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### **Our Vision**

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

### **Our Mission**

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

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

### CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

### AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Syed Amir Ali	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

Dubai Islamic Bank Pakistan Limited  
Habib Metropolitan Bank Limited - Islamic Banking  
Meezan Bank Limited

### LEGAL ADVISER

Bawaney & Partners  
404, 4th Floor, Beaumont Plaza, 6-CL-10  
Beaumont Road, Civil Lines, Karachi - 75530  
Phone: (9221) 3565 7658-59  
Fax: (9221) 3565 7673  
E-mail: [bawaney@cyber.net.pk](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- II (MCPF-II) is pleased to present the reviewed financial statements of the fund for the half year ended December 31, 2011.

### Brief Overview

Meezan Capital protected Fund (MCPF-II) is a listed open end capital protected fund, investing primarily in Ijarah Sukuk, to ensure capital protection and shariah compliant listed equities to attain capital growth. The fund was launched on July 5, 2011. During the first half of fiscal year 2012, Meezan Capital Protected Fund- II (MCPF-II) provided a return of 3.3% to its investors.

### Economic Review

From the macroeconomic perspective, the first half of fiscal year 2012 depicted a mixed picture. The year started on a stark note with torrential rains hitting the province of Sindh, but positivity was brought in with inflation pressures easing off. Consumer Price Index (CPI) for the month of December 2011, touched a single digit figure, to post a twenty four month low of 9.75% taking the first half fiscal year 2012 average inflation to 10.9%. In addition to this, with the start of fiscal year, SBP initiated the process of monetary easing, cutting the policy rate by 200 basis points in two phases, to help in reviving the private sector credit off-take. But infrastructural issues and energy crisis continue to plague the economy and thereby no noticeable improvement was observed by the rate cut. The tax collection during the period under review stood at Rs 840 billion, which was up 27% year on year. Moreover, S&P affirmed its sovereign debt rating at B- for the country, reflecting adequate external liquidity in medium term supported by donor support.

On the other hand, country's current account (CA) deficit widened to USD 2.1 billion in six months as against a surplus of USD 8 million in the same period last year. The major reason for the weakness on the external front was the increasing trade gap in the first half of fiscal year, where the country's import bill surged by 17% as against 9% increase in export earnings. Remittances, however, remained robust totaling USD 6.3 billion in first half of fiscal year 2012, which was a 20% growth year on year. However, the impact of deferred import payments coupled with growing tension between Pak-US post NATO attack and end of IMF program, became visible in the form of sharp currency move as rupee lost 4.5% during first half of fiscal year to Rs 89.95/USD. The underlying unease in currency market was also led by the fact that loan repayment to IMF is due to start in February 2012 where cumulative USD 1.2 billion is scheduled to be repaid in the second half of fiscal year 2012. This also leads to concerns over further decline in forex reserves which currently stand at USD16.9 billion.

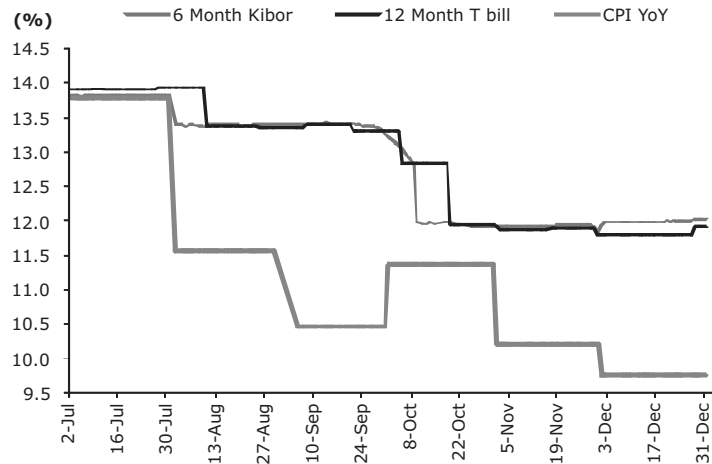
The government on its part remained engaged in talks with the IMF in November under Article IV Consultative meetings where the two sides agreed on policy measures to contain fiscal year 2012 fiscal deficit, a cautious monetary policy, and a responsive exchange rate to contain inflation and protect forex reserves.

### Money Market Review

In the first half of fiscal year 2012, the money market remained highly illiquid. To normalize the liquidity situation, State Bank of Pakistan (SBP) regularly conducted open market operations (OMOs). During the period, SBP conducted thirteen T-Bill auctions, five PIB auctions and one Ijarah Sukuk auction. Cumulatively, SBP accepted Rs 1,664 billion and Rs 70 billion in T-Bills and PIBs. In the Ijarah Sukuk auction, SBP accepted Rs 70 billion at par against the total participation of Rs 84 billion. The target of the auction was Rs 50 billion and first rental of the issue was set at 11.94%.

Moreover, lower inflation figures and limited government borrowing from banking sources forced the State Bank to adopt a soft monetary stance reducing the discount rate by a cumulative 200 basis points, in two phases. As a result, the cutoff rates of T-Bill and PIBs declined by 209 basis points and 139 basis points respectively to close at 11.67% and 12.7% as on December 31, 2011. In line with that, six month KIBOR also declined by 176 basis points to close the half year at 12.02%.

The following graph shows the trend in interest rate during the period:



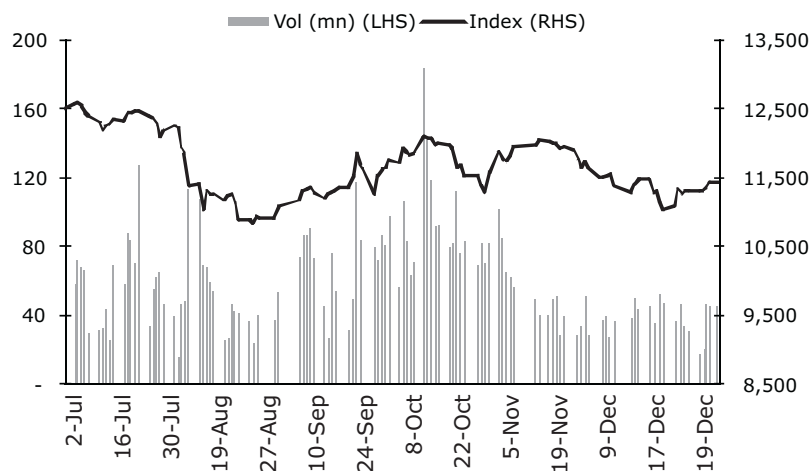
### Equity Market Review

The first half of the fiscal year 2012 proved to be a challenging period for the market as KSE-100 posted a negative return of 9.2% to close at the level of 11,348. Along with that, the average daily turnover hit a thirteen years low to 60 million shares, as compared to 92 million shares in the previous year, declining 35% year on year. The major underlying reason for the dismal market performance remained the net foreign portfolio outflow, weak economic numbers of the country, political uncertainty, strained Pak US relations and lack of clarity about Capital gain Tax (CGT) deduction. The index followed a range bound trajectory moving within a wide band of 12,576 and 10,842. On the other hand, Karachi Meezan Index (KMI-30) declined by 3.9% and closed at the level of 20,138.

The fiscal year started on an uncertain ground as the US economic slowdown and debt situation of some Euro zone countries resulted in massive selling in global equity markets with its repercussions on the local market as well. The lackluster market got some support from the monetary policy where the discount rate was revised downwards by a cumulative 200 basis points to 12%. However, the momentum in the market was short lived as the already strained Pak - US relationship took a further hit after NATO attacks along with uncertainty on political canvas arising from 'Memo gate Scandal' and NRO cases. The ramifications of all these events thus downplayed the investors' confidence.

The tense political situation and strained ties with US resulted in lack of materialization of capital inflows which exerted pressure on the balance of payment situation. This led to significant depreciation in the value of rupee which shed 4% against the USD during the period under review. As a result, the market reaction to the unexpected 200 basis points rate cut was largely muted and KSE-100 went down below the psychological level of 11,000 and made a low of 10,842. Later, news of correspondence between SECP and FBR regarding simplification of Capital Gain Tax (CGT) rules provided much needed respite to the market with the index marginally recovering and closing at the level of 11,347 on December 31, 2011. Foreigners were net sellers during the period under review, offloading USD 152 million worth of shares as against a net purchase of shares worth USD 238 million in the same period last year.

Fertilizer sector led by FFC, FFBL and Fatima remained in limelight on account of issue of gas curtailment and the resultant product price increase. The companies were among the top gainers appreciating by 6%, 11% and 38% respectively during the period. The only exception was Engro whose price depreciated by 41%. On the other hand, banking and telecom sectors were the major underperformers.



### **Performance Review**

Meezan Capital Protected Fund - II earned a total income of Rs 17 million in the first half of fiscal year 2012. The main contributors to total income were profit on GoP Ijara Sukuk, realized gain on sale of investments and dividend income amounting to Rs 15 million, Rs 3 million and Rs 4 million respectively. After accounting for expenses, the net income recorded by the fund was Rs 13 million for the period under review. As on December 31, 2011, net assets of the fund and net asset value (NAV) per unit stand at Rs 408 million and Rs 51.64 respectively.

### **Outlook**

Going forward, the key challenges grappling the economy remain the dwindling current account position and deterioration of the local currency. In addition to that, the prevalent political uncertainty will play a major role in setting forth the path to be taken. With some comfort from the inflationary concerns and monetary policy decision round the corner, we are of the view that the pressure on interest rate is expected to ease off. Restoring cordial ties with US and a positive report from IMF with regard to the letter of comfort can further add in the much needed positivity.

Lately, the finance minister agreed to some of the key proposals of SECP regarding the change in modalities of CGT. The implementation of the said measures, though will take some time, but will provide a great impetus to our stock market. Also, this will help in restoring the shaken investors' confidence along with the resurgence of volumes in the market. On the basis of earnings multiples and dividend yield, Pakistan continues to remain one of the cheapest market in the region, trading at a P/E multiple of 6.2x.

Our outlook for the remaining half of the fiscal year remains optimistic. The management of Al Meezan is fully cognizant of the challenges that lie ahead and is taking all possible measures to tackle them and ensuring its valuable unit holders' interest.

### **Acknowledgement**

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments making it the largest Islamic asset management company in the private sector in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan, Trustee, Central Depository Company of Pakistan for their support. Furthermore, we would 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: February 23, 2012**  
**Karachi.**

**Mohammad Shoab, CFA**  
**Chief Executive**

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office**

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

**TRUSTEE REPORT TO THE UNIT HOLDERS**

**MEEZAN CAPITAL PROTECTED FUND-II**

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

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Capital Protected Fund-II (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from July 05, 2011 to December 31, 2011 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi, February 09, 2012



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

**AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION**

**Introduction**

We have reviewed the accompanying condensed interim statement of assets and liabilities of Meezan Capital Protected Fund-II (the Fund) as at December 31, 2011 and the related condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds, condensed interim cash flow statement and the notes forming part thereof for the period July 5 to December 31, 2011 (here-in-after referred to as the 'condensed interim financial information'). The management company is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim financial information for the quarter ended December 31, 2011 has not been reviewed as we are required to review only the cumulative figures for the period July 5 to December 31, 2011.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

  
Chartered Accountants  
Karachi, February 24, 2012


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Islamabad: PLA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924  
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqat, Nahar-e-Darsan, Kurte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES**  
AS AT DECEMBER 31, 2011 (UNAUDITED - NOTE 3)

		December 30, 2011
Assets	Note	--- (Rupees in '000) ---
<b>Capital protection segment</b>		
Investments - 'available for sale'	5	304,107
Profit receivable from Government of Pakistan (GoP) Ijara Sukuk		4,222
		<u>308,329</u>
<b>Investment segment</b>		
Balances with banks		7,730
Investments - 'fair value through profit or loss'	6	87,587
Profit receivable on savings accounts		3,917
		99,234
Dividend receivable		37
Deposits with Central Depository Company of Pakistan Limited (CDC)		100
Deposits, prepayments and other receivables		117
Preliminary expenses and floatation costs		1,896
<b>Total assets</b>		<u>409,713</u>
<b>Liabilities</b>		
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund		630
Payable to CDC - trustee of the Fund		59
Payable to Securities and Exchange Commission of Pakistan (SECP)		141
Accrued expenses and other liabilities		918
<b>Total liabilities</b>		<u>1,748</u>
<b>Net assets</b>		<u>407,965</u>
<b>Contingency</b>	7	
<b>Unit holders' fund (as per statement attached)</b>		<u>407,965</u>
		<b>Number of units</b>
<b>Number of units in issue</b>		<u>7,900,364</u>
		<b>Rupees</b>
<b>Net assets value per unit</b>		<u>51.64</u>

The annexed notes 1 to 9 form an integral part of this condensed interim financial report.

  
Mohammad Shoaib, CFA  
Chief Executive


For Al Meezan Investment Management Limited  
(Management Company)

  
Syed Amir Ali  
Director

**CONDENSED INTERIM INCOME STATEMENT**  
FOR THE PERIOD JULY 5 TO DECEMBER 31, 2011 AND QUARTER ENDED  
DECEMBER 31, 2011 (UNAUDITED - NOTE 3)

	For the period July 5 to December 31	Quarter ended December 31
	2011	2011
	----- (Rupees in '000) -----	-----
<b>Income</b>		
Net realised gain on sale of investments	2,571	1,105
Dividend income	3,693	1,920
Profit on savings accounts with banks	5,254	1,090
Profit income on GoP Ijara Sukuk	14,653	8,950
Back end load	196	196
	<u>26,367</u>	<u>13,261</u>
Unrealised loss on re-measurement of investments - 'at fair value through profit or loss' (net)	<u>(8,902)</u>	<u>(9,961)</u>
<b>Total income</b>	<u>17,465</u>	<u>3,300</u>
<b>Expenses</b>		
Remuneration to Al Meezan - management company of the Fund	2,810	1,542
Sindh sales tax on management fee	450	247
Remuneration to CDC - trustee of the Fund	345	176
Annual fee to SECP	141	77
Auditors' remuneration	181	107
Fees and subscription	30	15
Amortisation of preliminary expenses and floatation costs	356	182
Amortisation of premium - GoP Ijara Sukuk	478	308
Brokerage	377	141
Legal and professional charges	88	88
Bank and settlement charges	82	30
Printing charges	73	37
<b>Total expenses</b>	<u>5,411</u>	<u>2,950</u>
<b>Net income from operating activities</b>	<u>12,054</u>	<u>350</u>
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	893	-
<b>Net income</b>	<u>12,947</u>	<u>350</u>

The annexed notes 1 to 9 form an integral part of this condensed interim financial report.

  
Mohammad Shoaib, CFA  
Chief Executive


For Al Meezan Investment Management Limited  
(Management Company)

  
Syed Amir Ali  
Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT**  
FOR THE PERIOD JULY 5 TO DECEMBER 31, 2011 AND QUARTER ENDED  
DECEMBER 31, 2011 (UNAUDITED - NOTE 3)

	For the period July 5 to December 31	Quarter ended December 31
	2011	2011
	----- (Rupees in '000) -----	-----
Undistributed income at the beginning of the period	-	12,597
Net income for the period	12,947	350
Undistributed income carried forward as at December 31, 2011	<u>12,947</u>	<u>12,947</u>

The annexed notes 1 to 9 form an integral part of this condensed interim financial report.



**Mohammad Shoaib, CFA**  
Chief Executive

For Al Meezan Investment Management Limited  
(Management Company)



**Syed Amir Ali**  
Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS  
FOR THE PERIOD JULY 5 TO DECEMBER 31, 2011 AND QUARTER ENDED  
DECEMBER 31, 2011 (UNAUDITED - NOTE 3)**

	For the period July 5 to December 31	Quarter ended December 31
	2011	2011
	----- (Rupees in '000) -----	-----
Net assets at the beginning of the period	-	407,607
Issue of 7,900,661 units	395,926	23
Redemption of 297 units	(15)	(15)
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	(893)	-
Net income for the period	12,947	350
Net assets at the end of the period	<u>407,965</u>	<u>407,965</u>
Net assets value per unit at the beginning of the period - Rupees	-	51.59
Net assets value per unit at the end of the period - Rupees	<u>51.64</u>	<u>51.64</u>

The annexed notes 1 to 9 form an integral part of this condensed interim financial report.



**Mohammad Shoaib, CFA**  
Chief Executive

For Al Meezan Investment Management Limited  
(Management Company)



**Syed Amir Ali**  
Director

**CONDENSED INTERIM CASH FLOW STATEMENT**  
FOR THE PERIOD JULY 5 TO DECEMBER 31, 2011 AND QUARTER ENDED  
DECEMBER 31, 2011 (UNAUDITED - NOTE 3)

	For the period July 5 to December 31	Quarter ended December 31
	2011	2011
	----- (Rupees in '000) -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	12,947	350
<b>Adjustments for:</b>		
Dividend income	(3,693)	(1,920)
Profit on savings accounts with banks	(5,254)	(1,090)
Profit income on GoP Ijara Sukuk	(14,653)	(8,950)
Unrealised loss on re-measurement of investments - 'fair value through profit or loss' (net)	8,902	9,961
Amortisation of preliminary expenses and floatation costs	356	182
Amortisation of premium	478	308
Element of income and capital gains included in prices of units issued less those in units redeemed	(893)	-
	(1,810)	(1,159)
<b>Increase in assets</b>		
Investments	(401,074)	(78,344)
Deposits with CDC	(100)	-
Deposits, prepayments and other receivables	(117)	(72)
	(401,291)	(78,416)
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan - management company of the Fund	630	(6,197)
Payable to CDC - trustee of the Fund	59	1
Payable to SECP	141	77
Payable against purchase of investments	-	(21)
Accrued expenses and other liabilities	918	140
	1,748	(6,000)
Preliminary expenses and floatation costs paid	(2,252)	-
Dividend received	3,656	3,515
Profit received on purchase of GoP Ijara Sukuk	10,431	18,988
Profit received on savings accounts with banks	1,337	649
<b>Net cash outflow from operating activities</b>	(388,181)	(62,423)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipt from sale of units	395,926	23
Payments against redemption of units	(15)	(15)
<b>Net cash inflow from financing activities</b>	395,911	8
Net cash inflow / (outflow) during the period	7,730	(62,415)
Cash and cash equivalents at the beginning of the period	-	70,145
<b>Cash and cash equivalents at the end of the period</b>	7,730	7,730

The annexed notes 1 to 9 form an integral part of this condensed interim financial report.



**Mohammad Shoaib, CFA**  
Chief Executive

For Al Meezan Investment Management Limited  
(Management Company)



**Syed Amir Ali**  
Director

**NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT  
FOR THE PERIOD JULY 5 TO DECEMBER 31, 2011 AND QUARTER ENDED  
DECEMBER 31, 2011 (UNAUDITED - NOTE 3)**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1 Meezan Capital Protected Fund-II (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee. The trust deed was executed on May 12, 2011 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund 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 Shariah Compliant GoP Ijarah Sukuk. Alternatively, the assets of the Fund may be placed with a Scheduled Islamic Bank or Islamic windows having at least minimum rating A- (A minus) at the time of placement as directed by the SECP. The remaining assets of the Fund will be allocated to the Investment Segment and may be invested in assets with minimum investment grade wherever applicable that have the potential to give a high return to investors. 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 Islamabad Stock Exchange. The issuance of units has been discontinued since August 15, 2011. The management company of the Fund has been given quality rating of AM2 by JCR - VIS. 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 July 5, 2011, being the date on which the 'deposited property' was first transferred to the trustee.
- 1.5 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

**2. BASIS OF MEASUREMENT**

The transactions undertaken by the Fund in accordance with the process prescribed under the shariah guidelines issued by the shariah 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 This condensed interim financial report has been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Approved accounting standards comprise of IAS 34: 'Interim Financial Reporting' (IAS 34), the Trust Deed, NBFC Rules, NBFC Regulations and the directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations or the said directives differ with the requirements of IAS 34, the requirements of the Trust Deed, NBFC Rules, NBFC Regulations or the said directives take precedence.

3.2 This condensed interim financial report comprises of the condensed interim statement of assets and liabilities as at December 31, 2011, and the condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes thereto for the period July 5 to December 31, 2011, which have been subjected to a review but not audited. This condensed interim financial report also includes condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement for the quarter ended December 31, 2011 which is not subject to review.

3.3 Standards, amendments to published approved accounting standards and interpretations effective from July 1, 2011:

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the period and are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or have any significant effect on the Fund's operations and are, therefore, not disclosed in this condensed interim financial report.

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

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

#### **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**

This condensed interim financial report has 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 this condensed interim financial report 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 (note 4.3)
- (b) Impairment (note 4.3.5)
- (c) Amortisation of preliminary expenses and flotation costs (notes 4.8)
- (d) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.10)

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



### 4.3 Financial instruments

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

a) Investments - 'fair value through profit or loss'

- Financial instruments categorised as 'held for trading'

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

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

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

b) Held to maturity

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

c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 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 other comprehensive income 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 shares of listed companies / units of funds, derivatives and financial instruments sold on deferred settlement basis is based on their price quoted on the Karachi Stock Exchange at the balance sheet date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

#### 4.3.5 Impairment

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

In case of investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If, any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is removed from equity and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is recognised in other comprehensive income.

#### 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 Unit holders' fund

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

#### 4.5 Issue and redemption of units

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

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

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

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

The net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement except to the extent represented by unrealised appreciation / (diminution) arising on 'available for sale' securities which is included in distribution statement.

#### 4.7 Provisions

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

#### 4.8 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of three years and six weeks commencing from July 5, 2011 in accordance with the requirements of the trust deed of the Fund.

#### 4.9 Net assets value per unit

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

#### 4.10 Taxation

##### Current

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

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

#### Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in the future years by distributing at least 90 percent of its accounting income for the period as reduced by capital gains, whether realised or unrealised to its unit holders every year.

#### 4.11 Revenue recognition

- i. Gains / (losses) arising on sale of investments are included in income currently and are recognised on the date at which the transaction takes place.
- ii. Unrealised gains / (losses) arising on revaluation of securities classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- iii. Unrealised gains / (losses) arising on revaluation of securities classified as 'available for sale' are included in the other comprehensive income in the period in which they arise.
- iv. Profit on savings accounts with banks is recorded on an accrual basis.
- v. Dividend income is recognised at the time of closure of share transfer books of the investee company.

#### 4.12 Expenses

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

#### 4.13 Offsetting of financial instruments

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

#### 4.14 Zakat

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

#### 4.15 Cash and cash equivalents

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

#### 4.16 Dividend and bonus units

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.

### 5. Investments - available for sale

Name of the issuer	Maturity date	Profit rate	Purchases during the period	Sales / redemptions during the period	As at December 31, 2011	Carrying value as at December 31, 2011	Market value as at December 31, 2011	Unrealised gain/(loss) as at December 31, 2011	Percentage in relation to	
									Number of shares	Rupees in '000
GoP Ijarah Sukuk Certificates - VIII (note 5.1)	May 16, 2014	Weighted average 6 months T-Bills	2,800	-	2,800	282,107	282,107	-	69.15	71.25
GoP Ijarah Sukuk Certificates - IX (note 5.1)	December 25, 2014	6 months PKRV	220	-	220	22,000	22,000	-	5.39	5.56
						<u>304,107</u>	<u>304,107</u>			
<b>Total cost of investment</b>										<u>304,585</u>

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

5.2. For the purpose of capital protection, the Fund has allocated more than 75.5% of the initial fund size in GoP Ijarah Sukuk such that it fulfills the requirement of capital protection as outlined in the trust deed and the offering document.

5.3. The duration of the capital protection segment is 3 years and 6 weeks from the first day of initial offering period.

#### 6. Investments - 'fair value through profit or loss

6.1 Shares of listed companies - held for trading

Name of the investee company	Purchases during the period	Sales during the period	As at December 31, 2011	Carrying value as at December 31, 2011	Market value as at December 31, 2011	Unrealised (loss) / gain	Percentage in relation to		
							Net assets of the Fund on the basis of market value (see note below)	Paid-up capital of investee company (with face value of investment)	Total market value of investments
	----- Number of shares -----			----- Rupees in '000 -----					
<b>Construction and Materials</b>									
DG Khan Cement Company Limited	273,500	-	273,500	6,437	5,205	(1,232)	1.28	0.06	1.31
Lucky Cement Limited	303,848	178,000	125,848	9,535	9,444	(91)	2.31	0.04	2.39
							3.59	0.10	3.70
<b>Electricity</b>									
The Hub Power Company Limited	662,500	270,000	392,500	14,341	13,424	(917)	3.29	0.03	3.39
<b>Fixed Line Telecommunication</b>									
Pakistan Telecommunication Company Limited 'A'	1,115,000	70,810	1,044,190	12,913	10,849	(2,064)	2.66	0.03	2.74
<b>Oil and Gas</b>									
National Refinery Limited	38,100	20,000	18,100	5,761	4,393	(1,368)	1.08	0.02	1.11
Pak Oil Fields Limited	55,900	29,900	26,000	9,336	9,008	(328)	2.21	0.01	2.28
Pakistan State Oil Company Limited	45,907	22,400	23,507	6,118	5,341	(777)	1.31	0.01	1.35
Oil and Gas Development Company Limited	54,800	30,000	24,800	3,647	3,760	113	0.92	-	0.95
Pakistan Petroleum Limited	51,700	30,000	21,700	4,376	4,073	(303)	1.00	-	1.03
Attock Petroleum Limited	27,700	13,700	14,000	5,529	5,775	246	1.42	0.02	1.46
							7.94	0.06	8.18
<b>Chemicals</b>									
Fauji Fertilizer Bin Qasim Company Limited	478,680	400,200	78,480	4,147	3,330	(817)	0.82	0.01	0.84
Fauji Fertilizer Company Limited	199,834	113,000	86,834	14,349	12,985	(1,364)	3.18	0.01	3.28
							4.00	0.02	4.12
<b>Total</b>				<b>96,489</b>	<b>87,587</b>	<b>(8,902)</b>			
<b>Total cost of investments</b>				<b>96,489</b>					

- 6.2 All shares have a nominal value of Rs 10 each.  
6.3 Net assets are as defined in regulation 66 of NBFC Regulations.

## 7. CONTINGENCY

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, during the year ended June 30, 2010, a constitutional petition had been filed by certain CISs through their trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

During the year ended June 30, 2011, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. In December 2010 the ministry filed its responses against the Constitutional Petition requesting the Court to dismiss the same, whereafter, show cause notices were issued by the Federal Board of Revenue (FBR) to several mutual funds for the collection of WWF. In respect of such show cause notices, certain mutual funds have been granted stay by Honorable Sindh High Court (SHC) on the basis of the pending constitutional petition as referred above. No such notice was received by the Fund.

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

The Management Company believes that the aforementioned constitutional petition pending in the Court has strong grounds for decision in favour of the mutual funds. The aggregate unrecognised amount of WWF as at December 31, 2011 amounted to Rs 0.254 million.

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

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the holding company of the management company, directors and officers of the management company and Al Meezan Mutual Fund Limited, Meezan Islamic Income Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Cash Fund, Meezan Sovereign Fund, Al Meezan Mutual Fund and Meezan Islamic Fund being the funds under the common management of the management company and Pakistan Kuwait Investment Company (Private) Limited being the associated company of the management company.

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

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

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

	December 31, 2011
	--- (Rupees in '000) ---
<b>Al Meezan - management company of the Fund</b>	
Remuneration payable	518
Sindh sales tax payable on management fee	83
Sales load payable	29
Investment of 2,000,000 units	103,280
<b>MBL</b>	
Balances with bank	60
Profit receivable	20
Investment of 2,000,000 units	103,280
<b>CDC - trustee of the Fund</b>	
Trustee fee payable	59
Deposit with CDC	100
<b>Officers of the management company</b>	
Investment of 1,000 units	52

For the period  
July 5 to  
December 31  
2011

--- (Rupees in '000) ---

**Al Meezan - management company of the Fund**

Remuneration for the period	<u>2,810</u>
Sindh sales tax on management fee	<u>450</u>
Investment of 2,000,000 units	<u>100,000</u>

**MBL**

Profit on savings account with bank	<u>72</u>
Investment of 2,000,000 units	<u>100,000</u>

**CDC - trustee of the Fund**

Trustee fee	<u>345</u>
CDS charges	<u>10</u>

**Officers of the management company**

Investment of 1,000 units	<u>50</u>
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**9. DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial report was authorised for issue on February 23, 2012 by the Board of Directors of the management company.

  
Mohammad Shoaib, CFA  
Chief Executive

For Al Meezan Investment Management Limited  
(Management Company)

  
Syed Amir Ali  
Director