	119.45
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.21%	75.82%	4.41%	3.93%	1.27	261.05
Pakistan Telecommunication Company Limited	Telecom	1.90%	59.5%	3.45%	0.00%	(1.59)	42.05

\* All interest based debts

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

- ii. The capital protection segment of the Fund is covered through Murabaha transaction of Shariah compliant securities with Meezan Bank Ltd. Documents and procedure of this arrangement has been evaluated by us and found to be in compliance with the principles of Shari'ah. The capital is protected through structure and is not guaranteed.
- iii. On the basis of information provided by the management, all operations of MCPF-I for the period ended June 30, 2008 have been in compliance with the Shariah principles.

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

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

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

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 Adviser of Meezan Capital Protected Fund-I for the period May 8 to June 30, 2008.

### *Management company's responsibility*

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

### *Responsibility of independent assurance providers*

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

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

### *Conclusion*

In our opinion, the Fund was, in all material respect, in compliance with the Shariah guidelines issued by the Shariah Adviser of the Fund for the period May 8 to June 30, 2008.

**A. F. Ferguson & Co.**  
Chartered Accountants  
Karachi, September 11, 2008

## TRUSTEE REPORT TO THE UNIT HOLDERS

### MEEZAN CAPITAL PROTECTED FUND-I

#### **Report of the Trustee pursuant to Regulation 58(f) and Clause 9 of Schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007**

Meezan Capital Protected Fund-I (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 period from May 08, 2008 to June 30, 2008 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, 2007 and the constitutive documents of the Fund.

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

Karachi, September 08, 2008



## STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE FOR THE PERIOD MAY 8, 2008 TO JUNE 30, 2008

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 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 non-executive directors. All the directors except the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are non-executive directors.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the management company.
3. All the existing resident directors of the management company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. No casual vacancy occurred during the period from May 8, 2008 to June 30, 2008 on the Board of the management company of the Fund.
5. The Board has formulated a Statement of Ethics and Business Practices for the management company, which has been signed by the existing directors and employees of the management company.
6. The Board of the management company has developed a vision and mission statement. The investment policy of the Fund has been disclosed in the offering document, while other significant policies have also been formalized and have been adopted by the Board.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO of the management company, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The orientation course for the directors of the management company was arranged during the year ended June 30, 2007.
10. The Board has approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary of the management company, including his remuneration and terms and conditions of the employment as determined by the CEO.



11. The directors' report relating to the Fund, for the year ended June 30, 2008 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 holding (units).
14. The management company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The Board has formed an audit committee. It comprises of three non-executive directors of the management company as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the Board of the management company and advised to the committee for compliance.
17. The Board has outsourced the internal audit function of the Fund to a firm of Chartered Accountants.
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. We confirm that all other material principles contained in the Code have been complied with.

**Mohammad Shoaib, CFA**  
Chief Executive

**Syed Owais Wasti**  
Chief Financial Officer

Karachi.  
August 07, 2008

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance 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. 37 of the Karachi Stock Exchange where the Fund is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the management company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period May 8 to June 30, 2008.

**A. F. Ferguson & Co.**

Chartered Accountants

Karachi, September 11, 2008

## INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS

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, 2008, and the related income statement, distribution statement, statement of movement in unitholder's fund and cash flow statement for the period May 8 to June 30, 2008, 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 requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations), and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *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, 2008 and of its financial performance, cash flows and transactions for the period May 8 to June 30, 2008 in accordance with approved accounting standards as applicable in Pakistan.

### *Other matters*

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

**A. F. Ferguson & Co.**  
Chartered Accountants  
Karachi, September 11, 2008

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2008

	Note	2008 (Rupees in '000)
<b>Assets</b>		
<b>Capital protection segment</b>		
Loans and receivables originated by the enterprise	5	346,220
<b>Investment segment</b>		
Balances with banks	6	142,831
Investments at fair value through profit or loss	7	96,243
Profit receivable on savings accounts		498
		239,572
Dividend receivable		2,052
Deposit with CDC		100
Preliminary expenses and floatation costs	8	2,784
<b>Total assets</b>		590,728
<b>Liabilities</b>		
Payable to Al Meezan Investment Management Limited - management company of the Fund	9	4,988
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund	10	77
Payable to Meezan Bank Limited - Shariah adviser of the Fund	11	5,604
Payable to Securities and Exchange Commission of Pakistan	12	59
Accrued expenses and other liabilities	13	793
<b>Total liabilities</b>		11,521
<b>Net assets</b>		579,207
<b>Unitholders' funds (as per statement attached)</b>		579,207
		<b>Number of units</b>
<b>Number of units in issue</b>	15	11,631,196
		<b>Rupees</b>
<b>Net assets value per unit</b>		49.80

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

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

## INCOME STATEMENT FOR THE PERIOD MAY 8 TO JUNE 30, 2008

		For the period May 8 to June 30, 2008 Note (Rupees in '000)
<b>Income</b>		
Net realised gain on sale of investments		430
Dividend income		1,506
Profit on savings accounts with banks		1,089
Profit on murabaha		<u>3,190</u>
		6,215
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)		<u>(6,499)</u>
<b>Total income</b>		<u>(284)</u>
<b>Expenses</b>		
Remuneration to Al Meezan Investment Management Limited - management company of the Fund	9	339
Remuneration to Central Depository Company of Pakistan Limited - trustee of the Fund	10	77
Remuneration to Meezan Bank Limited - Shariah adviser of the Fund	11.1 & 11.2	419
Annual fee to Securities and Exchange Commission of Pakistan	12	59
Auditors' remuneration	14	225
Fees and subscription		38
Legal and professional charges		40
Amortisation of preliminary expenses and floatation costs	8	137
Brokerage		169
Bank and settlement charges		26
Printing charges		39
<b>Total expenses</b>		<u>1,568</u>
<b>Net loss from operating activities</b>		<u>(1,852)</u>
Element of (loss) and capital (losses) included in prices of units issued less those in units redeemed		<u>(501)</u>
<b>Net loss</b>		<u><u>(2,353)</u></u>
<b>Loss per unit outstanding - basic (Rupees)</b>		<u><u>(0.20)</u></u>

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

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

Chief Executive

Director

**DISTRIBUTION STATEMENT  
FOR THE PERIOD MAY 8 TO JUNE 30, 2008**

**For the period  
May 8 to  
June 30, 2008  
(Rupees in '000)**

**Net loss for the period carried forward** (2,353)

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

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

**Chief Executive**

**Director**

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE PERIOD MAY 8 TO JUNE 30, 2008

	For the period May 8 to June 30, 2008 (Rupees in '000)
Issue of 11,631,196 units	581,059
Element of loss and capital losses included in prices of units issued less those in units redeemed	501
Net loss for the period	(2,353)
<b>Net assets at the end of the period</b>	<u><u>579,207</u></u>
<b>Net assets value per unit at the end of the period</b>	<u><u>49.80</u></u>

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

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

**Chief Executive**

**Director**



## CASH FLOW STATEMENT FOR THE PERIOD MAY 8 TO JUNE 30, 2008

	Note	For the period May 8 to June 30, 2008 (Rupees in '000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss		(2,353)
<b>Adjustments for:</b>		
Dividend income		(1,506)
Profit on savings accounts with banks		(1,089)
Profit on murabaha		(3,190)
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)		6,499
Amortisation of preliminary expenses and floatation costs		137
Element of loss and capital losses included in prices of units issued less those in units redeemed		501
		(1,001)
<b>Increase in assets</b>		
Loans and receivables originated by the enterprise	5	(343,030)
Investments at fair value through profit or loss		(103,288)
Deposit with CDC		(100)
		(446,418)
<b>Increase in liabilities</b>		
Payable to Al Meezan Investment Management Limited - management company of the Fund		2,067
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund		77
Payable to Meezan Bank Limited - Shariah adviser of the Fund		5,604
Payable to Securities and Exchange Commission of Pakistan		59
Accrued expenses and other liabilities		793
		8,600
Profit received on savings accounts with banks		591
<b>Net cash outflow from operating activities</b>		<b>(438,228)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from sale of units		581,059
<b>Net cash inflow from financing activities</b>		<b>581,059</b>
Net cash inflow during the period		142,831
<b>Cash and cash equivalents at the end of the period</b>	6	<b>142,831</b>

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

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director



**MEEZAN**  
CAPITAL PROTECTED FUND-I

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD MAY 8 TO JUNE 30, 2008

### 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 Investment Management Limited (AMIML) as the management company and Central Depository Company of Pakistan Limited (CDC) as the trustee. The trust deed was executed on February 25, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund 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 at least '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.
- 1.4 These are the first financial statements of the Fund. These financial statements have been prepared from May 8, 2008, being the date on which the 'deposited property' was first transferred to the trustee. The management company of the Fund has been given quality rating of AM-2 and credit rating of A/A-2 by JCR - VIS. The Rating of the Fund has not been conducted as of June 30, 2008.
- 1.5 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

### 2. BASIS OF MEASUREMENT

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

### 3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the requirements of approved accounting standards as applicable in Pakistan, the trust deed, the NBFC Rules and NBFC Regulations and directives issued by the SECP. Approved accounting standards comprise of such International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as notified under the provisions of the Companies Ordinance, 1984. Whenever the requirements of the trust deed, the NBFC Rules and NBFC Regulations and the said directives differ with the requirements of these standards, the requirements of the trust deed, the NBFC Rules and NBFC Regulations and the said directives take precedence.

### 3.2 Standards, amendments and interpretations effective during the period May 8 to June 30, 2008;

There are certain new standards and interpretations that were mandatory for accounting period beginning on or after July 1, 2007 but are considered not to be relevant or have any significant effect on the Fund's operations and are therefore not disclosed in these financial statements.

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

IFRS 7, 'Financial instruments: Disclosures (effective from July 1, 2008) introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the financial instruments.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Accounting Convention

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

### 4.2 Critical accounting estimates and judgements

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

- (a) Classification and valuation of financial instruments (notes 4.3 and 7)
- (b) Impairment (note 4.3.5)
- (c) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.10)
- (d) Amortisation of preliminary expenses and floatation costs (notes 4.8 and 8)

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

### 4.3 Financial instruments

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

##### *a) Investments 'at fair value through profit or loss'*

##### **- Financial instruments "held for trading"**

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

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

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

**b) Held to maturity**

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

**c) Loans and receivables originated by the enterprise**

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. Changes in the fair value of instruments classified as 'available for sale' are recognised in equity until derecognised or impaired when the accumulated fair value adjustments recognised in equity are included in the income statement.

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

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

#### **4.3.4 Fair value measurement principles**

The fair value of marketable securities is based on their price quoted on the Karachi Stock Exchange at the balance sheet date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.



#### 4.3.5 Impairment

Impairment loss on investments other than 'available for sale' is recognised in the income statement whenever the carrying amount of investment exceeds its recoverable amount. If in a subsequent period, the amount of an impairment loss recognised decreases 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 income statement is removed from equity and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is recognised in equity.

#### 4.3.6 Derecognition

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

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

#### 4.4 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 Provisions

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

#### 4.8 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of three years and six weeks commencing from May 8, 2008 in accordance with the requirements of the trust deed of the Fund.

#### 4.9 Net assets value per unit

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

#### 4.10 Taxation

##### *Current*

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

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

##### *Deferred*

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

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

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

#### 4.11 Revenue recognition

- i. Gains / (losses) arising on sale of investments are included in income currently and are recognised on the date at which the transaction takes place.

- ii. Unrealised gains / (losses) arising on revaluation of securities classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- iii. Profit on savings accounts with banks is recorded on an accrual basis.
- iv. Dividend income is recognised at the time of closure of share transfer books of the the investee company.
- v. Profit on murabaha is recognised on an accrual basis over the term of the murabaha.

#### **4.12 Expenses**

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

#### **4.13 Offsetting of financial instruments**

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

#### **4.14 Zakat**

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

#### **4.15 Transactions with connected persons**

Transactions between the Fund and its connected persons, as defined in the NBFC Regulations, are carried out on an arm's length basis substantiated in a manner set out in note 18.

#### **4.16 Cash and cash equivalents**

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

#### **4.17 Dividend and bonus units**

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



2008  
Note (Rupees in '000)

5. **LOANS AND RECEIVABLES ORIGINATED BY THE ENTERPRISE**

Principal amount		343,030
Profit receivable	5.2	<u>3,190</u>
<b>Total</b>		<u><u>346,220</u></u>

5.1 For the purpose of capital protection, the Fund will allocate 76% of the initial fund size in murabaha with Meezan Bank Limited (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 @ 11.75% on maturity.

2008  
Note (Rupees in '000)

6. **BALANCES WITH BANKS**

On savings accounts	6.1	142,813
On current accounts		<u>18</u>
		<u><u>142,831</u></u>

6.1 The balances in savings accounts bear expected profit which ranges from 5% to 9.5% per annum.

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

7.1 **Shares in listed companies**

Name of the investee company	Purchases during the period	Bonus / rights issue	Sales during the period	As at June 30, 2008	Cost as at June 30, 2008	Market value as at June 30, 2008	Unrealised gain / (loss) as at June 30, 2008	Percentage of net assets on the basis of market value (see note 7.3 below)	Percentage of total investment
<b>Automobile assembler</b>									
Indus Motor Company Limited	10,000	-	3,810	6,190	1,765	1,238	(527)	0.21	1.29
<b>Textile Composite</b>									
Nishat Mills Limited	55,000	-	10,000	45,000	4,058	3,869	(189)	0.67	4.02
<b>Cement</b>									
DG Khan Cement Company Limited	32,000	-	-	32,000	2,481	2,149	(332)	0.37	2.23
<b>Chemical</b>									
ICI Pakistan Limited	14,800	-	-	14,800	2,484	2,388	(96)	0.41	2.48
<b>Technology and communication</b>									
Pakistan Telecommunication Company Limited 'A'	126,000	-	-	126,000	4,940	4,868	(72)	0.84	5.06
<b>Oil and gas exploration companies</b>									
Oil and Gas Development Company Limited	150,000	-	-	150,000	19,655	18,654	(1,001)	3.22	19.38
Pakistan Petroleum Limited	150,000	-	-	150,000	40,869	36,899	(3,970)	6.37	38.34
								9.59	57.72
<b>Fertilizer</b>									
Engro Chemical Pakistan Limited	33,000	-	-	33,000	9,875	9,267	(608)	1.60	9.63
Fauji Fertilizer Bin Qasim Company Limited	323,000	-	-	323,000	11,845	11,618	(227)	2.01	12.07
Fauji Fertilizer Company Limited	40,000	-	-	40,000	4,770	5,293	523	0.91	5.50
								4.52	27.20
<b>Total</b>					<u>102,742</u>	<u>96,243</u>	<u>(6,499)</u>		



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

7.3 Net assets are as defined in regulation 2 (xxvi) of NBFC Regulations.

		2008
8.	PRELIMINARY EXPENSES AND FLOATATION COSTS	(Rupees in '000)
	Note	
Preliminary expenses and floatation costs	8.1	2,921
Less: Amortisation during the period		<u>137</u>
		<u><u>2,784</u></u>

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund, restricted to one percent of Pre-IPO capital and are being amortised over the life of the Fund (three years and six weeks) in accordance with the trust deed of the Fund.

		2008
9.	PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED - management company of the Fund	(Rupees in '000)
	Note	
Management fee	9.1	339
Sales load payable		1,728
Preliminary expenses and floatation costs		<u>2,921</u>
		<u><u>4,988</u></u>

9.1 Under the provisions of NBFC Regulations, the management company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five 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 net assets invested under the investment segment for the period May 8 to June 30, 2008.

**10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - trustee of the Fund**

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

		2008
11.	PAYABLE TO MEEZAN BANK LIMITED - Shariah adviser of the Fund	(Rupees in '000)
	Note	
Management fee	11.1	386
Sales load payable		5,185
Shariah advisory fee payable	11.2	<u>33</u>
		<u><u>5,604</u></u>

11.1 According to the agreement with MBL one percent per annum of net assets invested under the capital protection segment shall be payable to MBL.

11.2 Payable to MBL for providing technical services relating to shariah matters.

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

This represents annual fee at the rate of one tenth of one percent of the average annual net assets of the Fund payable to SECP under regulation 71 of NBFC Regulations.

		2008
13. ACCRUED EXPENSES AND OTHER LIABILITIES	Note	(Rupees in '000)
Auditors' remuneration		175
Charity payable	13.1	70
Withholding tax payable		3
Legal and professional charges payable		40
Profit payable to Pre-IPO and core investors		466
Printing charges payable		39
		<u>793</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 0.070 million is outstanding in this regard.

		2008
14. AUDITORS' REMUNERATION		(Rupees in '000)
Audit fee		100
Other certification		125
		<u>225</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, 2008 and their par values were as follows:

		2008
	Number of units	(Rupees in '000)
Class A units	11,631,196	<u>581,600</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 shall be continuously offered for public subscription till July 31, 2008.

	<b>For the period May 8 to June 30, 2008 (Rupees in '000)</b>
15.3 Number of units in issue	
Units issued during the period	<u>11,631,196</u>
<b>16. LOSS PER UNIT OUTSTANDING - BASIC</b>	<b>2008</b>
	<b>(Rupees in '000)</b>
Net loss for the period	<u>(2,353)</u>
	<b>(Number of units)</b>
Number of units in issue	<u>11,631,196</u>
	<b>(Rupees)</b>
Loss per unit outstanding - basic	<u>(0.20)</u>

#### **17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

The connected persons include AMIML 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 and Meezan Islamic Income Fund being the Funds under the common management of the management company and Pakistan Kuwait Investment Company (Private) Limited.

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

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

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

	<b>2008 (Rupees in '000)</b>
<b>Al Meezan Investment Management Limited</b>	
<b>- management company of the Fund</b>	
Remuneration payable	<u>339</u>
Sales load payable	<u>1,728</u>
Preliminary expenses and floatation cost	<u>2,921</u>
<b>Meezan Bank Limited - Shariah adviser of the Fund</b>	
Balances with bank	<u>11,399</u>
Remuneration payable	<u>386</u>
Shariah advisory fee payable	<u>33</u>
Sales load payable	<u>5,185</u>
Investment of 5,000,000 units	<u>248,989</u>
<b>Central Depository Company of Pakistan Limited</b>	
<b>- trustee of the Fund</b>	
Trustee fee payable	<u>77</u>
<b>Director</b>	
Investment of 9,709 units	<u>483</u>

**For the period  
May 8 to June 30,  
2008  
(Rupees in '000)**

**Al Meezan Investment Management Limited  
- management company of the Fund**

Remuneration for the period	339
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**Meezan Bank Limited - Shariah adviser of the Fund**

Profit on savings accounts	1,206
Remuneration for the period	386
Shariah advisory fee	33
Units issued: 5,000,000 units	250,000

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

Trustee fee	77
CDS charges	4

**Director**

Units issued: 9,709 units	500
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**18. RISK MANAGEMENT**

The Fund is a capital protected Fund, which has been launched with an objective to invest 76% of initial fund size in murabaha with Meezan Bank Limited. The remaining assets of the Fund are to be allocated to investment segment, which shall be invested in listed securities. Investment in shares of companies carries a risk that is considered higher than that of investment in debt securities. Capital invested in the stock market could, in extreme circumstances, lose its entire value.

Asset allocation is determined by the Fund Manager who manages the distribution of the assets to achieve the investment objectives. The Fund Manager invests in diversified securities thus reducing the risk associated with investing in the stock market.

The Fund's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The major types of financial risks to which the Fund is exposed are market risk, credit risk, liquidity risk and yield / interest rate risk. The risk management policies employed by the Fund are discussed below.

**18.1 Market risk**

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

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The primary objective of the Fund is to protect the capital of its unitholders through investment in Shariah compliant investments for the given level of risks. The Fund, in addition to equities, deferred sale transactions and riba free bank deposits, is also permitted to invest in TFCs, musharika, murabaha and other asset-backed securities allowed by SECP and confirmed as shariah compliant by the Fund's Shariah adviser, MBL. The Fund's market

risk is managed on a daily basis by the Fund Manager in accordance with the policies and procedures laid down by the SECP. The funds are allocated among various asset classes based on the attractiveness of the particular asset class. The allocation among these is dependent on the time horizon for investments and liquidity requirements of the portfolio. The market risk is managed by monitoring exposure to marketable securities, and by complying with the internal risk management policies and regulations laid down in NBFC Regulations. The risk is also mitigated by investing in consistent dividend paying companies having growth prospects and / or which are actively traded. The Fund's overall market positions are monitored on a monthly basis by the Board of Directors of the management company of the Fund.

Details of the Fund's investment portfolio at the balance sheet date are disclosed in note 7 to these financial statements.

### **18.2 Credit risk and concentration of credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund Manager has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The Fund receives a monthly rating update, against which investments are reviewed. Credit risk arising on financial assets is monitored through a regular analysis of financial position of brokers and other parties.

### **18.3 Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily creation and redemption of units and it is therefore exposed to the liquidity risk of meeting unitholder'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.

### **18.4 Capital Risk Management**

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

The Fund's objective 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 unitholders and to maintain a strong capital base to meet unexpected losses or opportunities.

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

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



## 18.5 Yield / interest rate risk

Yield / interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund is exposed to an insignificant yield / interest rate risk as it makes investments in equity securities.

	Interest rate (%)	Interest/mark-up bearing			Non-interest/mark-up bearing			Total 2008
		Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
<b>Financial assets</b>								
<b>Capital Protection Segment</b>								
Loans and receivables originated by the fund	11.75	-	346,220	346,220	-	-	-	346,220
<b>Investment Segment</b>								
Balances with banks	5 - 9.5	142,813	-	142,813	18	-	18	142,831
Investments at fair value through profit or loss		-	-	-	96,243	-	96,243	96,243
Profit receivable on savings accounts		-	-	-	498	-	498	498
Dividend receivable		-	-	-	2,052	-	2,052	2,052
Deposit with CDC		-	-	-	100	-	100	100
<b>2008</b>		<b>142,813</b>	<b>346,220</b>	<b>489,033</b>	<b>98,911</b>	<b>-</b>	<b>98,911</b>	<b>587,944</b>
<b>Financial liabilities</b>								
Payable to Al Meezan Investment Management Limited - Management Company of the Fund		-	-	-	4,988	-	4,988	4,988
Payable to Central Depository Company of Pakistan Limited - trustee of the Fund		-	-	-	77	-	77	77
Payable to Meezan Bank Limited - Shariah adviser of the Fund		-	-	-	5,604	-	5,604	5,604
Accrued expenses and other liabilities		-	-	-	790	-	790	790
<b>2008</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>11,459</b>	<b>-</b>	<b>11,459</b>	<b>11,459</b>

## 19. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

## 20. PERFORMANCE TABLE

	2008
Net assets (Rs. '000) (ex-distribution)	579,207
Net assets value / redemption price per unit as at June, 30 (Rs.) (ex-distribution)	49.80
Offer price per unit as at June, 30 (Rs.) (ex-distribution)	51.29
Distribution (%)	
- Interim	-
- Annual	-
Highest offer price per unit (Rs.)	51.69
Lowest offer price per unit (Rs.)	50.32
Highest redemption price per unit (Rs.)	50.18
Lowest redemption price per unit (Rs.)	48.85
Total return (%)	(0.04)
Earnings per unit outstanding	(0.20)
Average annual return (%)	-

## 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 that unit prices and investment returns may do down as well as up as described in note 18.

## 21. INVESTMENT COMMITTEE MEMBERS

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

	Designation	2008 Qualification	Experience in years
1. Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Eighteen years
2. Mr. Muhammad Asad	Chief Investment Officer	MBA	Twelve years
3. Mr. Zaheeruddin Khalid	Head of Research and Product Development Department	CFA / MBA	Six years

21.2 The Fund Manager of the Fund is Syed Talal Mehdi, Esq. Other funds being managed by the Fund Manager are as follows:

- Meezan Tahaffuz Pension Fund
- Meezan Balanced Fund

## 22. DETAIL OF MEETINGS OF BOARD OF DIRECTORS

The Fund was launched on May 08, 2008 and no Board meeting has been conducted during the period from May 08, 2008 to June 30, 2008.

## 23. BROKERAGE COMMISSION BY PERCENTAGE

Broker's name	2008 %
Invest Finance Securities Limited	58.55
KASB Securities Limited	15.13
Ample Securities (Private) Limited	13.22
Taurus Securities Limited	5.82
Invisor Securities (Private) Limited	4.70
First Capital Equities Limited	1.68
Foundation Securities (Private) Limited	0.90

## 24. PATTERN OF UNITHOLDING

	----- (2008) -----		
	Number of investors	Investment amount (Rupees in '000)	% of total investment
Individuals	517	158,285	27.33
Associated companies / directors	1	483	0.08
Insurance companies	3	33,843	5.84
Banks / DFIs	1	248,989	42.99
NBFCs	-	-	-
Retirement funds	12	27,441	4.74
Public limited companies	1	4,835	0.83
Others	7	105,331	18.19
<b>Total</b>	<b>542</b>	<b>579,207</b>	<b>100.00</b>

## 25. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on **August 07, 2008** by the Board of Directors of the management company.

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director