

A n n u a l R e p o r t 2 0 1 1



**Al Meezan Investment Management Limited**  
A subsidiary of Meezan Bank



## Contents

02	Mission & Vision Statement
03	Fund Information
04	Report of the Directors of the Management Company
07	Pattern of Certificate Holdings as per requirements of the Code of Corporate Governance
08	Report of the Fund Manager
14	Trustee Report to the Certificate Holders
15	Report of the Shariah Adviser
17	Independent Assurance Provider's Report on Shariah Compliance to the Certificate Holders
18	Statement of Compliance with Best Practices of Code of Corporate Governance
20	Review Report to the Certificate Holders on the Statement of Compliance with the Best Practices of the Code of Corporate Governance
21	Independent Auditors' Report to the Certificate Holders
22	Statement of Assets and Liabilities
23	Income Statement
24	Distribution Statement
25	Statement of Movement in Equity and Reserves Per Certificate
26	Cash Flow Statement
27	Notes to the Financial Statements
50	Pattern of Certificate Holding
52	Categories of Certificate Holders
53	Statement of Income & Expenditure of the Management Company in Relation to the Fund

### **Our Mission**

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

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

### **Our Vision**

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

## FUND INFORMATION

### MANAGEMENT COMPANY

Al Meezan Investment Management Limited  
Ground Floor, Block "B", Finance & Trade Centre,  
Shahrah-e-Faisal, Karachi 74400, Pakistan.  
Phone: (9221) 35630722-6, 111-MEEZAN  
Fax: (9221) 35676143, 35630808  
Web site: www.almeezangroup.com  
E-mail: info@almeezangroup.com

### BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Chairman
Mr. Rana Ahmed Humayun	Director
Mr. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Rizwan Ata	Director
Mr. Mazhar Sharif	Director
Mr. Mohammad Shoab, CFA	Chief Executive

### CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

### AUDIT COMMITTEE

Mr. Ariful Islam	Chairman
Mr. P. Ahmed	Member
Mr. Mazhar Sharif	Member

### TRUSTEE

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

### AUDITORS

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

### BANKERS TO THE FUND

Meezan Bank Limited  
MCB Bank Limited  
Habib Metropolitan Bank Limited - Islamic Banking Branch  
Al Baraka Islamic Bank B.S.C (E.C)  
Bank Alfalah - Islamic Banking Branch  
Bank Islami Pakistan Limited  
UBL Ameen - Islamic Banking Branch  
Askari Bank Limited - Islamic Banking  
Dubai Islamic Bank

### SHARIAH ADVISER

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) 3565 7658-59  
Fax: (9221) 3565 7673  
E-mail: bawaney@cyber.net.pk

### TRANSFER AGENT

THK Associates (Pvt.) Limited  
Ground Floor, State Life Building-3  
Dr. Ziauddin Ahmed Road, Karachi-75536  
Phone : (9221) 111-000-322  
Fax : (9221) 35655595  
P.O. Box No. 8533

## **REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011**

The Board of Directors of Al Meezan Investment Management Limited, the management company of Meezan Balanced Fund (MBF) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2011.

### **Brief Overview**

Meezan Balanced Fund (MBF) is a closed end balanced fund that invests in Shariah compliant listed equity securities and listed or unlisted Islamic fixed income products. As per policy, the fund can invest upto 60% in listed equities. During the fiscal year 2011, Meezan Balanced Fund (MBF) provided a return of 25.38% to its investors compared to its bench mark return of 24.77%.

### **Market Review**

Fiscal year 2011 was another challenging year on economic front for Pakistan. Despite persistent pressures from fiscal constraints, energy crisis, vulnerability to commodity price and volatile law and order situation, the country managed to post GDP growth of 2.4% in FY11.

During 1HFY11, the devastating floods posed a significant threat to the country's economic and fiscal position leading to excessive government borrowing from State Bank of Pakistan (SBP) which peaked at Rs. 1,463 billion in November, 2010. The resultant impact was on CPI inflation which touched a high of 15.7% during 1HFY11. Consequently, the State Bank was forced to adopt a tight monetary stance and raised the discount rate by 150bps in first half of FY11. On the other hand, a major highlight of 2HFY11 was the improvement in external account. During FY11, current account posted a surplus of US\$ 542 million as against deficit of US\$ 3.4 billion in the same period last year. The improvement was primarily attributed to the 29% rise in exports and surge in worker remittances to US\$11.2 billion for the full year. These positive developments helped the country's forex reserves to reach all time of US\$ 17.5 billion and thus kept the rupee stable against the US dollar, depreciating by a mere 0.5%.

On the monetary front, the heightened government borrowing from SBP for the financing of fiscal deficit forced SBP to continue with its tight stance of monetary policy. The central bank increased the discount rate by a cumulative 150 bps to 14% in its three consecutive monetary policy statements. The average inflation for FY12 thus averaged 13.92%, higher than SBP initial estimates and as compared to 11.7% in FY10.

Pakistan stock market, posted a double digit return for the second consecutive year in FY11 with KSE-100 rising by 28.5% to close at a level of 12,496. The healthy performance of the KSE100 index was reflective of improved corporate earnings as well as the continuation of foreign flows. Trading volumes however, remained extremely low due to imposition of capital gains tax (CGT) in July with average daily trading volume in shares and value declining by 66% and 40% to 97 million shares and Rs. 4 billion respectively.

### **Outlook**

Going forward, the key challenge for the government remains the continuation of IMF Stand By facility for the release of last two tranches and the implementation of reforms. The mounting circular debt affecting the entire energy chain also continues to pose threat to the overall economy. In line with the government's commitment to keep SBP borrowing within limits, and as inflation has tapered off from its peak, we are of the view that the government will continue its 'wait and watch' policy before adjusting the discount rate. This bodes well for fixed income allocations.

On the equity front, although the implementation of capital gain tax has negatively impacted volumes, however, we believe that the introduction of the leverage and derivative products in the market may improve the liquidity position and attract investors back to the equity market. On the basis of earnings multiples and dividend yields, Pakistan remains one of the cheapest markets. Pakistan's stock market is trading at a P/E multiple of 7.2x, which is almost at a 38% discount to other frontier markets. This makes KSE an attractive option for foreign investors.

The management of Al Meezan is fully aware of the challenges that lie ahead and will take all possible measures to proactively deal with them.

### **Management Quality Rating**

JCR VIS Credit Rating Company Limited has maintained the management quality rating of Al Meezan Investment Management Limited, the management company of Meezan Balanced Fund, at AM 2 (AM Two). The rating denotes a high management quality with a stable outlook.

### **Compliance with Code of Corporate Governance**

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

- These financial statements, prepared by the management company of the Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and changes in equity.
- The Fund has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards and International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the Karachi Stock Exchange (KSE) listing regulations.
- The Board of Directors and employees of the management company have signed "Statement of Ethics and Business Practices".
- There has been no trading in the certificates of the fund carried out by the Directors, CEO, CFO and Company Secretary of the management company including their spouses and minor children.
- Pattern of holding of certificate is given on page no. 07 of the financial statements.
- Financial highlights are given in note no. 24 of the financial statements.

### **Board Meetings**

Please refer to note no. 21 provided in the financial statements.

### **Appointment of Auditors**

M/s A.F. Ferguson & Co. Chartered Accountants retire and being eligible offers themselves as the auditors of the Fund for the fiscal year 2012. The Board of Directors of the management company has approved their re-appointment.

### **Acknowledgement**

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments making it the largest asset management company in the private sector in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan, Custodian, Central Depository Company of Pakistan and management of Karachi Stock Exchange for their support. We would also like to thank the members of the Shariah Supervisory Board of Meezan Bank for their continued assistance and support on Shariah aspects of fund management.

For and on behalf of the Board

**Date: August 16, 2011**  
**Karachi.**

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

## PATTERN OF CERTIFICATE HOLDINGS AS PER REQUIREMENTS OF THE CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2011

Certificates held by	Number of investors	No. of Certificates held	Percentage of total investments
Individuals	928	20,765,444	17.30
<b>Chief Executive &amp; their Spouse</b>			
i) Mr. Mohammad Shoaib, CFA	1	12,975	0.01
ii) Mrs. Shabana Mohammad Shoaib	1	500	0.00
<b>Executives</b>			
Mr. Mohammad Asad	1	10,000	0.01
<b>Associated companies</b>			
i) Meezan Bank Limited	1	16,134,468	13.45
ii) Pakistan Kuwait Investment Co.(Pvt) Ltd.	1	11,057,791	9.21
iii) Al-Meezan Investment Management Ltd	1	3,821,824	3.18
iv) Meezan Bank Limited Staff Provident Fund	1	534,566	0.45
v) Trustee AMIM Employees Provident Fund	1	335,569	0.28
vi) Trustee AMIM Employees Gratuity Provident Fund	1	91,575	0.08
<b>Insurance companies</b>	1	300,000	0.25
<b>Banks / DFIs</b>	10	22,849,101	19.04
<b>NBFCs</b>	4	4,223,000	3.52
<b>Retirement funds</b>	23	12,982,641	10.82
<b>Public Limited Companies</b>	16	17,258,491	14.38
<b>Others</b>	3	9,622,055	8.02
<b>Total</b>	<b>994</b>	<b>120,000,000</b>	<b>100</b>



## REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

Meezan Balanced Fund (MBF) is a closed end balanced fund that invests in Shariah compliant listed equity securities and listed or unlisted Islamic fixed income products. The objective of MBF is to generate long term capital appreciation as well as current income by creating a balanced portfolio that is invested both in high quality equity securities and Islamic fixed income avenues such as Sukuk (Islamic Bonds), Musharaka and Murabaha instruments; Shariah compliant spread transactions, Certificate of Islamic Investments, Islamic bank deposits, and other Islamic income products.

MBF invests only in Shariah Compliant instruments with the objective of maximizing total return to its certificate holders and maintaining risks within acceptable levels. The fund also has a focus of long term preservation of capital. The fund aims to maximize total returns varying fund's allocations to fixed income and equity exposures in accordance with the economic condition and market scenario.

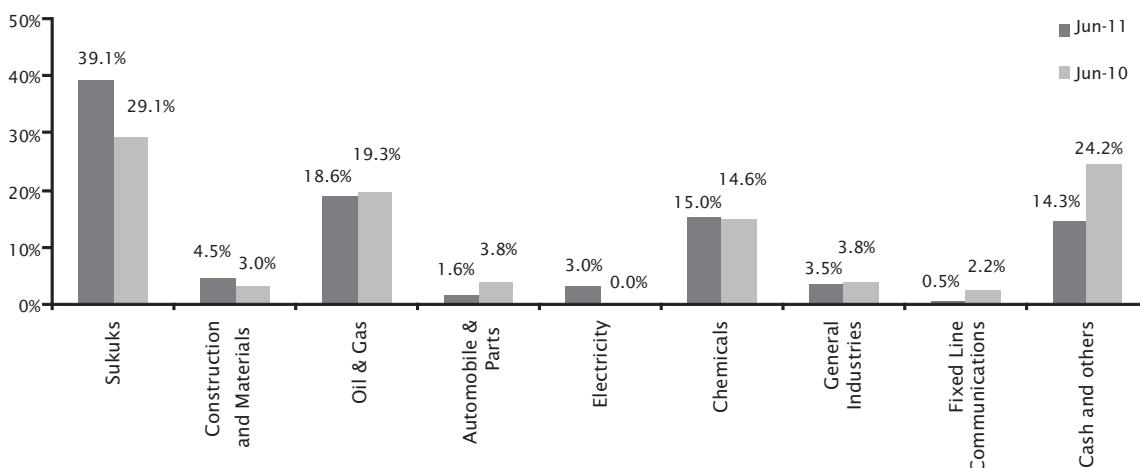
### Strategy and Investment Policy

Being a balanced fund, performance of MBF is linked proportionately to performance of stock market in Pakistan and Islamic fixed income instruments. The fund manager, Al Meezan Investments, actively manages the fund with an aim to provide maximum risk adjusted total return to the investors. The fund primarily aims at controlling risk by balancing growth and income earning objectives of certificate holders. To achieve this purpose, the fund manager strives to reduce equity exposure in times when the market is trading above valuations and increase exposure to high quality liquid Islamic fixed income instruments.

During the year, the focus was on proactive and continuous re-allocation between high yield instruments so as to optimize fund return while simultaneously minimizing risk. To keep interest rate risk at a minimum in a volatile interest rate environment and reaping benefits of fluctuation in interest rate, the fund manager over the period has kept the duration of the fixed income portfolio below six months.

### Implementation

During the period under review, the fund maintained a significant exposure to oil and fertilizer sectors because of better prospects of these sectors. The overall equity exposure in the fund during the period under review was maintained at 49.1% while the balance was deployed in fixed income avenues. Exposure in Sukuks was maintained at around 31% during the period under review.



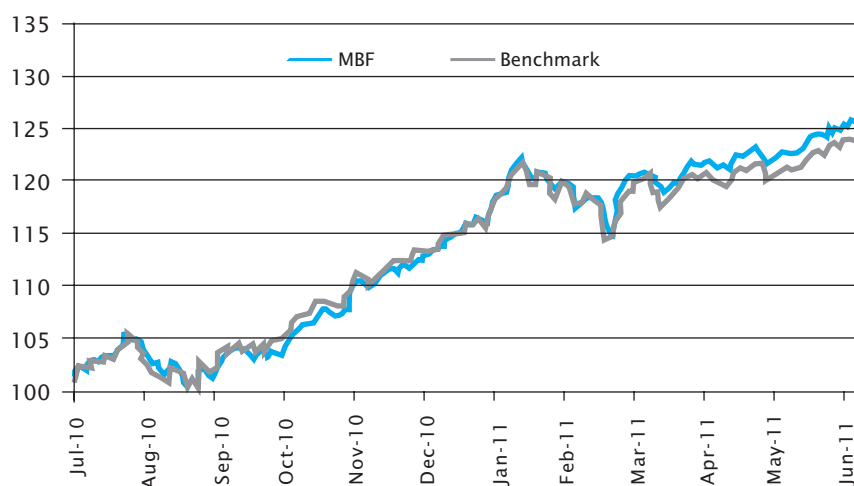
## Performance Review

Meezan Balanced Fund (MBF) is a closed end balanced fund that invests in Shariah compliant listed equity securities and listed or unlisted Islamic fixed income products. As per policy, the fund can invest upto 60% in listed equities. During the fiscal year 2011, Meezan Balanced Fund (MBF) provided a return of 25.38% to its investors compared to its bench mark return of 24.77%.

The Fund during the period ended June 30, 2011 earned a total income of Rs.254 million, which mainly was from realized gain on sale of investments of Rs.107 million, profit on sukuks certificates of Rs. 70 million and dividend income of Rs. 57 million. Profit on bank deposits was Rs.20 million. The unrealized gain on re-measurement of investments at fair value was Rs. 12 million, while the Fund also made a provisioning on sukuks of Arzoo Textile Mills Limited, a non-performing debt security of Rs. 12 million.. After accounting for expenses of Rs.28 million, the net income for the period was Rs. 226 million, which translates into an earnings per share of Rs.1.88 as on June 30, 2011.

The net assets of the fund as at the year end were Rs. 1,523 million as compared to Rs.1,278 million as on June 30, 2010. The net asset value per share as at June 30, 2011 was Rs.12.70 per share as compared to Rs.10.65 per share as on June 30, 2010.

	June 30, 2011	June 30, 2010	Change
<b>NAV (Dividend Adjusted)</b>			
Meezan Balanced Fund	12.70	10.65	25.38%
<b>Benchmark Returns (Inputs)</b>			
KMI 30	20,936	14,574	43.66%
Average Yield on Islamic Bank Deposits (annualised)			5.88%
KMI 30 Return	43.66%	50%	21.83%
Islamic Bank Deposit Return	5.88%	50%	2.94%
<b>Benchmark Return</b>			<b>24.77%</b>
<b>Outperformance</b>			<b>0.61%</b>



## **Economic Review**

Fiscal year 2011 was another challenging year for Pakistan on economic front. Despite persistent pressures from fiscal constraints, energy crisis, vulnerability to commodity price and volatile law and order situation, the country managed to post GDP growth of 2.4%.

During 1HFY11, the devastating floods posed a significant threat to the country's economic and fiscal position leading to excessive government borrowing from State Bank of Pakistan (SBP) which peaked at Rs. 1,463 billion in November, 2011. The resultant impact was on CPI inflation which touched a high of 15.7% during 1HFY11. Consequently, the State Bank was forced to adopt a tight monetary stance and raised the discount rate by 150bps in first half of FY11.

On the other hand a major highlight of 2HFY11 was the improvement in external account. During FY11, current account posted a surplus of US\$ 542 million as against deficit of US\$ 3.4 billion in the same period last year. The improvement was primarily attributed to i) 29% rise in exports to US\$25 billion on account of favourable cotton prices, ii) 26% surge in worker remittances to US\$11.2 billion for the full year and iii) US\$743 million inflows under Coalition Support Fund (CSF). These positive developments helped the country's forex reserves to reach all time of US\$ 17.5 billion and thus kept the rupee stable against the US dollar. During the year, rupee depreciated by a mere 0.5% to close the year at Rs 86.2 versus US dollar.

In addition, the rebound in agri commodity prices provided a boost to rural income and hence domestic demand, which saw growth momentum revived in the second half of fiscal year. While inflation stood at 13.9% for FY11, the government was able to retire the excessive borrowing from SBP in earlier part of the year and contain the same to levels agreed with the State Bank. The combination of the above factors provided SBP the comfort to maintain discount rate at 14% during the second half of the fiscal year.

During the period under review, the IMF Standby Arrangement remained virtually suspended due to slow implementation of tax and power sector reforms. With the last two tranches at stake, the government and IMF team are due to meet tentatively towards the end of July, 2011 to review FY11 performance and FY12 budgetary targets. With an impressive performance on the external account and commitment for power sector reforms, the country's economic managers are targeting a continuation of the IMF standby facility.

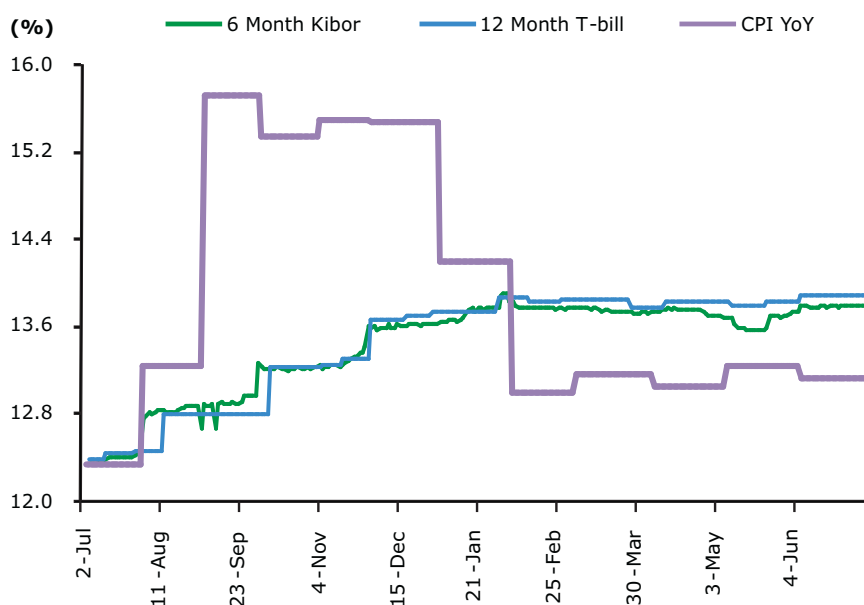
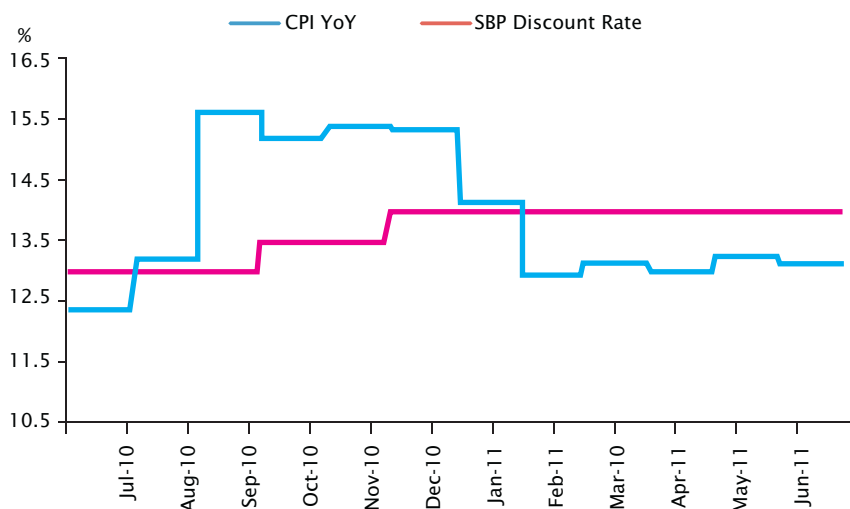
## **Monetary Review**

The year started with a positive sentiment with July CPI touching a new low and government targeting single digit inflation for FY12. The euphoria, however, proved to be short lived as the fiscal weakness and rising total debt started to overshadow the improvement in current account and economic recovery. The situation further aggravated with the devastating floods in July-August that proved to be the worst in country's history. The unwanted yet unavoidable impact was seen on the inflation figures which touched a new high of 15.48% in the month of November, on account of the sharp increase in commodity prices. Along with that, the heightened government borrowing from SBP for the financing of fiscal deficit forced the central bank to continue with its tight stance of monetary policy. The central bank thus increased the discount rate by cumulative 150 bps to 14% in its three consecutive monetary policy statements. The average inflation for FY12 thus averaged 13.92%, higher than SBP initial estimates and as compared to 11.7% in FY10.

The hike in the policy rate transcended into proportionate hike in KIBOR, Treasury bills (T-bills) and Pakistan Investment Bond (PIBs) rates. The benchmark 6-month KIBOR, 6-month T-bill and 10-year PIBs rose by 150bps, 145bps and 142bps to 13.64%, 13.75% and 14.10%, respectively. In the 25 T-Bills auction conducted in FY11, SBP accepted Rs 3,459 billion against the maturity of Rs 3,255 billion, thus creating a liquidity drain of Rs 204 billion. In FY11 State bank has also conducted nine PIB auctions, target of the auctions were around Rs.181 billion while they accepted around Rs.167 billion. Similarly, State bank conducted 4 Ijarah Sukuk auctions in FY11, the target of which was Rs 170 billion while they accepted stood at Rs 182 billion.

### Ijarah Auctions

To reduce Government borrowing from SBP and promote Islamic mode of financing, SBP conducted four Ijarah Sukuk auctions in FY11, in which it sold Rs. 182 billion worth of sukuks against the target of Rs. 170 billion. Your fund also participated in these auctions and invested Rs. 340 million. After the four auctions in FY11, the cumulative amount of Ijarah issued by the government now stands at Rs 224 billion in total eight ijarah auctions.



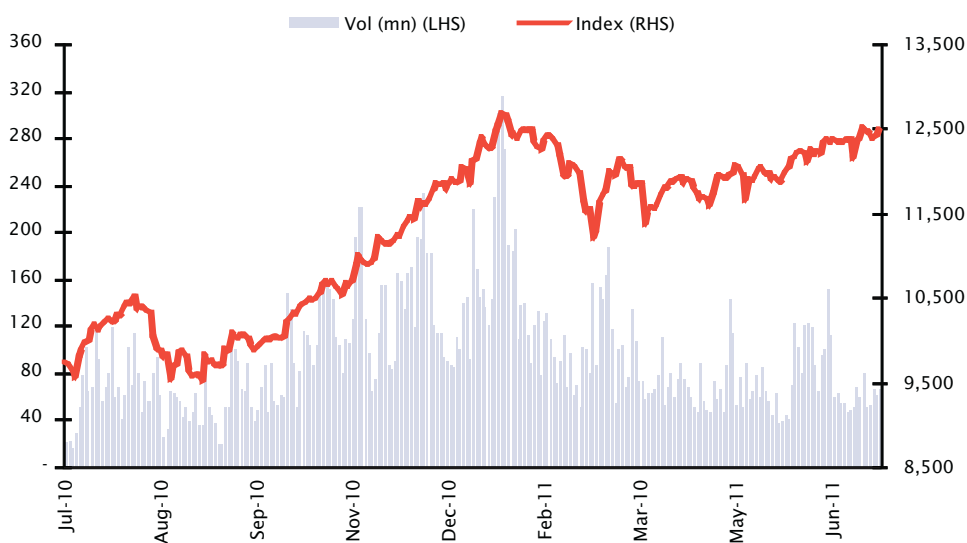
## Equity Market Review

Pakistan stock market posted a double digit return for the second consecutive year in FY11 with KSE-100 rising by 28.5% to close at a level of 12,496. The healthy performance of the KSE-100 index was reflective of improved corporate earnings as well as the continuation of foreign flows. Trading volumes however, remained extremely low due to imposition of capital gains tax (CGT) in July with average daily trading volume in shares and value declining by 66% and 40% to 97 million shares and Rs. 4 billion respectively.

The year started with a positive sentiment where on the back of introduction of CGT, investors anticipated the introduction of Margin Trading System (MTS). This, coupled with investors' expectations of good corporate results helped the market to post phenomenal return of 8.2% for the month of July. However, the euphoria was short lived, ending with the onslaught of the worst floods of the country threatened key macroeconomic targets including downward revision in GDP estimates by 1-2%. To add to the worries, SBP, in an unexpected move, raised the discount rate by 50bps on inflationary concerns in its monetary policy statement of July end. However, even after another 50 bps increase in discount rate in September, the investors shunned macroeconomic concerns and the sentiments remained bullish due to positive foreign flows. Since then the market witnessed a broad-based rally which was extended in the new calendar year as positive developments inched up investors' hopes of good result and payout expectations. Foreigners' net buying position boosted optimism in the market as the third hike in the discount rate of 50bps in this fiscal year did not break the momentum of the market and KSE-100 rallied to the year's peak of 12,768 in mid of January, an appreciation of 3,046 points from June 30, 2010.

The second half of the fiscal year was a period of high volatility which culminated into consolidation. The market underwent a correction of 12% since then and touched a low of 11,200 as profit taking activity was initiated by institutional investors. This was seen due to heightened political noise, strained foreign relations with USA due to the Raymond Davis case, killing of Osama Bin Laden by US forces, uprising in the MENA region and the disastrous earthquake in Japan. On the domestic side, the rally in international crude prices, lukewarm response to MTS, and cumbersome working of capital gain tax kept retail investors on the sidelines leading to one of the lowest volumes in the decade. Subsequently, foreign investment which was the major impetus of the market remained at USD 30.19 million in second half of FY11, slightly narrowing the fiscal year to date inflows to USD 279million.

Towards the end of the period under review, introduction of Margin Trading System (MTS) coupled with better than expected corporate results gave some support to the market and eventually helped the KSE 100 index to close at 12,496 on June 30, 2011.



## **Federal Budget 2012**

The market staged a brief rally in the immediate run up to the budget as well as post budget. Despite no relief on CGT in the federal budget on June 3, the reaction remained positive due to absence of new tax measures. In addition, discontinuation of flood surcharge, deduction of FED on cement and no change in corporate tax on banks led to a buying spree in the market.

## **Foreign flows and Behavior of local investors**

All the categories of local investors except banks remained net sellers throughout FY11. Individual and mutual funds sold highest worth of shares amounting to US\$144 million and US\$76 million respectively, followed by NBFC and companies which sold shares worth US\$55 million and US\$33 million respectively. Banks during the period bought shares worth US\$28 million during FY11, while foreigners remained net buyers of US\$279 million during the period.

## **Future Outlook**

Going forward, the key challenge for the government remains the continuation of IMF Stand By facility for the release of last two tranches and the implementation of reforms. The mounting circular debt affecting the entire energy chain also continues to pose threat to the overall economy. In line with the government's commitment to keep SBP borrowing within limits, and as inflation has tapered off from its peak, we are of the view that the government will continue its 'wait and watch' policy before adjusting the discount rate. This bodes well for fixed income allocations.

On the equity front, although the implementation of capital gain tax has negatively impacted volumes, however, we believe that the introduction of the leverage and derivative products in the market may improve the liquidity position and attract investors back to the equity market. On the basis of earnings multiples and dividend yields, Pakistan remains one of the cheapest markets. Pakistan's stock market is trading at a P/E multiple of 7.2x, which is almost at a 38% discount to other frontier markets. This makes KSE an attractive option for foreign investors.

The management of Al Meezan is fully aware of the challenges that lie ahead and will take all possible measures to proactively deal with them.

## **Charity Statement**

As per the Trust Deed of the Fund, charity refers to the amount paid by the management company out of the income of the Scheme, which is considered as Haram. This Haram income is disbursed to the charitable/ welfare institutions in consultation with the Shariah Advisor of the Fund. During the year ended June 30, 2011 an amount of Rs. 1.09 million was accrued as charity payable.

## **Breakdown of Certificate holdings by size**

Please refer to page no. 50 of the financial statements

## **Distribution**

For the year ended June 30, 2011 the Board of Director of the Fund have approved a final cash dividend of 17.5% i.e. Rs. 1.75 per certificate.

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office**

CDC House, 99-B, Block 'B'  
S.M.C.H.S. Main Shakra-e-Faisal  
Karachi - 74400. Pakistan.  
Tel: (92-21) 111-111-500  
Fax: (92-21) 34326020 - 23  
URL: www.cdcpakistan.com  
Email: info@cdcpak.com

**TRUSTEE REPORT TO THE CERTIFICATE HOLDERS**

**MEEZAN BALANCED FUND**

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

Meezan Balanced Fund (the Fund), a closed-end scheme was established under a trust deed dated June 15, 2004, executed between Al Meezan Investment Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 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; and
- (ii) 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, September 12, 2011



**Meezan Bank**  
The Premier Islamic Bank

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

August 22, 2011/ Ramadan 21, 1432 A.H

In the capacity of *Shar'iah Advisor*, we have prescribed six criteria for *Shar'iah* compliance of equity investments which relate to (i) Nature of business, (ii) Interest bearing debt to total assets, (iii) Investment in non-*Shar'iah* compliant activities to Total assets (iv) *Shar'iah* Non Compliant Income to Gross Revenue (v) Illiquid assets to total assets, and (vi) Net liquid assets per share vs. share price.

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

- i. We have reviewed and approved the modes of investments of MBF in light of *Shar'iah* requirements. The following is the list of investments of MBF as on June 30, 2011 and their evaluation according to the screening criteria established by us. (December 31, 2010 accounts of the Investee companies have been used for the following calculations):

Company Name	Nature of Business	(ii)*	(iii)	(iv)	(v)	(vi)	
		Debt to Assets (<40%)	% of Non- <i>Shar'iah</i> Compliant Investments (<33%)	Non-Compliant Income to Gross Revenue (<5%)	Illiquid Assets to Total Assets (>20%)	Net Liquid Assets vs. Share Price (B>A)	Share Price (B)
Attock Cement	Cement Manufacturer	0.12%	15.45%	1.14%	74.00%	(3.39)	63.11
ICI Pakistan Limited	Manufacturers of Paints, Soda Ash, Staple Fibre and Chemicals	0.17%	0.01%	0.51%	65.00%	2.09	133.88
Lucky Cement	Cement Manufacturer	25.91%	0.00%	0.00%	94.00%	(37.13)	75.79
Pak Suzuki Motor Company Limited	Automobile Assembler	2.96%	0.02%	1.71%	68.00%	28.76	69.36
Pak. Telecommunication. Co. Ltd	Provider of Telecommunication Services	9.76%	11.52%	3.39%	75.00%	(9.37)	17.46

**Meezan Bank Ltd.**

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





Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	0.53%	2.33%	79.00%	(8.36)	286.61
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.17%	22.92%	3.24%	42.00%	31.14	207.08
Thal Limited	Manufacturers of Jute bags and Acs and Wire Harness of Cars	17.88%	0.63%	0.20%	83.00%	(79.12)	130.25
Tripak Films Ltd	Manufacturer of Biaxially Oriented Polypropylene	32.76%	0.00%	0.32%	73.00%	(56.03)	113.70

\* All interest based debts.

\*\* These ratios are for the calculation of non-*Shar'iah* Compliant Element in the business and are not relevant for Islamic Banks & Islamic financial Institutions.

- ii. On the basis of information provided by the management, all operations of MBF for the year ended June 30, 2011 have been in compliance with the *Shar'iah* principles.

In light of the above, we hereby certify that all the provisions of the Scheme and investments made on account of MBF under management of Al Meezan Investment Management Limited (Al Meezan) are *Shar'iah* compliant and in accordance with the criteria established by us.

During the Year a provision of Rupees 0.679 million was created for Charity and an amount of Rupees 0.409 million was provided for available for disbursement.

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

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



## A. F. FERGUSON & CO.

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

We have performed our independent assurance engagement of Meezan Balanced Fund (the Fund) to assess the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor of Meezan Balanced Fund for the year ended June 30, 2011.

#### Management company's responsibility

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

#### Responsibility of independent assurance providers

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

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

#### Conclusion

In our opinion, the Fund was, in all material respect, in compliance with the Shariah guidelines issued by the Shariah Advisor of the Fund for the year ended June 30, 2011.

  
Chartered Accountants  
Karachi, September 16, 2011

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

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872  
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924  
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320

## **STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011**

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

1. The management company encourages representation of independent non-executive directors. At present the board consists of seven directors, including two independent directors, all other directors except the Chief Executive Officer (CEO) are non-executive directors. The management company of the Fund is not listed at any stock exchange and therefore, does not have any minority interest.
2. The existing directors have confirmed that none of them is serving as a director in more than ten listed companies, including the management company.
3. All the existing resident directors of the management company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBF. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. During the year a casual vacancy occurred on the BoD. Mr. Salman Sarwar Butt was appointed as an independent director in place of Aliuddin Ansari after an approval from SECP on June 17, 2011 for the remaining term of the board.
5. The board has formulated a Statement of Ethics and Business Practices for the management company, which has been signed by the existing directors and employees of the management company.
6. The board of the management company has developed a vision and mission statement. The investment policy of the Fund has been disclosed in the offering document, while other significant policies have also been formalized and have been adopted by the board.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO of the management company, have been taken by the board.
8. The meetings of the board were presided over by the Chairman. The board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for the emergent meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of the board are aware of their responsibilities, an orientation course was held during previous years. The new Directors as and when appointed are provided with all the relevant statutory laws, rules and regulations to keep themselves acquainted.
10. The Board of Directors of the Management Company had, in earlier years, approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary and the Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the CEO.

11. The directors' report relating to the Fund, for the year ended June 30, 2011 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 certificates of the Fund is disclosed in the pattern of certificates holdings.
14. The management company has complied with all the applicable corporate and financial reporting requirements of the code.
15. The board has formed an audit committee. It comprises of three non-executive directors of the management company as its members including chairman of the audit committee. The CFO and the Company Secretary is the Secretary of the audit committee.
16. The meetings of the audit committee were held once in every quarter prior to the approval of interim and final results of the Fund and as required by the Code. The terms of reference of the audit committee have been framed and approved by the Board of the management company and advised to the committee for compliance.
17. The board has set up an effective internal audit function headed by the Head of Internal Audit & Compliance. The staff of the Fund is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function of the Fund on a full time basis.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the management company or certificates of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions entered during the year ended June 30, 2011 have been placed before the audit committee and approved by the board in its subsequent meetings.
21. We confirm that all other material principles contained in the Code have been complied with.

**Syed Owais Wasti**  
Chief Financial Officer

**Mohammad Shoab, CFA**  
Chief Executive

Karachi.  
August 16, 2011



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

**REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2011 prepared by the Board of Directors of Al Meezan Investment Management Limited (the management company) of Meezan Balanced Fund (the Fund) to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange where the Fund is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls. Further, Sub-Regulation (xiii a) of Listing Regulation No. 35 of the Karachi Stock Exchange (Guarantee) Limited requires the management company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required to check the approval of the related party transaction from the Board of Directors and placements of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the management company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2011.

*A. Ferguson & Co.*  
**Chartered Accountants**  
**Karachi, September 16, 2011**

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

*Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872  
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924  
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320*



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

**INDEPENDENT AUDITORS' REPORT TO THE CERTIFICATE HOLDERS**

We have audited the accompanying financial statements of **Meezan Balanced Fund**, which comprise the statement of assets and liabilities as at June 30, 2011, and the related income statement, distribution statement, statement of movement in equity and reserves per certificate and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at June 30, 2011, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

**Emphasis of matter**

We draw attention to note 12 to the annexed financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh.

Our opinion is not qualified in respect of the aforementioned matter.

**Other matters**

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

  
**Chartered Accountants**  
**Karachi, September 16, 2011**

**Audit Engagement Partner: Saad Kaliya**

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

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Shahr-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872  
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924  
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
<b>Assets</b>			
Balances with banks	5	42,186	292,188
Investments	6	1,465,941	985,810
Dividend receivable		3,573	2,909
Advances, deposits and other receivables	7	30,048	20,460
Receivable against sale of investment		-	449
<b>Total assets</b>		<b>1,541,748</b>	<b>1,301,816</b>
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the Fund	8	2,507	2,112
Payable to Central Depository Company of Pakistan Limited - (CDC) trustee of the Fund	9	141	126
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	1,191	1,093
Payable against purchase of investments		41	658
Accrued expenses and other liabilities	11	2,868	6,566
Unclaimed dividend		11,568	13,550
<b>Total liabilities</b>		<b>18,316</b>	<b>24,105</b>
<b>Net assets</b>		<b>1,523,432</b>	<b>1,277,711</b>
Contingency	12		
<b>Certificate holders' equity (as per statement attached)</b>			
<b>Issued, subscribed and paid-up capital</b>			
120,000,000 ordinary certificates of Rs 10 each		1,200,000	1,200,000
Unappropriated income		236,138	76,119
Surplus on revaluation of available for sale investments		87,294	1,592
		<b>1,523,432</b>	<b>1,277,711</b>
<b>Net assets value per certificate (Rupees)</b>		<b>12.70</b>	<b>10.65</b>

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



**Mohammad Shoaib, CFA**  
Chief Executive

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



**Mazhar Sharif**  
Director

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
<b>Income</b>			
Net realised gain on sale of investments		107,302	111,298
Dividend income		56,620	60,298
Profit on savings accounts with banks		19,991	12,758
Profit on sukuk certificates		69,569	59,579
		253,482	243,933
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)		12,054	54,564
Provision for accrued profit on an investment		-	(1,943)
Provision against non-performing debt securities		(11,500)	(7,250)
		554	45,371
<b>Total income</b>		<b>254,036</b>	<b>289,304</b>
<b>Expenses</b>			
Remuneration to Al Meezan - management company of the Fund	8	28,069	31,114
Remuneration to CDC - trustee of the Fund	9	1,596	1,504
Annual fee to SECP	10	1,191	1,093
Auditors' remuneration	13	461	432
Fees and subscription		220	293
Brokerage		509	826
Printing and other charges		459	262
Legal and professional charges		3	27
Bank and settlement charges		476	459
(Reversal) / provision for Workers' Welfare Fund		(4,967)	4,967
<b>Total expenses</b>		<b>28,017</b>	<b>40,977</b>
<b>Net income for the year</b>		<b>226,019</b>	<b>248,327</b>
<b>Other comprehensive income for the year</b>			
Surplus on revaluation of available for sale investments		85,702	6,541
<b>Total comprehensive income for the year</b>		<b>311,721</b>	<b>254,868</b>
<b>Earnings per certificate (Rupees)</b>	14	<b>1.88</b>	<b>2.07</b>

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



**Mohammad Shoaib, CFA**  
Chief Executive

For Al Meezan Investment Management Limited  
(Management Company)



**Mazhar Sharif**  
Director



## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	2011 (Rupees in '000)	2010
Undistributed income / (accumulated loss) brought forward	76,119	(52,208)
Less:Final distribution @ 5.5% in the form of cash dividend for the year ended June 30, 2010 (June 30, 2009: nil )	<b>(66,000)</b>	-
Less:Interim dividend for the year ended June 30, 2011: nil (June 30, 2010 @ 10%)	-	(120,000)
Net income for the year	<b>226,019</b>	248,327
Undistributed income carried forward	<u><b>236,138</b></u>	<u>76,119</u>

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



**Mohammad Shoaib, CFA**  
 Chief Executive

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



**Mazhar Sharif**  
 Director

## STATEMENT OF MOVEMENT IN EQUITY AND RESERVES PER CERTIFICATE FOR THE YEAR ENDED JUNE 30, 2011

	2011 (Rupees in '000)	2010
Net assets per certificate at the beginning of the year	10.65	9.52
Net realised gain on sale of investments	0.89	0.93
Dividend income	0.47	0.50
Profit on savings accounts with banks	0.17	0.11
Profit on sukuk certificates	0.58	0.50
Unrealised gain on re-measurement of investments at fair value through profit or loss	0.10	0.45
Provision for accrued profit on an investment	-	(0.02)
Provision against non-performing debt securities	(0.10)	(0.06)
Expenses	(0.23)	(0.34)
Net income for the year	1.88	2.07
Less: Interim dividend for the year ended June 30, 2011: nil (June 30, 2010: Rs. 1)	-	(1.00)
Less: Final distribution in the form of cash dividend for the year ended June 30, 2010: R. 0.55 (June 30, 2009: nil)	(0.55)	-
Surplus on revaluation of 'available for sale' investments	0.72	0.06
Net assets per certificate at the end of the year	<u>12.70</u>	<u>10.65</u>

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



**Mohammad Shoaib, CFA**  
Chief Executive

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



**Mazhar Sharif**  
Director

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	2011 (Rupees in '000)	2010
	<i>Note</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	226,019	248,327
<b>Adjustments for:</b>		
Dividend income	(56,620)	(60,298)
Profit on savings accounts with banks	(19,991)	(12,758)
Profit on sukuk certificates	(69,569)	(59,579)
Unrealised gain on re-measurement of investments at fair value through profit or loss	(12,054)	(54,564)
Provision for accrued profit on an investment	-	1,943
Provision against non-performing debt securities	11,500	7,250
	<u>79,285</u>	<u>70,321</u>
<b>(Increase) / decrease in assets</b>		
Investments	(393,875)	60,250
Receivable against sale of investments	449	(449)
	<u>(393,426)</u>	<u>59,801</u>
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan - management company of the Fund	395	(2,376)
Payable to CDC - trustee of the Fund	15	12
Payable to SECP	98	85
Payable to MBL	-	(434)
Payable against purchase of investments	(617)	(5,044)
Accrued expenses and other liabilities	(3,698)	5,952
	<u>(3,807)</u>	<u>(1,805)</u>
Cash generated from operations	(317,948)	128,317
Dividend income received	55,956	63,545
Profit received on savings accounts with banks	16,768	11,761
Profit received on sukuk certificates	63,204	53,934
Profit received on diminishing musharika certificates	-	2,493
<b>Net cash (outflow) / inflow from operating activities</b>	<u>(182,020)</u>	<u>260,050</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(67,982)	(112,103)
<b>Net cash outflow from financing activities</b>	<u>(67,982)</u>	<u>(112,103)</u>
Net (decrease) / increase in cash and cash equivalents	(250,002)	147,947
Cash and cash equivalents at the beginning of the year	292,188	144,241
Cash and cash equivalents at the end of the year	5 <u>42,186</u>	<u>292,188</u>

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



**Mohammad Shoaib, CFA**  
Chief Executive

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



**Mazhar Sharif**  
Director

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Balanced Fund (the Fund) was established as a closed-end scheme under a trust deed executed between Al Meezan as management company and CDC as Trustee. The trust deed was executed on June 15, 2004 and was approved by the SECP on September 8, 2004 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The registered office of the management company of the Fund is situated in Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The investment objective of the Fund is to generate long-term capital appreciation as well as current income by creating a balanced portfolio that is invested both in high quality equity securities and islamic income instruments such as term finance certificates, certificates of islamic investment, musharaka certificates, islamic sukuk certificates and other shariah compliant instruments. Under the trust deed all the conducts and acts of the Fund are based on shariah. The management company has appointed Meezan Bank Limited (MBL) as shariah adviser to ensure that the activities of the Fund are in compliance with the principles of islamic shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under NBFC Rules.
- 1.3 The Fund is a closed end scheme (mutual fund) and its certificates are listed on the Karachi Stock Exchange. The management company of the Fund has been given quality rating of AM2 by JCR - VIS.
- 1.4 The objective of the Fund is to carry on the business as a closed-end mutual fund and to invest its assets in securities, which are listed or proposed to be listed on the stock exchanges or Mutual Funds Association of Pakistan (MUFAP).
- 1.5 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.
- 1.6 According to clause 65 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulation 2008), a closed end fund or an investment company shall, upon expiry of every five years from November 21, 2007 or the date of launch of the fund whichever is later, hold a meeting of certificate holders within one month of such period to seek approval of the certificate holders (by special resolution) to convert into an open end scheme or revoke the close-end scheme or wind up the investment company.

### 2. BASIS OF MEASUREMENT

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

### 3. STATEMENT OF COMPLIANCE

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

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

- 3.2.1 Standards, amendments to published approved accounting standards and interpretations becoming effective in the year ended June 30, 2011 but are not relevant:

There are certain new standards, amendments and IFRIC interpretations that became effective during the year and are mandatory for the Fund's accounting period beginning on July 1, 2010 but are considered not to be relevant or have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

3.2.2 Standards, amendments to approved accounting standards and interpretations that are not yet effective and have not been early adopted by the Fund:

There are certain amendments to the standards and interpretations that are mandatory for the Fund's accounting period beginning on or after July 1, 2011 but are considered not to be relevant and are, therefore, not detailed in these financial statements.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

4.1 Accounting Convention

These financial statements have been prepared under the historical cost convention except for certain investments which are carried at fair value in accordance with the 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, 4.4, 4.5 and 6 )
- (b) Impairment of financial instruments (note 4.3.5)

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

4.3 Financial instruments

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

- (a) Investments 'at fair value through profit or loss'
  - 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.
  - 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 assets and financial liabilities at fair value through profit or loss' are expensed immediately.

Subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the income statement. Effective July 1, 2009 the fund has changed its policy and now changes in the fair value of instruments classified as 'available for sale' are recognised in other comprehensive income until derecognised or impaired when the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement. Previously these changes were recognised in equity.

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

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

#### 4.3.4 Fair value measurement principles

The fair value of debt securities and derivatives were determined as follows:

- Effective January 10, 2009 the carrying value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in circular No. 1/2009 (the circular) dated January 6, 2009 issued by the SECP.
- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further the reversal of provisions are also made in accordance with the said circulars and subsequent clarifications.

The fair value of shares of listed companies / units of funds, derivatives and financial instruments sold on deferred settlement basis is based on their price quoted on the Karachi Stock Exchange at the balance sheet date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

#### 4.3.5 Impairment

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

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

#### 4.3.6 Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial

asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Fund uses the weighted average method to determine realised gains and losses on derecognition.

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

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

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

#### 4.5 Financial instruments sold on deferred settlement basis

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

#### 4.6 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.

#### 4.7 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from November 30, 2004 in accordance with the requirements of the trust deed of the Fund.

#### 4.8 Net assets value per certificate

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

#### 4.9 Taxation

##### Current

The income of the Fund is exempt from income tax under clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the certificate holders. Accordingly, the Fund has not recorded a tax liability in respect of income relating to the current year as the Fund intends to avail this exemption.

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

##### Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that these will be available for set off against future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount of deferred tax in these

financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least 90 percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised to its certificate holders every year.

#### 4.10 Revenue recognition

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

#### 4.11 Expenses

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

#### 4.12 Offsetting of financial instruments

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

#### 4.13 Zakat

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

#### 4.14 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.

#### 4.15 Dividend and bonus certificates

Dividends declared (including distribution in the form of bonus certificates) and appropriation to reserves are recognised in the period in which they are authorised or approved.

<b>5. BALANCES WITH BANKS</b>	<i>Note</i>	<b>2011 (Rupees in '000)</b>	<b>2010</b>
On current accounts		<b>1,566</b>	655
On savings accounts	5.1	<b>40,620</b>	291,533
		<b>42,186</b>	292,188

- 5.1 The balances in savings accounts bear expected profit which ranges from 5 % to 12.70 % (2010: 5% to 11.45%) per annum.



6. INVESTMENTS	<i>Note</i>	2011 (Rupees in '000)	2010
Investments at fair value through profit or loss	6.1	847,532	604,036
Investments - 'available for sale'	6.2	618,409	381,774
		<u>1,465,941</u>	<u>985,810</u>
<b>6.1 Investments at fair value through profit or loss</b>			
Held for trading	6.1.1	569,393	392,003
Investments at fair value through profit or loss upon initial recognition	6.1.2	278,139	212,033
		<u>847,532</u>	<u>604,036</u>
<b>6.1.1 Held for trading</b>			
Shares of listed companies	6.1.1.1	79,393	174,288
Sukuk certificates	6.1.1.3	490,000	217,715
		<u>569,393</u>	<u>392,003</u>

6.1.1.1 Held for trading - shares of listed companies

Name of the investee company	As at July 01, 2010	Purchases during the year	Bonus issue	Sales during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain/(loss) as at June 30, 2011	Percentage of market value of total investment
	Number of shares					(Rupees in '000)		%	
<b>Automobile and Parts</b>									
Pak Suzuki Motor Company Limited	66,800	-	-	40,000	26,800	2,124	1,676	(448)	0.11
<b>Chemicals</b>									
Fauji Fertilizer Bin Qasim Limited	725,500	-	-	725,500	-	-	-	-	-
Fauji Fertilizer Company Limited	83,187	-	-	83,187	-	-	-	-	-
ICI Pakistan Limited	3,300	-	-	-	3,300	392	501	109	0.03
<b>Construction and Materials</b>									
Attock Cement Pakistan Limited	125,000	-	-	-	125,000	8,188	6,066	(2,122)	0.41
Lucky Cement Limited	135,000	-	-	100,000	35,000	2,175	2,479	304	0.17
<b>Fixed Line Telecommunication</b>									
Pakistan Telecommunication Company Limited "A"	1,285,500	-	-	1,127,135	158,365	2,819	2,252	(567)	0.15
<b>General Industrials</b>									
Thal Limited (note 6.1.1.2)	194,113	-	38,822	35,000	197,935	15,660	19,999	4,339	1.36
Tri-Pack Films Limited	83,400	-	-	-	83,400	8,134	14,282	6,148	0.97
<b>Oil and gas</b>									
Pakistan Oilfields Limited	159,275	-	-	115,000	44,275	9,559	15,895	6,336	1.08
Pakistan Petroleum Limited	221,200	-	44,240	187,000	78,440	12,035	16,243	4,208	1.11
									2.19
<b>Total</b>						<u>61,086</u>	<u>79,393</u>	<u>18,307</u>	
<b>Total cost of investments</b>							<u>67,534</u>		

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

### 6.1.1.3 Held for trading - Sukuk certificates

Name of the investee company	Maturity	Profit rate	As at July 01, 2010	Purchases during the year	Sales/redemption during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain as at June 30, 2011	Percentage of market value of total investment
			-----Number of certificates-----			----- (Rupees in '000) -----			%	
<b>Secured</b>										
"GoP Ijarah Sukuk Certificates - III (Note 6.1.1.4)"	March 11, 2012	Weighted Average 6 months T-Bills	250	-	-	250	25,485	25,000	(485)	1.71
"GoP Ijarah Sukuk Certificates - IV (Note 6.1.1.4)"	September 17, 2012	Weighted Average 6 months T-Bills less 5 basis points	1,880	-	-	1,880	192,230	188,000	(4,230)	12.82
"GoP Ijarah Sukuk Certificates - V (Note 6.1.1.4)"	November 15, 2013	Weighted Average 6 months T-Bills	-	2,520	500	2,020	202,000	202,000	-	13.78
"GoP Ijarah Sukuk Certificates - VII (Note 6.1.1.4)"	March 7, 2014	Weighted Average 6 months T-Bills	-	900	150	750	75,000	75,000	-	5.12
<b>Total</b>							<u>494,715</u>	<u>490,000</u>	<u>(4,715)</u>	
<b>Total cost of investments</b>								<u>490,000</u>		

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

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

	Note	2011	2010
		(Rupees in '000)	
Shares of listed companies	6.1.2.1	15,168	43,789
Sukuk Certificates	6.1.2.2	262,971	168,244
		<u>278,139</u>	<u>212,033</u>

#### 6.1.2.1 Shares of listed companies

Name of the investee company	As at July 01, 2010	Purchases during the year	Bonus issue	Sales during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain / (loss) as at June 30, 2011	Percentage of market value of total investment	
					-----Number of shares-----	----- (Rupees in '000) -----		%		
<b>Automobile and Parts</b>										
Indus Motor Company Limited	155,055	-	-	105,000	50,055	13,133	11,012	(2,121)	0.75	
<b>Banks</b>										
Meezan Bank Limited (an associate of the Fund)	193,302	-	28,995	-	222,297	2,813	3,884	1,071	0.26	
<b>General Industrials</b>										
Packages Limited	2,473	-	-	-	2,473	293	272	(21)	0.02	
<b>Total</b>						<u>16,239</u>	<u>15,168</u>	<u>(1,071)</u>		
<b>Total cost of investments</b>							<u>12,894</u>			

### 6.1.2.2 Sukuk certificates

Name of the investee company	Maturity/ call option date	Profit rate	As at July 01, 2010	Purchases during the year	Sales / redemptions during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Provision as at June 30, 2011	Market value as at June 30, 2011 - net of provision	Unrealised gain / (loss) as at June 30, 2011	Percentage of market value of total investment
			-----Number of certificates-----			----- (Rupees in '000) -----					
<b>Secured</b>											
Sitara Chemical Industries Limited - II (note 6.1.2.6)	June 3, 2011	3 months KIBOR plus base rate of 1.7%	6,750	-	6,750	-	-	-	-	-	-
Engro Fertilizer Pakistan Limited	September 1, 2015	6 months KIBOR plus base rate of 1.5%	15,000	-	5,000	10,000	49,000	-	50,000	1,000	3.41
Security Leasing Corporation Limited II (note 6.1.2.5)	March 19, 2014	Nil	3,516	-	938	2,578	9,668	-	9,079	(589)	0.62
Century Paper & Board Mills Limited	September 25, 2014	6 months KIBOR plus base rate of 1.35%	4,500	-	1,000	3,500	16,762	-	16,844	82	1.15
Eden Housing Limited (note 6.1.2.4)	September 29, 2014	6 months KIBORS,000 plus base rate of - 2.5%	5,000	13,008	-	12,048	(960)	0.82	-	-	-
Arzoo Textile Mills Limited (note 6.1.2.3)	April 15, 2014	6 months KIBOR plus base rate of 2%	5,000	-	-	5,000	11,500	11,500	-	-	-
Kot Addu Power Company Limited-Sukuk	December 27, 2011	6 months KIBOR plus base rate of 1.1%	-	35,000	-	35,000	175,000	-	175,000	-	11.94
<b>Total</b>							<u>274,938</u>	<u>11,500</u>	<u>262,971</u>	<u>(467)</u>	
<b>Total cost of investments</b>									<u>292,404</u>		

\* These securities are carried at face value as per the requirements of Circular 1 of 2009 with respect to thinly and non traded debt securities with residual maturities of upto six months.

6.1.2.3 On October 13, 2009 i.e. the scheduled redemption date, principal repayment alongwith the accrued profit aggregating Rs 2.5 million and Rs 1.943 million respectively was not received by the Fund from Arzoo Textile Mills Limited. In accordance with the requirements of the Circular No.1, the sukuk certificates had been classified as 'non performing assets' and no further profit has been accrued thereafter. The total cost of investment in Arzoo Textile Mills Limited is Rs 18.750 million against which a provision of Rs 7.250 million was made upto June 30, 2010. Further provision of Rs 11.500 million was made during the year ended June 30, 2011 in accordance with Circular No.1 which provides criteria for provisioning of securities that has defaulted and the Fund's provisioning policy.

6.1.2.4 As at June 30, 2010, principal repayment aggregating Rs 1.094 million i.e. 35% of the principal due on March 3, 2010 was received by the Fund on July 16, 2010 and accordingly the sukuk certificates were classified as performing as per Circular No. 1 and Circular No. 3 issued by the SECP. On October 15, 2010 a master addendum (effective from September 29, 2010) was signed between Eden Housing Limited and the investment agent of the sukuk certificates whereby certain terms included in the original Investment Agency Agreement dated December 14, 2007 were amended, including the repayment period which was extended from April 2, 2013 to September 29, 2014. The sukuk

certificates have been classified as non-performing by MUFAP on May 6, 2011. Accordingly, fund has measured the sukuks at the price last quoted by MUFAP. The fund has received all the installments due as per the restructured terms.

6.1.2.5 The agreement with Security Leasing Sukuk II has been amended during the year on March 19, 2011. In accordance with the revised terms no mark-up is payable on the said sukuk. Further, markup accrued upto the said date has been waived with the approval of the contributories to the sukuk. The sukuk certificates have been classified as non-performing by MUFAP on May 12, 2011. Accordingly, fund has measured the sukuks at the price last quoted by MUFAP. The fund has received all the installments due as per the restructured terms.

6.1.2.6 During the year ended June 30, 2011 call option was exercised for Sitara II sukuk on June 3, 2011 amounting to Rs 16.875 million.

## 6.2. Investments - 'available for sale'

Name of the investee company	As at July 01, 2010	Purchases during the year	Bonus / rights issue	Sales during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain / (loss) as at June 30, 2011	Percentage of market value of total investment
	-----Number of shares-----					----- (Rupees in '000) -----			%
<b>Automobile and Parts</b>									
Indus Motor Company Limited	10,000	42,375	-	-	52,375	11,578	11,523	(55)	0.79
Pak Suzuki Motor Company Limited	-	11,260	-	-	11,260	833	704	(129)	0.05
									0.84
<b>Banks</b>									
Meezan Bank Limited (an associate of the Fund)	-	312,159	-	-	312,159	5,449	5,453	4	0.37
<b>Chemicals</b>									
Fauji Fertilizer Bin Qasim Company Limited	678,000	-	-	535,500	142,500	3,454	6,006	2,552	0.41
Fauji Fertilizer Company Limited	1,100,000	525,000	214,046	788,813	1,050,233	125,138	157,903	32,765	10.77
ICI Pakistan Limited	230,000	190,000	-	25,000	395,000	49,810	59,981	10,171	4.09
Lotte Pakistan PTA Limited	-	1,082,500	-	1,082,500	-	-	-	-	15.28
<b>Construction and Materials</b>									
Attock Cement Pakistan Limited	-	45,000	-	-	45,000	3,088	2,184	(904)	0.15
Lucky Cement Limited	355,421	250,000	-	-	605,421	39,750	42,888	3,138	2.93
DG Khan Cement Company Limited	-	798,749	-	125,000	673,749	16,278	15,489	(789)	1.06
									4.14
<b>Electricity</b>									
Hub Power Company Limited	-	1,259,500	-	50,000	1,209,500	44,447	45,356	909	3.09
<b>Fixed Line Telecommunication</b>									
Pakistan Telecommunication Company Limited "A"	295,000	465,000	-	400,100	359,900	6,932	5,118	(1,814)	0.35
<b>General Industrials</b>									
Packages Limited	175,000	15,000	-	40,000	150,000	17,981	16,500	(1,481)	1.13
Tri-Pack Films Limited	10,000	-	-	-	10,000	1,132	1,713	581	0.12
									1.25
<b>Oil and gas</b>									
National Refinery Limited	63,000	91,376	-	154,376	-	-	-	-	-
Oil and Gas Development Company Limited (note 6.2.1)	183,166	326,000	-	177,000	332,166	43,865	50,818	6,953	3.47
Pakistan Oilfields Limited	145,750	39,000	-	-	184,750	44,902	66,327	21,425	4.52
Pakistan Petroleum Limited	215,100	140,020	-	-	355,120	59,035	73,535	14,500	5.02
Pakistan State Oil Company Limited	243,100	137,000	-	165,000	215,100	57,443	56,911	(532)	3.88
									16.89
<b>Personal Goods</b>									
Nishat Mills Limited	-	250,000	-	250,000	-	-	-	-	-
<b>Total</b>						<b>531,115</b>	<b>618,409</b>	<b>87,294</b>	
<b>Total cost of investments</b>							<b>531,115</b>		

6.2.1 100,000 shares (June 30, 2010: 100,000 shares) of Oil and Gas Development Company Limited, having market value of Rs 15.299 million as at June 30, 2011 (2010: 14.170 million), have been pledged as collateral in favour of National Clearing Company of Pakistan Limited against exposure margins and mark to market losses.

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

Name of the investee company	Type of investments	Value of investment before provision	Provision held as at June 30, 2011	Value of investment after provision	Percentage of net assets	Percentage of total assets
------(Rupees in '000)-----				-----%-----		
Arzoo Textile Mills Limited	Non-traded sukuk certificates	11,500	11,500	-	-	-
Eden Housing Limited	Non-traded sukuk certificates	13,008	-	13,008	0.85	0.84
Security Leasing Corporation Limited II	Non-traded sukuk certificates	9,668	-	9,668	0.63	0.63
		34,176	11,500	22,676	1.48	1.47

6.4 As at June 30, 2011, the Funds investments in non-traded sukuk certificates represent 46.14% (2010: 24.46%) of the net assets of the Fund.

7. <b>ADVANCES, DEPOSITS AND OTHER RECEIVABLES</b>	<i>Note</i>	<b>2011</b>	<b>2010</b>
		(Rupees in '000)	
Advance tax recoverable		10	10
Security deposits		2,800	2,800
Profit receivable on savings accounts with banks		8,554	5,331
Profit receivable on sukuk certificates		<u>18,684</u>	<u>12,319</u>
		<u><b>30,048</b></u>	<u><b>20,460</b></u>

8. **PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (AI Meezan) - management company of the Fund**

Management fee	8.1	<u>2,507</u>	<u>2,112</u>
		<u><b>2,507</b></u>	<u><b>2,112</b></u>

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

9. **PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED (CDC) - trustee of the Fund**

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

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

This represents annual fee payable to SECP. Fee at the rate of 0.085 percent of the average annual net assets of the fund is payable to SECP under regulation 62 read with Schedule II of the NBFC Regulations, 2008.

11. ACCRUED EXPENSES AND OTHER LIABILITIES	Note	2011 (Rupees in '000)	2010
Auditors' remuneration		315	300
Charity payable	11.1	2,331	1,235
Legal and professional charges payable		-	27
Workers' welfare fund	12	-	4,967
Others		222	37
		<u>2,868</u>	<u>6,566</u>

- 11.1 According to the instructions of the shariah adviser, any income earned by the Fund from investments whereby portion of the investment of such investees has been made in shariah non-compliant avenues, such proportion of income of the Fund from those investees should be given away for charitable purposes directly by the Fund. Accordingly, an amount of Rs 2.331 million (2010: Rs 1.235 million) is outstanding in this regard after making charity payments of nil (2010: Rs 0.30 million) to renowned charitable institutions.

## 12. CONTINGENCY

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, during the year ended June 30, 2010, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

During the year a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Notices of demand have also been issued to several other mutual funds and the matter has been taken up by the mutual fund industry with the FBR for their withdrawal.

On December 14, 2010, the Ministry has filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in the Court.

However, the Management Company believes that the aforementioned constitutional petition pending in the Court has strong grounds for decision in favour of the mutual funds. Accordingly, the management has reversed the liability recognised as at June 30, 2010 amounting to Rs 4.967 million, during the current year. The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs 9.301 million.

There were no other contingencies and commitments outstanding as at June 30, 2011.

<b>13. AUDITORS' REMUNERATION</b>	<b>2011</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
Audit fee	215	200
Half yearly review fee	100	100
Other certifications	100	100
Out of pocket expenses	46	32
	<u>461</u>	<u>432</u>

<b>14. EARNINGS PER CERTIFICATE</b>		
Net income for the year	<u>226,019</u>	<u>248,327</u>
Number of certificates in issue	<u>120,000,000</u>	<u>120,000,000</u>
Earnings per certificate (Rupees)	<u>1.88</u>	<u>2.07</u>

14.1 A diluted earnings per certificate has not been presented as the Fund does not has any convertible instruments as at June 30, 2010 and 2011.

### 15. OPERATING SEGMENTS

The investment committee of the management company makes the strategic resource allocations on behalf of the Fund. The Fund has determined the operating segments based on the reports reviewed by this committee for taking strategic decisions.

The committee considers the investments as two sub-portfolios, which are managed by fund manager at the management company. These sub-portfolios consist of an equity portfolio, which focuses on equity securities and related derivatives; the second sub-portfolio consisting of debt instruments.

The reportable operating segments derive their income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within each portfolio. These returns consist of profit on sukuk certificates, dividends and gain on disposals of investments.

The segment information provided to the investment committee and the fund manager for the reportable segments is as follows:

	<b>For the year ended June 30, 2011</b>		
	<b>Equity sub-portfolio</b>	<b>Debt sub-portfolio</b>	<b>Total</b>
	<b>------(Rupees in '000)-----</b>		
Profit on sukuk certificates	-	69,569	69,569
Dividend income	56,620	-	56,620
Capital gains	104,616	2,686	107,302
Provision against non-performing debt securities	-	(11,500)	(11,500)
Brokerage and FED expense	(499)	(10)	(509)
Total net segment income	<u>160,737</u>	<u>60,745</u>	<u>221,482</u>
Total segment assets	<u>716,543</u>	<u>771,655</u>	<u>1,488,198</u>
Total segment liabilities	<u>2,372</u>	<u>-</u>	<u>2,372</u>
<b>Total segment assets include:</b>			
Financial assets at fair value through profit or loss	94,561	752,971	847,532
Investments - 'available for sale'	618,409	-	618,409
Other	3,573	18,684	22,257
	<u>716,543</u>	<u>771,655</u>	<u>1,488,198</u>

For the year ended June 30, 2010		
Equity sub-portfolio	Debt sub-portfolio	Total

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

Profit on sukuk certificates	-	59,579	59,579
Dividend income	60,298	-	60,298
Capital gains	110,351	947	111,298
Provision for accrued profit on an investment	-	(1,943)	(1,943)
Provision against non-performing debt securities	-	(7,250)	(7,250)
Brokerage and FED expense	(821)	(5)	(826)
<b>Total net segment income</b>	<b>169,828</b>	<b>51,328</b>	<b>221,156</b>
<b>Total segment assets</b>	<b>603,209</b>	<b>398,278</b>	<b>1,001,487</b>
<b>Total segment liabilities</b>	<b>1,907</b>	<b>-</b>	<b>1,907</b>

Total segment assets include:

Financial assets at fair value through profit or loss	218,077	385,959	604,036
Investments - 'available for sale'	381,774	-	381,774
Receivable against sale of investment	449	-	449
Other	2,909	12,319	15,228
	<b>603,209</b>	<b>398,278</b>	<b>1,001,487</b>

There were no transactions between reportable segments.

The assessment of the performance of the operating segments is based on investments valued at last traded market prices.

A reconciliation of total net segmental income to total income is provided as follows.

	2011	2010
	(Rupees in '000)	
Total net segment income	221,482	221,156
Profit on savings accounts with banks	19,991	12,758
Unrealised gain on re-measurement of investments at fair value through profit or loss	12,054	54,564
Expenses	(27,508)	(40,151)
<b>Net Income for the year</b>	<b>226,019</b>	<b>248,327</b>

Reportable segments' assets are reconciled to total assets as follows:

Segment assets for reportable segments	1,488,198	1,001,487
Balances with banks	42,186	292,188
Other advances, deposits, prepayments and receivables	11,364	8,141
<b>Total assets</b>	<b>1,541,748</b>	<b>1,301,816</b>

Reportable segments' liabilities are reconciled to total liabilities as follows:

Segment liabilities for reportable segments	2,372	1,907
Accrued expenses	537	5,317
Other payables	15,407	16,881
<b>Total liabilities</b>	<b>18,316</b>	<b>24,105</b>



## 16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

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

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

Details of balances with connected persons and transactions with them for the year are as follows:

	2011	2010
	(Rupees in '000)	
<b>Al Meezan - management company of the Fund</b>		
Remuneration payable	<u>2,507</u>	<u>2,112</u>
Investment of 3,821,824 certificates (June 30, 2010: 3,821,824)	<u>35,925</u>	<u>23,886</u>
<b>CDC - trustee of the Fund</b>		
Remuneration payable	<u>139</u>	<u>124</u>
Charges payable	<u>2</u>	<u>2</u>
<b>MBL - shariah adviser of the Fund</b>		
Bank balance	<u>2,925</u>	<u>1,738</u>
Investment in 534,456 shares (June 30, 2010: 193,302 shares)	<u>9,337</u>	<u>2,813</u>
Investment of 16,134,468 certificates (June 30, 2010: 16,134,468 certificates)	<u>151,664</u>	<u>100,840</u>
<b>Pakistan Kuwait Investment Company (Private) Limited</b>		
Investment of 11,057,791 certificates (June 30, 2010: 11,057,791 certificates)	<u>103,943</u>	<u>69,111</u>
<b>Directors and officers of the management company</b>		
Investment of 32,975 certificates (June 30, 2010: 31,975 certificates)	<u>310</u>	<u>200</u>
<b>Al Meezan - management company of the Fund</b>		
Remuneration for the year	<u>28,069</u>	<u>31,114</u>
Dividend for the year	<u>2,102</u>	<u>3,822</u>
<b>CDC - trustee of the Fund</b>		
Remuneration for the year	<u>1,596</u>	<u>1,504</u>
Charges for the year	<u>143</u>	<u>173</u>
<b>MBL</b>		
Profit on savings account	<u>11</u>	<u>17</u>
Dividend for the year	<u>8,874</u>	<u>16,134</u>
28,995 bonus shares received (June 30, 2010: 9,204 shares)	<u>-</u>	<u>-</u>
Shares sold during the year nil shares (June 30, 2010: 136,977 shares)	<u>-</u>	<u>2,364</u>
<b>Pakistan Kuwait Investment Company (Private) Limited</b>		
Dividend for the year	<u>6,082</u>	<u>11,058</u>
<b>Directors and officers of the management company</b>		
Dividend for the year	<u>18</u>	<u>32</u>

## 17. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost	Total
<b>2011</b>					
(Rupees in '000)					
<b>On balance sheet - financial assets</b>					
Balances with banks	42,186	-	-	-	42,186
Investments	-	847,532	618,409	-	1,465,941
Dividend receivable	3,573	-	-	-	3,573
Deposits and other receivables	30,038	-	-	-	30,038
	<u>75,797</u>	<u>847,532</u>	<u>618,409</u>	<u>-</u>	<u>1,541,738</u>
<b>On balance sheet - financial liabilities</b>					
Payable to Al Meezan - management company of the Fund	-	-	-	2,507	2,507
Payable to CDC - trustee of the fund	-	-	-	141	141
Payable against purchase of investments	-	-	-	41	41
Accrued expenses and other liabilities	-	-	-	537	537
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,226</u>	<u>3,226</u>
<b>2010</b>					
(Rupees in '000)					
<b>On balance sheet - financial assets</b>					
Balances with banks	292,188	-	-	-	292,188
Investments	-	604,036	381,774	-	985,810
Dividend receivable	2,909	-	-	-	2,909
Deposits and other receivables	20,450	-	-	-	20,450
Receivable against sale of investment	449	-	-	-	449
	<u>315,996</u>	<u>604,036</u>	<u>381,774</u>	<u>-</u>	<u>1,301,806</u>
<b>On balance sheet - financial liabilities</b>					
Payable to Al Meezan - management company of the Fund	-	-	-	2,112	2,112
Payable to CDC - trustee of the fund	-	-	-	126	126
Payable against purchase of investments	-	-	-	658	658
Accrued expenses and other liabilities	-	-	-	364	364
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,260</u>	<u>3,260</u>

## 18. FINANCIAL RISK MANAGEMENT

### Financial risk management objectives and policies

The risk management policy of the Fund aims to maximise the return attributable to the certificate holders and seeks to minimise potential adverse effects on the Fund's financial performance.

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

Risks managed and measured by the Fund are explained below:

### 18.1 Market risk

#### 18.1.1 Price risk

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

The Fund's strategy on the management of investment risk is driven by the Fund's investment objectives. The primary objective of the Fund is to provide maximum return to the certificate holders from investment in shariah compliant investments for the given level of risks. The Fund's market risk is managed on a daily basis by the fund manager in accordance with the policies and procedures laid down by the SECP. The funds are allocated among various asset classes based on the attractiveness of the particular asset class. The allocation among these is dependent on the time horizon for investments and liquidity requirements of the portfolio. The market risk is managed by monitoring exposure to marketable securities and by complying with the internal risk management policies and regulations laid down in NBFC Regulations, 2008.

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

Details of the Fund's investment portfolio exposed to price risk, at the balance sheet date are disclosed in note 6.1.1.1, 6.1.2.1 and 6.2 to these financial statements. At June 30, the Fund's overall exposure to price risk is limited to the fair value of those positions. The Fund manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weighting to that of the Karachi Meezan Index (KMI) 30 index. The Fund's policy is to concentrate the investment portfolio in sectors where management believe the Fund can maximise the returns derived for the level of risk to which the Fund is exposed.

The net assets of the Fund will increase / decrease by approximately Rs 0.753 million (2010: decrease / increase approximately Rs 0.390 million) if the prices of equity vary due to increase / decrease in KMI. This is based on the assumption that the fair value of the Fund's portfolio moves according to their historical correlation with KMI and that KMI 30 index increase / decreases by 0.1% with all other factors held constant.

The fund manager uses KMI as a reference point in making investment decisions. However, the fund manager does not manage the Fund's investment strategy to track KMI or any other index or external benchmark. The sensitivity analysis presented is based upon the portfolio composition as at June 30 and the historical correlation of the securities comprising the portfolio to the KMI. The composition of the Fund's investment portfolio and the correlation thereof to KMI, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30 is not necessarily indicative of the effect on the Fund's net assets attributed to units of future movements in the level of KMI.

#### 18.1.2 Interest rate risk

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

##### Cash flow interest rate risk

The funds interest rate risk arises from the balances in savings accounts and investment in debt securities. At June 30, 2011, if there had been increase / decrease of 100 basis points in interest rates, with all other variables held constant, net assets of the Fund for the period then ended would have been higher / lower by Rs 7.936 million (2010 : 6.775 million) mainly as a result of finance income.

##### Fair value interest rate risk

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

#### 18.2 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted.

Credit risk arises from deposits with banks and financial institutions, credit exposure arising as a result of investment in debt securities, profit receivable on debt securities, dividends receivable on equity securities and receivable against sale of investments.

Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The Fund receives a monthly rating update, against which investments are reviewed. The Fund, however, also invests in unrated instruments based on internal ratings assigned by the fund manager using an approach that is consistent with the approach used by the rating agencies. The credit rating wise analysis of investments in debt instruments have been tabulated as follows:

	2011 (%)	2010 (%)
Government guaranteed	65.08	56.41
AA+	23.24	-
AA	-	19.04
AA-	6.64	8.71
A+	2.23	5.58
CCC	-	3.42
Default	-	3.86
Non-rated	2.81	2.98
	<u>100.00</u>	<u>100.00</u>

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

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

	2011 %	2010 %
AA+	32.08	56.00
AA	60.01	4.50
AA-	6.93	0.60
A	0.98	38.90
	<u>100.00</u>	<u>100.00</u>

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

The maximum exposure to credit risk as at June 30, 2011, along with comparative is tabulated below:

	2011	2010
	(Rupees in '000)	
<b>Financial assets</b>		
Balances with banks	42,186	292,188
Investments	752,971	385,959
Dividend receivable	3,573	2,909
Receivable against sale of investment	-	449
Advances, deposits and other receivables	30,038	20,450
	<u>828,768</u>	<u>701,955</u>

The Fund does not have any collateral against any of the aforementioned assets. The issuer of the sukuk, however, pledge security to the investment agent in trust for the benefit of sukuk holders.

### 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 investments are considered to be readily realisable as they are all listed on stock exchanges of the country. The Fund manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

In accordance with the regulation 58(1)(k) of the NBFC Regulation, the Fund has the ability to borrow funds for meeting the redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen per cent of the net assets which amounts to Rs 228.515 million as on June 30, 2011 (2010: Rs 191.657 million). However, no such borrowing has been obtained during the year.

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

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

	2011				Total	June 30, 2010
	Maturity upto					
	Three months	six months	one year	More than one year		
	----- (Rupees in '000) -----					
Remuneration to Al Meezan - management company of the Fund	2,507	-	-	-	2,507	2,112
Remuneration to CDC - trustee of the Fund	141	-	-	-	141	126
Payable against purchase of investments	41	-	-	-	41	658
Accrued expenses and other liabilities	537	-	-	-	537	364
	<u>3,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,226</u>	<u>3,260</u>
<b>June 30, 2010</b>	<u>3,260</u>	<u>-</u>	<u>-</u>	<u>-</u>		

### 19. CAPITAL RISK MANAGEMENT

The Fund is a closed-end fund. Its certificates are not redeemable directly with the Fund instead certificates are traded on the stock exchange.

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

In accordance with NBFC Regulations, the Fund is required to distribute atleast ninety percent of its income from sources other than unrealised capital gain as reduced by such expenses as are chargeable to the Fund. Further, the Fund is also prohibited to lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person.

In accordance with risk management policies stated in note 19, the Fund endeavors to invest while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments where necessary.

### 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets (e.g. listed shares) are based on the quoted market prices at the close of trading on the year end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

The fair value hierarchy has the following levels:

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

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

Assets	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
-Equity securities	79,393	-	-	79,393
-Debt securities	-	490,000	-	490,000
Financial assets designated at fair value through profit or loss upon initial recognition				
-Equity securities	15,168	-	-	15,168
-Debt securities	-	241,844	21,127	262,971
Financial assets available for sale				
-Equity securities	618,409	-	-	618,409

The following table presents the assets that are measured at fair value as at June 30, 2010

Assets	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
-Equity securities	174,288	-	-	174,288
-Debt securities	217,715	-	-	217,715
Financial assets designated at fair value through profit or loss at initial recognition				
-Equity securities	43,789	-	-	43,789
-Debt securities	-	128,677	39,567	168,244
Financial assets available for sale				
-Equity securities	381,774	-	-	381,774

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

	Level 1	Level 2	Level 3
Transfers between level 2 and level 3			
-Debt securities	(217,715)	217,715	

The following table presents the transfers between levels for the year ended June 30, 2010

	Level 1	Level 2	Level 3
Transfers between level 2 and level 3			
-Debt securities		(56,481)	56,481

The following table presents the movement in level 3 instruments for the year ended June 30, 2011 by class of financial instruments

	2011 Debt securities	2010 Debt securities
Opening balance	39,567	-
Transfers into level 3	-	56,481
Sales / redemptions	(5,391)	(2,916)
Provisions	(11,500)	(7,250.0)
Loss	(1,549)	(6,748)
<b>Closing balance</b>	<b>21,127</b>	<b>39,567</b>

## 21. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present there in					
		July 7, 2010	August 17, 2010	September 28, 2010	October 19, 2010	January 24, 2011	April 21, 2011
Mr. Ariful Islam	Chairman	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoaib, CFA	Chief Executive	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Aliuddin Ansari	Director	No	Yes	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Rana Ahmed Humayun	Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Mazhar Sharif	Director	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Rizwan Ata	Director	No	No	Yes	No	No	No

## 22. NON ADJUSTING EVENT

The board of directors of the management company of the Fund in its meeting held on August 16, 2011 has announced a cash dividend of 17.50% (2010: 5.5%) amounting to Rs. 210 million (2010: Rs 66 million).

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

## 23. TOP TEN BROKERAGE COMMISSION BY PERCENTAGE

	2011
<b>Broker's Name</b>	%
KASB Securities Limited	14.08
BMA Capital Management Limited	13.55
Invest Capital Investment Bank Limited	11.97
Foundation Securities (Pvt.) Limited	10.97
Invisor Securities (Pvt.) Limited	10.37
Top Line Securities (Pvt.) Limited	7.08
JS Global Capital Limited	5.95
Invest & Finance Securities Limited	5.00
Taurus Securities Limited	4.39
Global Securities Pakistan Limited	3.06

	2010
<b>Broker's Name</b>	%
KASB Securities Limited	15.70
Invest & Finance Securities Limited	14.24
Ample Securities (Private) Limited	12.55
Invest Capital Investment Bank Limited	9.53
Invisor Securities (Private) Limited	8.65
JS Global Capital Limited	6.77
Foundation Securities (Private) Limited	6.33
Ismail Iqbal (Private) Limited	5.64
BMA Capital Management Limited	3.35
Arif Habib Securities Limited	2.67

## 24. PERFORMANCE TABLE

	2011	2010	2009	2008
Net assets (Rs '000) (ex-distribution) *	1,313,432	1,277,711	1,142,843	1,303,683
Net assets value per certificate as at June 30 (Rs) (ex-distribution)	10.95	10.65	9.52	10.86
<b>Distribution</b>				
- Final	5.50%	-	-	10.00%
- Interim	-	10.00%	-	-
Dates of distribution (annual)	Oct 20, 2010	Oct 20, 2009	-	Aug 7, 2008
Distribution (Rs '000')	66,000	120,000	-	120,000
Highest NAV per certificate (Rs)	12.82	11.56	11.85	13.65
Lowest NAV per certificate (Rs)	10.67	9.52	6.76	11.27
Total return	25.38%	22.73%	-10.79%	1.19%
Earnings / (loss) per certificate (Rs)	1.88	2.07	(1.30)	0.15

\* The distribution is not accounted for in these financial statements as also explained in note 22.

	One year	Two years	Three years	Four years
Average annual return as at June 30, 2010	25.38%	24.05%	11.14%	8.56%



## Investment portfolio composition of the Fund

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

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

### 25. INVESTMENT COMMITTEE MEMBERS

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

Name	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib, CFA	Chief Executive Officer	CFA / MBA	Twenty one years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA level II / MBA	Fifteen years
3. Ms. Sanam Ali Zaib	Head of Research	CFA level II / MBA	Seven years
4. Ms. Madiha Javed	Manager Research and Product Development	CFA / FRM / BBA	Four years
5. Mr. Muhammad Ali	AVP Investments	CFA / FRM / MBA / MS	Seventeen years
6. Mr. Farhan Lakhani	Fund Manager	CFA level II / BBA	Two years

25.2 The Fund Manager of the Fund is Mr. Farhan Lakhani. Other fund being managed by the Fund Manager is Meezan Capital Protected Fund - II.

### 26. PATTERN OF CERTIFICATE HOLDING AS AT JUNE 30

	2011		
	Number of investors	Investment amount	Percentage of total investment
	(Rupees in '000)		
Individuals	929	207,659	17.29
Associated companies / directors	8	319,988	26.67
Insurance companies	1	3,000	0.25
Banks / DFIs	10	228,491	19.04
NBFCs	4	42,230	3.52
Retirement funds	23	129,826	10.82
Public limited companies	16	172,585	14.38
Others	3	96,221	8.03
<b>Total</b>	<b>994</b>	<b>1,200,000</b>	<b>100.00</b>

	2010		
	Number of investors	Investment amount	Percentage of total investment
	(Rupees in '000)		
Individuals	983	171,070	14.25
Associated companies / directors	5	310,360	25.86
Insurance companies	1	3,000	0.25
Banks / DFIs	8	222,807	18.57
NBFCs	7	59,869	4.99
Retirement funds	35	167,713	13.98
Public limited companies	20	232,129	19.34
Others	4	33,052	2.76
<b>Total</b>	<b>1,063</b>	<b>1,200,000</b>	<b>100.00</b>

**27. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

These financial statements have been authorised for issue on August 16, 2011 by the board of directors of the management company.

**28. GENERAL**

The bifurcation of Undistributed income / (Accumulated loss) carried forward and brought forward into realised and unrealised as required by the NBFC Regulations, 2008 has not been disclosed as such bifurcation was not practicable.



**Mohammad Shoaib, CFA**  
Chief Executive

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



**Mazhar Sharif**  
Director

## PATTERN OF CERTIFICATE HOLDING AS OF JUNE 30, 2011

NO. OF CERTIFICATE HOLDERS	HAVING CERTIFICATES		CERTIFICATES HELD	%
	From	To		
35	1	100	999	0.0008
236	101	500	116,054	0.0967
79	501	1,000	78,899	0.0657
297	1,001	5,000	971,879	0.8099
129	5,001	10,000	1,197,820	0.9982
31	10,001	15,000	414,827	0.3457
28	15,001	20,000	509,699	0.4247
18	20,001	25,000	430,789	0.3590
12	25,001	30,000	332,787	0.2773
7	30,001	35,000	234,505	0.1954
3	35,001	40,000	116,500	0.0971
9	40,001	45,000	378,136	0.3151
13	45,001	50,000	648,500	0.5404
3	50,001	55,000	157,000	0.1308
4	55,001	60,000	233,150	0.1943
1	60,001	65,000	61,000	0.0508
1	65,001	70,000	68,000	0.0567
3	70,001	75,000	223,499	0.1862
1	75,001	80,000	80,000	0.0667
8	80,001	85,000	657,880	0.5482
1	85,001	90,000	88,000	0.0733
1	90,001	95,000	91,575	0.0763
9	95,001	100,000	899,900	0.7499
2	100,001	105,000	201,151	0.1676
1	105,001	110,000	110,000	0.0917
1	115,001	120,000	117,298	0.0977
2	120,001	125,000	246,500	0.2054
1	125,001	130,000	129,000	0.1075
2	195,001	200,000	400,000	0.3333
1	215,001	220,000	220,000	0.1833
1	235,001	240,000	239,145	0.1993
3	245,001	250,000	750,000	0.6250
1	260,001	265,000	265,000	0.2208
2	295,001	300,000	600,000	0.5000
1	315,001	320,000	318,000	0.2650
1	335,001	340,000	335,569	0.2796
5	395,001	400,000	1,996,449	1.6637
1	450,001	455,000	453,982	0.3783
1	460,001	465,000	462,750	0.3856

NO. OF CERTIFICATE HOLDERS	HAVING CERTIFICATES		CERTIFICATES HELD	%
	From	To		
1	465,001	470,000	468,000	0.3900
4	495,001	500,000	2,000,000	1.6667
1	505,001	510,000	510,000	0.4250
1	530,001	535,000	534,566	0.4455
1	600,001	605,000	602,000	0.5017
1	640,001	645,000	641,437	0.5345
1	795,001	800,000	800,000	0.6667
1	800,001	805,000	800,500	0.6671
1	865,001	870,000	868,000	0.7233
1	920,001	925,000	922,000	0.7683
6	995,001	1,000,000	6,000,000	5.0000
1	1,110,001	1,115,000	1,114,880	0.9291
1	1,470,001	1,475,000	1,471,392	1.2262
1	1,575,001	1,580,000	1,577,000	1.3142
1	1,880,001	1,885,000	1,882,000	1.5683
1	2,075,001	2,080,000	2,078,843	1.7324
1	2,255,001	2,260,000	2,258,411	1.8820
3	2,495,001	2,500,000	7,500,000	6.2500
1	2,870,001	2,875,000	2,875,000	2.3958
1	3,535,001	3,540,000	3,536,100	2.9468
1	3,565,001	3,570,000	3,568,868	2.9741
1	3,645,001	3,650,000	3,650,000	3.0417
1	3,820,001	3,825,000	3,821,824	3.1849
1	4,995,001	5,000,000	5,000,000	4.1667
1	5,480,001	5,485,000	5,481,644	4.5680
1	8,005,001	8,010,000	8,009,034	6.6742
1	9,995,001	10,000,000	10,000,000	8.3333
1	11,055,001	11,060,000	11,057,791	9.2148
1	16,000,000	16,200,000	16,134,468	13.4454
<b>994</b>			<b>120,000,000</b>	<b>100.00</b>

## CATEGORIES OF CERTIFICATE HOLDERS AS AT JUNE 30, 2011

PARTICULARS	CERTIFICATE HOLDERS	CERTIFICATE HOLDING	%
DIRECTORS, CEO & CHILDREN	3	23,475	0.0196
ASSOCIATED COMPANIES	6	31,975,793	26.6465
BANKS, DFI & NBF	10	22,849,101	19.0409
INSURANCE COMPANIES	1	300,000	0.2500
MODARABAS & MUTUAL FUNDS	4	4,223,000	3.5192
GENERAL PUBLIC (LOCAL)	921	20,741,444	17.2845
GENERAL PUBLIC (FOREIGN)	7	24,000	0.0200
OTHERS	39	30,241,132	25.2009
FOREIGN COMPANIES	3	9,622,055	8.0184
<b>Total</b>	<b>994</b>	<b>120,000,000</b>	<b>100</b>

**STATEMENT OF THE INCOME & EXPENDITURE OF MANGEMENT  
COMPANY IN RELATION TO THE FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	2011	2010
	(Rupees in '000)	
<b>INCOME</b>		
Remuneration from Meezan Balanced Fund	28,069	31,114
Dividend income	2,102	3,822
	<u>30,171</u>	<u>34,936</u>
<b>OPERATING EXPENSES</b>		
Salaries and other benefits	7,256	6,515
Motor vehicle running expenses	189	175
Fees and subscription	141	157
Insurance expense	55	68
Printing and stationery	70	119
Communication	286	530
Depreciation	466	558
Travelling and conveyance	19	57
Entertainment	37	38
Legal and professional charges	162	251
Repair and maintenance	147	35
Office supplies	76	61
Training and development	19	28
Rent, rates and taxes	430	526
Utilities	86	88
Shariah advisory fee	183	170
Miscellaneous expenses	11	13
	<u>9,632</u>	<u>9,388</u>
<b>OPERATING PROFIT</b>	<u><u>20,539</u></u>	<u><u>25,548</u></u>

**Note:** The above expenses are allocated based on the average net assets of the respective funds managed by the Management Company. Other revenue and expenses not relating to the fund have not been included in the above statement.



**Pure. Profit.**

(AM2 rating by JCR-VIS)

**Al Meezan Investment Management Ltd.**  
A subsidiary of Meezan Bank

**Call: 0800-HALAL (42525)**

**UAN: 111-633-926 (111-MEEZAN)**

**Website: [www.almeezangroup.com](http://www.almeezangroup.com)**

**Email: [feedback@almeezangroup.com](mailto:feedback@almeezangroup.com)**

**Follow Al Meezan on:** [f](#) [t](#) [in](#)

**Our Value Added Services**



**Email Service**



**Call Centre**



**Customer Services**



**SMS Alert**



**Member Services**



**Internet Banking**