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**Our Vision**

"To set standards of best practices and performance for the industry through efficient selection of securities on a SHARIAH COMPLIANT basis."

**Our Mission**

" To be the leading mutual fund in the industry, providing unitholders, with a truly SHARIAH COMPLIANT stable and low risk Halal income stream."

## FUND INFORMATION

### MANAGEMENT COMPANY

Al Meezan Investment Management Limited  
Ground Floor, Block "B", Finance & Trade Centre,  
Shahrah-e-Faisal, Karachi 74400, Pakistan.  
Phone: (9221) 3563 0722-6, 111-MEEZAN  
Fax: (9221) 3567 6143, 3563 0808  
Web site: www.almeezangroup.com  
E-mail: info@almeezangroup.com

### BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

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

### CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

### AUDIT COMMITTEE

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

### TRUSTEE

Central Depository Company of Pakistan Limited  
CDC House, 99-B, Block B, S.M.C.H.S.  
Main Shahrah-e-Faisal, Karachi-74400

### AUDITORS

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

### SHARIAH ADVISER

Meezan Bank Limited

### BANKERS TO THE FUND

Al Baraka Islamic Bank B.S.C (E.C)  
Askari Bank Limited - Islamic Banking  
Bank Alfalah Limited - Islamic Banking  
Bank Al Habib Limited - Islamic Banking  
BankIslami Pakistan Limited  
Habib Metropolitan Bank Limited - Islamic Banking  
Habib Bank Limited - Islamic Banking  
MCB Bank Limited - Islamic Banking  
Meezan Bank Limited  
Royal Bank of Scotland Limited - Islamic Banking  
Soneri Bank Limited - Islamic Banking  
Standard Chartered Bank (Pakistan) Limited - Islamic Banking  
UBL Ameen - Islamic Banking

### LEGAL ADVISER

Bawaney & Partners  
404, 4th Floor, Beaumont Plaza, 6-CL-10  
Beaumont Road, Civil Lines, Karachi - 75530  
Phone: (9221) 3565 7658-59  
Fax: (9221) 3565 7673  
E-mail: bawaney@cyber.net.pk

### TRANSFER AGENT

Meezan Bank Limited  
SITE Branch  
Plot # B/9-C, Estate Avenue, SITE, Karachi.  
Phone: 3206 2891, Fax: 3255 2771  
Web site: www.meezanbank.com

### DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited



## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited, the Management Company of Meezan Cash Fund (MCF) is pleased to present the audited annual financial statements of the Fund for the year ended June 30, 2010.

### Brief Overview

Meezan Cash Fund (MCF) completed its first full fiscal year of operations. The Fund posted a return of 10.1% to its investors during the year.

### Economic and Money Market Review

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

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

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

### Outlook

Pakistan's economy has seen a steady turnaround in the year 2010 and most major economic indicators are pointing to greater stability ahead. The improvement in economic and industrial activity will lead to improvement in corporate profitability and hence would reduce the corporate risk. The S&P rating upgrade has accelerated a pickup in foreign investment in Pakistan's equity market with net foreign inflow of nearly US\$ 570 million during the year. The significant build up of foreign exchange reserves has also improved confidence in country's ability in meeting its financial commitments.

However, the recent floods along with law & order situation and energy crisis have derailed the macro economic stability of the country, with estimated losses being quoted in billions of dollars. As a result, GDP growth forecast has been revised down by 1-2% from earlier target of 4.5%. The exact losses and the materialization of foreign pledges in this regard will take time to firm up. Moreover, it is expected that inflation will remain on the higher side because of supply side shortage and hence State Bank may likely go for monetary tightening in this fiscal year which will positively impact the return of MCF.

### Fund Rating

We are pleased to inform our investors that JCR-VIS, the leading rating agency in Pakistan, has assigned an AA (f) stability rating to MCF, signaling high degree of stability in Net Asset Value. Risk is modest but may vary slightly from time to time because of changing economies conditions.

### Compliance with Code of Corporate Governance

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

- These financial statements, prepared by the Management Company of the Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in unit holder's fund.
- The Fund has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- 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 Islamabad Stock Exchange (ISE) listing regulations.
- The Board of Directors and employees of the management company have signed "Statement of Ethics and Business Practices".
- The sale and repurchase of units of the Fund carried out by the Directors, CEO, CFO and Company Secretary of the management company including their spouses and their minor children are as under:

Trades by		No. of Units invested	No. of Units Redeemed
Mr. Mohammad Shoaib, CFA	Chief Executive	647,738	-
Syed Owais Wasti	CFO & Company Secretary	9,750	-
Mr. Mazhar Sharif	Director	8,029	4,223
Mr. Rizwan Ata	Director	43,123	-



- Pattern of holding of units is given as note no.22 of the financial statements.
- Financial highlights since inception are given in note no. 20 of the financial statements.

### **Board Meetings**

Please refer to note no. 23 provided in the financial statements.

### **Appointment of Auditors**

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

### **Acknowledgement**

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

For and on behalf of the Board

**Date: September 28, 2010**  
**Karachi.**

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

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

<b>Units held by</b>	<b>Units Held</b>	<b>%</b>
<b>Associated Companies</b>		
Al Meezan Investment Management Limited	2,661,126	2.63
<b>Directors</b>		
Mr. Mazhar Sharif	4,062	0.00
Mr. Rizwan Ata	43,123	0.04
<b>Chief Executive</b>		
Mr. Mohammad Shoaib, CFA	769,911	0.76
<b>Executives</b>	115,015	0.12
<b>Public Limited Companies</b>	6,694,427	6.62
<b>Insurance Companies</b>	3,137,381	3.10
<b>Bank and financial institutions</b>	15,594,066	15.43
<b>Individuals</b>	43,413,426	42.95
<b>Retirement Funds</b>	1,770,208	1.75
<b>Other Corporate Sector entities</b>	26,545,573	26.27
<b>Not for Profit Organizations</b>	320,627	0.33
<b>Total</b>	<b>101,068,945</b>	<b>100.00</b>



## REPORT OF THE FUND MANAGER

Meezan Cash Fund is an open end cash fund investing primarily in Shariah compliant money market and Islamic bonds (Sukuks).

Its objective is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in liquid Shariah compliant money market & Shariah compliant debt securities.

### Investment Policy

The fund provides valued investors with the opportunity to park their excess liquidity in secure high quality instruments. To minimize the impact of interest rate volatility, the investment policy limits the investment avenues to short term, i.e. to a maximum maturity of six months. Moreover, to ensure security of investment, rating of instruments must at least be 'AA'.

### Asset Allocation

Assets under management of MCF were placed with AA and above rated Islamic Banks.

### Economic Review

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

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

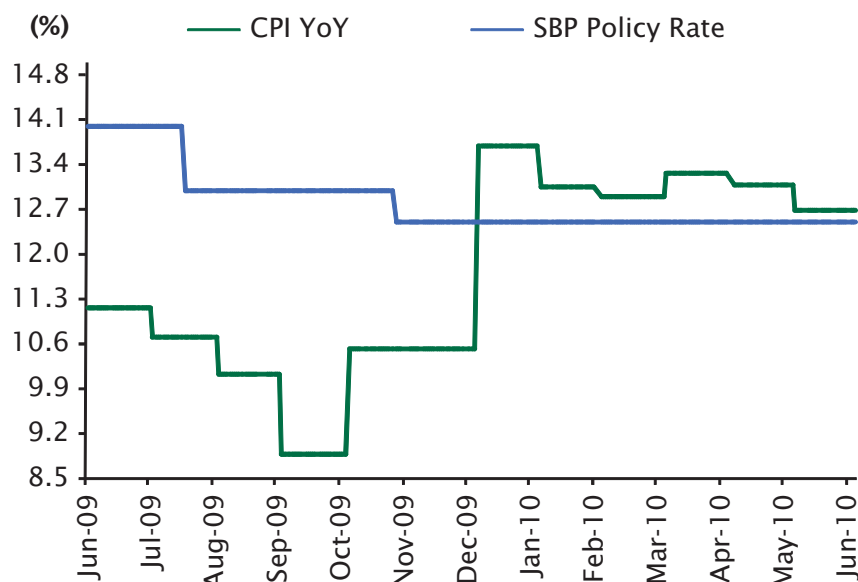
On domestic front, the provisional tax collection for the year was approximately Rs. 1,328 billion. Although this is less than the targeted amount of Rs. 1,380 billion, it represents an impressive 15.7% growth from the previous year's figures. However, government's fiscal deficit and its financing via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

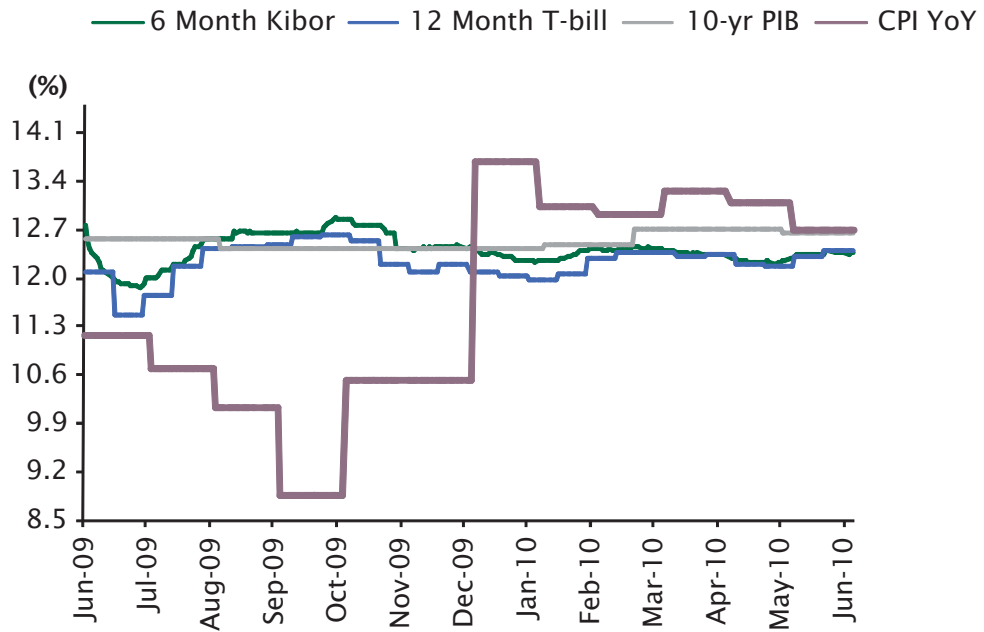


## Monetary Review

With the beginning of new financial year, as inflation started easing off, State Bank continued with its expansionary monetary policy by reducing the discount rates by another 150 basis points to 12.5% in first half of fiscal year 2010. However, later on the policy rate remained unchanged owing to (1) resurgence and persistence in inflation (2) risk to external account from rising international commodity prices and (3) weak fiscal position of the government. Average yearly inflation stood at 11.7% in fiscal year 2010 as compared to 20.8% in the preceding year. Moreover, to meet IMF requirements and to stabilize interest rates, the State Bank introduced an interest rate corridor, providing a reverse repo facility at 300 basis points below the repo rate.

The soft monetary stance resulted in six month KIBOR to decline by 39 basis points to close the year at 12.37%. However, six month T-bill cut off rate increased by 29 basis points to close at 12.3%. Moreover, the introduction of interest rate corridor stabilized the overnight call and repo rates within a narrow band of 11.5% to 12.5%. In the twenty-five T-bill auctions conducted by the State Bank during the current fiscal year, a sum of Rs. 1,416 billion was mopped up from the market, while T-bills worth Rs. 1,083 billion matured in the same period, thus causing a liquidity drain of Rs. 333 billion during the period. Moreover, State Bank conducted fourth Ijarah Sukuk auction in September 2009 and accepted Rs. 14.4 billion at the cut off rate of six month T-bill minus 5 basis points (current coupon of 12.25%). With this auction, the total size of Ijarah sukuks issued increased to Rs. 42 billion. The following graphs show the trend in interest rates during the period under review:



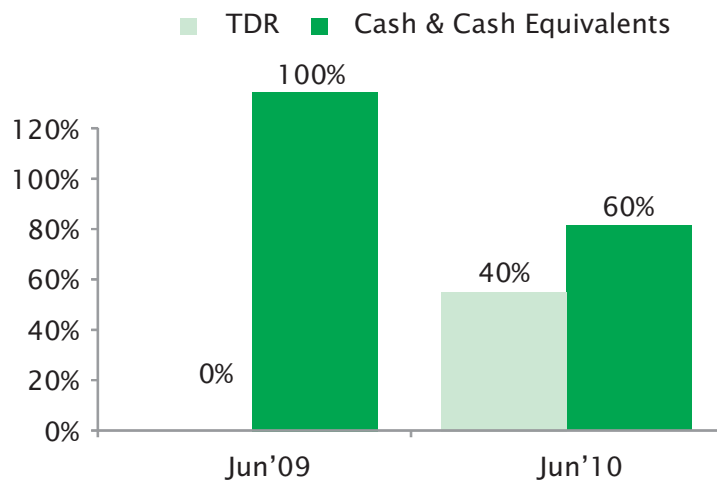


**Strategy Implementation - Strategic and tactical Asset Allocation**

Al Meezan Investments, with the view to avoid volatility which we witnessed in financial crisis in the fiscal year 2009, launched Pakistan's first Shariah compliant money market fund - Meezan Cash Fund in June 2009. The fund completed its first full year of operations. As per its investment policy, MCF can invest or place funds in instruments/avenues with a rating of 'double A' (AA) and above. Moreover, the investment policy limits interest rate risk by capping the maturity of instruments up to a maximum of six months, along with a maximum portfolio duration of three months.

Details of asset allocations are briefed here:

**Composition of Asset Allocation**



## Performance Review

Meezan Cash Fund (MCF) completed its first full fiscal year of operations. The fund posted a significant return of 10.1% to its investors during the year. The gross income for the year totaled to Rs. 373 million, which was primarily driven by profits on savings accounts at Islamic banks worth Rs. 271 million. Other important contributors were profits on bank placements amounting to Rs. 86 million and profits on other loans and receivables of Rs. 17 million. Total expenses for the year aggregated to Rs. 43 million, which took the operating income figure to Rs. 330 million. After adjusting for element of income and capital gains included in prices of units issued less those in units redeemed of Rs. 88 million, the Fund pocketed net income of Rs. 418 million.

The net assets of the fund crossed the Rs. 5 billion mark to end the year at Rs. 5,224 million.

## Performance Table with Benchmark

	MCF	Six Months Deposits with Islamic Banks
Value as on June 30, 2009	Rs. 50.16	
Value as on June 30, 2010	Rs. 51.69	
Return During the Period - Net	10.10%	7.48%
Return During the Period - Gross	11.10%	
Out performance - Net	2.62%	
Out Performance - Gross	3.62%	

## Distributions

MCF paid out a cumulative dividend of Rs.9.88 for the year ended June 30, 2010.

## Breakdown of unit holdings by size

Range of Units	Number of Investors
1 - 9,999	998
10000 - 49,999	377
50000 - 99,999	95
100,000- 499,999	81
500,000 and above	30
	1,581



## Future Outlook

Pakistan's economy has seen a steady turnaround in the year 2010 and most major economic indicators are pointing to greater stability ahead. The improvement in economic and industrial activity will lead to improvement in corporate profitability and hence would reduce the corporate risk. The S&P rating upgrade has accelerated a pickup in foreign investment in Pakistan's equity market. The significant build up of foreign exchange reserves has also improved confidence in country's ability in meeting its financial commitments.

However, the recent floods along with law & order situation and energy crisis have derailed the macro economic stability of the country, with estimated losses being quoted in billions of dollars. As a result, GDP growth forecast has been revised down by 1-2% from earlier target of 4.5%. The exact losses and the materialization of foreign pledges in this regard will take time to firm up. Moreover, it is expected that inflation will remain on the higher side because of supply side shortage and hence State Bank may likely go for monetary tightening in this fiscal year which will positively impact the return of MCF.



**Meezan Bank**  
The Premier Islamic Bank

## Report of the Shar'iah Advisor – Meezan Cash Fund

Karachi  
August 11, 2010

**Alhamdulillah**, the period from July 1, 2009 to June 30, 2010 was the second year of operations of Meezan Cash Fund (MCF) under management of Al Meezan Investment Management Limited (Al Meezan). We Meezan Bank Limited are the *Shar'iah Advisor* of the Fund and are issuing the report in accordance with clause 8.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shar'iah Compliance of the Fund's activity.

In the capacity of *Shar'iah Advisor*, we have prescribed criteria and procedure to be followed in ensuring Shar'iah Compliance in every investment.

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.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MCF in light of the Shar'iah guidelines.
- ii. All the provisions of the scheme and investments made on account of MCF by Al Meezan are Shar'iah Compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MCF for the year ended June 30, 2010 have been in compliance with Shar'iah principles.

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

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

**Meezan Bank Ltd**  
3rd Floor, P.N.S.C. Building, Moulvi Tamizuddin Khan Road, Karachi, Pakistan.  
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**A.F.FERGUSON & CO.**

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**PRICEWATERHOUSECOOPERS** 

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Telephone: (021) 32426682-6 / 32426711-5  
Facsimile: (021) 32415007 / 32427938

**INDEPENDENT ASSURANCE PROVIDER'S REPORT ON SHARIAH COMPLIANCE TO THE UNIT HOLDERS**

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

**Management company's responsibility**

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

**Responsibility of independent assurance providers**

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

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

**Conclusion**

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

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

**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 UNIT HOLDERS****MEEZAN CASH 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 Cash Fund (the Fund), an open-end scheme was established under a trust deed dated May 14, 2009, executed between Al Meezan Investment Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2010 in accordance with the provisions of the following:

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

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

Karachi, October 07, 2010





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

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Islamabad 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 Cash 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 Islamabad 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 NBFIs. None of the Directors of the management company of the Fund is a member of a stock exchange.
4. During the year two casual vacancies occurred on the BoD. Mr. P. Ahmed was appointed as independent director in place of Syed Owais Wasti in the board meeting held on September 01, 2009 and Mr. Rana Ahmed Humayun was appointed in place of retiring director Mr. Tasnimul Haq Farooqui in the board meeting held on February 15, 2010 for the remaining term of the board.
5. The board has formulated a Statement of Ethics and Business Practices for the management company, which has been signed by the existing directors and employees of the management company.
6. The board of the management company has developed a vision and mission statement. The investment policy of the Fund has been disclosed in the offering document, while other significant policies have also been formalized and have been adopted by the board.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO of the management company, have been taken by the board.
8. The meetings of the board were presided over by the Chairman. The board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for the emergent meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of the board are aware of their responsibilities, an orientation course was held during previous years. The new Directors as and when appointed are provided with all the relevant statutory laws, rules and regulations to keep themselves acquainted.
10. The Board of Directors of the Management Company had, in earlier years, approved the appointment of the Chief Financial Officer (CFO) and the Company Secretary and has approved the appointment of the Head of Internal Audit during the current year including their remuneration and terms and conditions of employment, as determined by the CEO.



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

**Syed Owais Wasti**  
CFO & Company Secretary

**Mohammad Shoaib, CFA**  
Chief Executive

Karachi  
September 28, 2010



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

A member firm of

**PRICEWATERHOUSECOOPERS** 

A.F.Ferguson & Co  
Chartered Accountants  
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I.I.Chundrigar Road, P.O.Box 4716  
Karachi-74000, Pakistan  
Telephone: (021) 2426682-6 / 2426711-5  
Facsimile: (021) 2415007 / 2427938

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2010 prepared by the Board of Directors of Al Meezan Investment Management Limited (the management company) of Meezan Cash Fund (the Fund) to comply with the Listing Regulation No. 35 of the Islamabad Stock Exchange where the Fund is listed.

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

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

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

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

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

Lahore Office: 505-509, 5<sup>th</sup> Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan Tel: (92-42) 6285078-85 Fax: (92-42) 6285088  
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**A.F.FERGUSON & CO.**

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## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Meezan Cash Fund**, which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The management company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

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

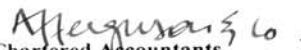
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

### Opinion

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

### Other matters

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

  
Chartered Accountants  
Karachi, October 8, 2010

**Audit Engagement Partner: Saad Kaliya**

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

	Note	2010 (Rupees in '000)	2009
<b>Assets</b>			
Balances with banks	5	2,942,794	622,016
Placements	6	2,150,000	-
Profit receivable		173,173	2,958
Preliminary expenses and floatation costs	7	2,377	2,976
Deposits and prepayments		272	-
<b>Total assets</b>		<u>5,268,616</u>	<u>627,950</u>
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited (Al Meezan) - management company of the fund	8	7,542	3,012
Payable to Central Depository Company of Pakistan Limited (CDC) - trustee of the Fund	9	536	34
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	2,573	13
Payable on redemption of units		33,144	100
Brokerage payable		45	-
Accrued expenses and other liabilities	11	508	934
<b>Total liabilities</b>		<u>44,348</u>	<u>4,093</u>
<b>Net assets</b>		<u>5,224,268</u>	<u>623,857</u>
<b>Unit holders' fund (as per statement attached)</b>		<u>5,224,268</u>	<u>623,857</u>
<b>Number of units</b>			
<b>Number of units in issue</b>	13	<u>101,068,945</u>	<u>12,436,145</u>
<b>Rupees</b>			
<b>Net assets value per unit</b>		<u>51.69</u>	<u>50.16</u>

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director

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

	Note	For the year ended June 30, 2010 (Rupees in '000)	For the period June 5 to June 30, 2009
<b>Income</b>			
Profit on savings accounts with banks		270,523	2,028
Profit on placements		85,612	-
Profit on loans and receivables		17,278	-
Back end load		9	-
Other income		18	-
<b>Total income</b>		<u>373,440</u>	<u>2,028</u>
<b>Expenses</b>			
Remuneration to Al Meezan - management company of the Fund	8	34,142	-
Remuneration to CDC - trustee of the Fund	9	4,390	34
Annual fee to SECP	10	2,573	13
Auditors' remuneration	12	460	-
Fees and subscription		28	60
Amortisation of preliminary expenses and floatation costs	7	599	26
Bank charges		47	-
Brokerage		119	-
Printing expense		613	-
<b>Total expenses</b>		<u>42,971</u>	<u>133</u>
<b>Net income from operating activities</b>		<u>330,469</u>	<u>1,895</u>
Element of income and capital gains included in prices of units issued less those in units redeemed (net)		<u>88,048</u>	<u>155</u>
<b>Net income</b>		<u><u>418,517</u></u>	<u><u>2,050</u></u>

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director



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

	For the year ended June 30, 2010	For the period June 5 to June 30, 2009
	(Rupees in '000)	
Undistributed income for the year / period brought forward - realised	2,050	-
Net income for the year / period	418,517	2,050
Less : Final distribution for the period ended June 30, 2009 - bonus units @ 0.3%	(1,865)	-
Less : Interim distribution for the half year ended December 31, 2009		
- bonus units @ 3.5%	(105,915)	-
- cash dividend @ 3.5%	(3,342)	-
Less: Interim distribution for the quarter ended March 31, 2010		
- bonus units @ 3%	(129,862)	-
- cash dividend @ 3%	(8,762)	-
Undistributed income for the year / period carried forward - realised	<u>170,821</u>	<u>2,050</u>

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director

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

	For the year ended June 30, 2010	For the period June 5 to June 30, 2009
	(Rupees in '000)	
Net assets at the beginning of the year / period	623,857	-
Issue of 255,182,513 units (June 30, 2009: 13,517,189 units)	13,094,023	676,120
Redemption of 171,247,871 units (June 30, 2009: 1,081,044 units)	(8,811,977)	(54,158)
	4,282,046	621,962
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	(88,048)	(155)
Net income for the year / period less distribution	168,771	2,050
Issue of 37,301 bonus units for the period June 5 to June 30, 2009	1,865	-
Issue of 2,087,811 bonus units for the half year ended December 31, 2009	105,915	-
Issue of 2,573,046 bonus units for the quarter ended March 31, 2010	129,862	-
	237,642	-
Net assets at the end of the year / period	<u>5,224,268</u>	<u>623,857</u>

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director



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

	For the year ended June 30, 2010	For the period June 5 to June 30, 2009
Note	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year / period	418,517	2,050
<b>Adjustments for:</b>		
Profit on savings accounts with banks	(270,523)	(2,028)
Profit on placements	(85,612)	-
Profit on loans and receivables	(17,278)	-
Amortisation of preliminary expenses and floatation costs	599	26
Element of income and capital gains included in prices of units issued less those in units redeemed (net)	(88,048)	(155)
	(42,345)	(107)
<b>Increase in assets</b>		
Deposits and prepayments	(272)	-
Placements	(2,150,000)	-
	(2,150,272)	-
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan - management company of the Fund	4,530	10
Payable to CDC - trustee of the Fund	502	34
Payable to SECP	2,560	13
Brokerage payable	45	-
Accrued expenses and other liabilities	(426)	4
	7,211	61
Profit received on savings accounts with banks	131,034	-
Profit received against loans and receivable	17,278	-
Profit received on placements	54,886	-
<b>Net cash outflow from operating activities</b>	(1,982,208)	(46)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from sale of units	13,094,023	676,120
Payment against redemption of units	(8,778,933)	(54,058)
Dividend paid	(12,104)	-
<b>Net cash inflow from financing activities</b>	4,302,986	622,062
Net cash inflow during the year / period	2,320,778	622,016
Cash and cash equivalents at the beginning of the year / period	622,016	-
Cash and cash equivalents at the end of the year / period	5 2,942,794	622,016

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

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

**Mohammad Shoaib, CFA**  
Chief Executive

**Mazhar Sharif**  
Director



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

### 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Cash Fund (the Fund) was established under a trust deed executed between Al Meezan as the management company and CDC as the trustee. The trust deed was executed on May 14, 2009 and was approved by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to provide the unit holders safe and stable stream of halal income on their investments and to generate superior long term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point in time. Under the trust deed all the conducts and acts of the Fund are based on shariah. MBL acts as its shariah advisor to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end fund listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 The management company of the Fund has been given quality rating of AM2 and the stability rating of the Fund is AA(f) given by JCR-VIS.
- 1.5 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

### 2. BASIS OF MEASUREMENT

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

### 3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the requirements of approved accounting standards as applicable in Pakistan. 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, 2008 and the directives issued by the SECP.

Wherever the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations, 2008 or the said directives differ with the requirements of IFRSs, the requirements of the Trust Deed, NBFC Rules, NBFC Regulations, 2008 and the said directives take precedence.



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

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

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

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

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

Certain standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or have any significant effect to the Fund's operations and are therefore not detailed in these financial statements.

### 3.3 Change in accounting policy

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Accounting Convention

These financial statements have been prepared under the historical cost convention.

### 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) Recognition of provision for current taxation (current and prior year) and deferred taxation (note 4.10)
- (b) Amortisation of preliminary expenses and flotation costs (notes 4.8 and 7)

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

### 4.3 Financial assets and liabilities

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

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

- Financial instruments 'held for trading'

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

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

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



b) Held to maturity

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

c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available for sale.

d) Available for sale

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

#### 4.3.2 Recognition

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

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

#### 4.3.3 Measurement

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

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

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

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

#### 4.3.4 Impairment

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

In case of investment classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is removed from other comprehensive income and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available for sale' is not reversed through the income statement but is recognised in other comprehensive income.

#### 4.3.5 Derecognition

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

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

#### 4.4 Unit holders' fund

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

#### 4.5 Issue and redemption of units

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

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



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

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

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

#### 4.7 Provisions

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

#### 4.8 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from June 15, 2009 in accordance with the requirements of the trust deed of the Fund.

#### 4.9 Net assets value per unit

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

#### 4.10 Taxation

##### Current

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

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

##### Deferred

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

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

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

#### 4.11 Revenue recognition

- i. Profit on placements and deposits in saving account with banks is recorded on an accrual basis.
- ii. Profit on loans and receivables is accrued on a time proportioned basis by reference to the principal amount outstanding and the applicable rate of return.

#### 4.12 Expenses

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

#### 4.13 Offsetting of financial instruments

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

#### 4.14 Zakat

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

#### 4.15 Cash and cash equivalents

Cash and cash equivalents are carried in the 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.

#### 4.16 Dividend and bonus units

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



	Note	2010 (Rupees in '000)	2009
<b>5. BALANCES WITH BANKS</b>			
On savings accounts	5.1	2,940,475	622,011
On current account		2,319	5
		<u>2,942,794</u>	<u>622,016</u>

5.1 The balances in savings accounts have an expected profit ranging from 5% to 11.45% per annum (2009: 4.97% to 11.75%)

## 6. PLACEMENTS

Placements carry expected profit rates ranging from 11% to 11.35% per annum and are due to mature from July 2, 2010 to September 30, 2010.

	Note	2010 (Rupees in '000)	2009
<b>7. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Preliminary expenses and floatation costs	7.1	2,976	3,002
Less: Amortisation during the year / period		599	26
		<u>2,377</u>	<u>2,976</u>

7.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund, restricted to one percent of Pre-IPO capital, and are being amortised over a period of five years in accordance with the trust deed of the Fund.

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

	Note	2010 (Rupees in '000)	2009
Management fee	8.1	4,540	-
Preliminary expenses and floatation costs		3,002	3,002
Other payable		-	10
		<u>7,542</u>	<u>3,012</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 years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. In accordance with the offering document of the Fund, the remuneration of the management company is restricted to one percent per annum of average annual net assets. The management company had waived its remuneration for the period June 5 to June 30, 2009.



**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 at the rate of 0.075% of the average annual net assets of the Fund payable to the SECP under regulation 62 read with Schedule II of NBFC Regulations, 2008.

**2010            2009**  
**(Rupees in '000)**

**11. ACCRUED EXPENSES AND OTHER LIABILITIES**

Auditors' remuneration	245	75
Annual listing fee	10	-
Withholding tax payable	3	4
Printing charges	250	-
Profit payable to Pre-IPO and core investors	-	855
	508	934

**12. AUDITORS' REMUNERATION**

Audit fee	120	-
Half yearly review	60	-
Other certifications and services	225	-
Out of pocket expenses	55	-
	460	-

**13. CLASSES OF UNITS IN ISSUE**

13.1 The Fund may issue following classes of units:

**Class      Description**

- |   |  |
|---|--|
| A | Units have been issued to Core Investors with no front-end load and no back-end load. Any bonus units issued for distribution of income shall also be Class A units. |
| B | Units have been issued to Pre-IPO investors with no front-end load.  |
| C | Units shall be issued after the IPO period and may be charged with front-end load.   |
| D | Units shall be issued after the IPO period any may be charged with a back-end load.  |



13.2 According to the offering document dated June 5, 2009, the management company of the Fund may issue the following types of units:

- Growth units which shall be entitled to bonus units in case of any distribution by the Fund. Bonus units issued to growth unit holders shall also be the growth units; and
- Income units which shall be entitled to dividend in case of any distribution by the Fund.

13.3 The units in issue as at June 30 and their par values were as follows:

Class	2010		2009	
	Number of units	(Rupees in '000)	Number of units	(Rupees in '000)
A - Growth units	1,024,932	51,247	1,900,180	95,009
B - Growth units	12,955,702	647,785	7,395,398	369,770
C - Growth units	87,088,311	4,354,416	3,140,567	157,028
Total	<u>101,068,945</u>	<u>5,053,448</u>	<u>12,436,145</u>	<u>621,807</u>

The par value of each unit is Rs 50. The management company of the Fund has set a minimum initial investment limit of Rs 5,000. All units carry equal rights and are entitled to dividend and payment of net asset value on liquidation.

#### 14. TRANSACTIONS WITH CONNECTED PERSONS

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the holding company of the management company, Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Capital Protected Fund - I, Meezan Islamic Income Fund and Meezan Sovereign Fund being the Funds under the management of the management company and directors and officers of the management company.

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

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

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



	2010	2009
	(Rupees in '000)	
<b>AI Meezan - management company of the Fund</b>		
Investment as at June 30, 2010: 2,661,126 units (June 30, 2009: 1,900,180 units)	137,554	95,313
Remuneration payable	4,540	-
Preliminary expenses and floatation costs	3,002	3,002
Other payable	-	10
<b>MBL</b>		
Balances with bank	71,410	15,604
Profit receivable on savings account	127	58
<b>CDC - trustee of the Fund</b>		
Trustee fee payable	536	34
Deposits	100	-
<b>Directors and officers of the management company</b>		
Investment as at June 30, 2010: 932,111 units (June 30, 2009: 79,968 units)	48,180	4,011

For the year ended June 30, 2010      For the period June 5 to June 30, 2009  
(Rupees in '000)

<b>AI Meezan - management company of the Fund</b>		
Remuneration for the year / period	34,142	-
Units issued: 5,600,538 units (June 30, 2009: 2,000,000 units)	289,070	100,000
Redemptions: 5,049,340 units (June 30, 2009: 99,820 units)	258,800	5,000
Bonus units issued: 209,748 units (June 30, 2009: nil units)	10,621	-
<b>MBL</b>		
Profit on savings account	1,426	58
<b>CDC - trustee of the Fund</b>		
Trustee fee for the year / period	4,390	34
<b>Directors and officers of the management company</b>		
Units issued: 990,356 units (June 30, 2009: 79,968 units)	50,581	3,998
Redemptions: 187,019 units (June 30, 2009: nil units)	9,601	-
Bonus units issued: 48,806 units (June 30, 2009: nil units)	2,469	-



2010                  2009  
(Rupees in '000)

## 15. FINANCIAL INSTRUMENTS BY CATEGORY

### FINANCIAL ASSETS

#### - Loans and receivables

Balances with banks	2,942,794	622,016
Placements	2,150,000	-
Profit receivable	173,173	2,958
Deposits	100	-
	<u>5,266,067</u>	<u>624,974</u>

### FINANCIAL LIABILITIES AT AMORTISED COST

Payable to Al Meezan		
- management company of the Fund	7,542	3,012
Payable to CDC		
- trustee of the Fund	536	34
Payable on redemption of units	33,144	100
Brokerage Payable	45	-
Accrued expenses and other liabilities	495	930
	<u>41,762</u>	<u>4,076</u>

## 16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### Financial risk management objectives and policies

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

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

The Fund's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but not limited to, market risk, credit risk and liquidity risk. The Fund's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. Risks measured and managed by the Fund are explained in notes 16.1, 16.2 and 16.3 below:

## 16.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Credit risk arising on financial assets is monitored through a regular analysis of financial position of brokers and other counter parties. In accordance with the risk management policy of the Fund, the investment manager monitors the credit position on a daily basis which is reviewed by the board of directors of the management company on a quarterly basis.

Credit risk arises from short-term placements with banks, deposits with banks and profit receivable. Out of the total financial assets, those that are subject to credit risk amounted to Rs 5,266.067 million (2009: Rs 624.974 million).

The maximum exposure to credit risk as at June 30, 2010, along with comparative is tabulated below:

	2010	2009
	(Rupees in '000)	
<b>Financial assets</b>		
Balances with banks	2,942,794	622,016
Placements	2,150,000	-
Profit receivable	173,173	2,958
Deposits	100	-
	<u>5,266,067</u>	<u>624,974</u>

Credit Rating wise analysis of balances with banks and placements of the fund are tabulated below:

	2010	2009
	(%)	
AA+	67.66	97.73
AA	30.93	-
AA-	1.41	2.27
	<u>100.00</u>	<u>100.00</u>

The Fund does not have any collateral against any of the aforementioned assets.

Due to the management company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the fund.



## 16.2 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily creation and cancellation of units and it is therefore exposed to the liquidity risk of meeting unit holder's redemptions at any time. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are readily convertible into known amount of cash. The Fund will manage the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

In accordance with the regulation 58(1)(k) of the NBFC Regulation 2008, the Fund has the ability to borrow Funds for meeting the redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen per cent of the net assets which amounts to Rs 783.640 million as on June 30, 2010 (2009: Rs 93.579 million). However, no such borrowing has been obtained during the period.

Further, the Fund is also allowed, as per regulation 57(10) of the NBFC Regulation 2008, to defer redemption request to next dealing day, if such requests exceed ten percent of the total number.

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, 2010 alongwith comparative is tabulated below:

	2010				Total	2009 Total
	Maturity upto					
	Three months	Six months	One year	More than one year		
----- (Rupees in '000) -----						
Payable to Al Meezan - management company of the Fund	4,540	-	751	2,251	7,542	3,012
Payable to CDC - trustee of the Fund	536	-	-	-	536	34
Payable on redemption of units	33,144	-	-	-	33,144	100
Brokerage Payable	45	-	-	-	45	
Accrued expenses and other liabilities	495	-	-	-	495	930
	<u>38,760</u>	<u>-</u>	<u>751</u>	<u>2,251</u>	<u>41,762</u>	<u>4,076</u>
<b>June 30, 2009</b>	<u>1,074</u>	<u>-</u>	<u>600</u>	<u>2,402</u>	<u>4,076</u>	

### 16.3 Market risk

#### 16.3.1 Interest rate risk

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

The fund's interest rate risk arises from the short-term placements with banks and balances in savings accounts which is based on fixed interest rates.

At June 30, 2010, if there had been increase / decrease of 5% in profit rates, with all other variables held constant, net assets of the fund for the year then ended would have been higher / lower by Rs 17.796 million (2009: Rs 0.101 million) mainly as a result of profit.

	2010 %
<b>17. BROKERS BY PERCENTAGE OF COMMISSION</b>	
Invest Capital Investment Bank Limited	72.00
Alfalah Securities Limited	20.17
BMA Capital Management Limited	7.83

### 18. CAPITAL RISK MANAGEMENT

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

The Fund has no restrictions or specific capital requirements on the subscription and redemption of units except that the core investor (management company) shall hold its investment of at least Rs 50 million for a minimum period of two years during which its units will not be redeemable.

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

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

In accordance with risk management policies stated note 16, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by disposal of investments where necessary.

### 19. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

As at June 30, 2010 the fair value of all financial assets and financial liabilities are estimated to approximate their carrying values.



## 20. PERFORMANCE TABLE

	2010	2009
Net assets (Rs '000) (ex-distribution)*	5,224,268	623,857
Net Income (Rs '000)	418,517	2,050
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution)*	50.00	50.01
Offer price per unit as at June 30 (Rs) (ex-distribution)*	50.00	50.01
<b>Distribution (%)</b>		
- First interim distribution	3.50	-
- Second interim distribution	3.00	-
- Final distribution	3.38	0.30
<b>Dates of distribution</b>		
- First interim distribution	January 4, 2010	-
- Second interim distribution	April 2, 2010	-
- Final distribution	July 7, 2010	July 6, 2009
Income distribution (Rupees in '000)	12,104	-
Growth distribution (Rupees in '000)	406,583	1,865
Highest offer price per unit (Rs)	52.48	50.16
Lowest offer price per unit (Rs)	50.11	50.00
Highest redemption price per unit (Rs)	52.48	50.16
Lowest redemption price per unit (Rs)	50.11	50.00
Total return (%)	10.10	10.62
 Average annual return (%) as at June 30, 2010	<b>One Year</b>	<b>Two Year</b>
	10.10	10.04

\* The distribution is not accounted for in these financial statements as also explained in note 24.

### Investment portfolio composition of the Fund

Since the Fund is a Money Market Fund as per the categorisation of open end Collective Investment Scheme defined in Circular 7 of 2009 dated March 6, 2010. Investment avenues for money market fund as defined in the said circular are restricted to government securities, cash and near cash instruments which includes cash in bank accounts (excluding TDRs), treasury bill, money market placements, deposits, certificate of deposits (COD), certificate of Musharakas (COM), commercial paper, reverse repo. The Fund has therefore placed all its assets in savings accounts and placements with banks.

Weighted average time to maturity of the Fund's placements is 40 days.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate as described in note 16.



## 21. INVESTMENT COMMITTEE MEMBERS

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

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

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

21.2 The Fund Manager of the Fund is Mr. Muhammad Ali, other funds being managed by the Fund Manager are Meezan Islamic Income Fund and Meezan Sovereign Fund.

## 22. PATTERN OF UNIT HOLDING

	----- (2010) -----		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment %
Individuals	1,503	2,240,218	42.88
Associated companies / directors	3	125,872	2.41
Insurance companies	6	162,173	3.10
Banks / DFIs	6	857,748	16.42
Retirement Funds	21	92,761	1.78
Public limited companies	13	779,298	14.92
Others	29	966,198	18.49
Total	<u>1,581</u>	<u>5,224,268</u>	<u>100.00</u>

	----- (2009) -----		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment %
Individuals	142	173,612	27.83
Associated companies / directors	2	124,336	19.93
Insurance companies	3	66,234	10.62
Banks / DFIs	2	75,247	12.06
Retirement Funds	4	4,916	0.79
Public limited companies	1	38,125	6.11
Others	8	141,387	22.66
Total	<u>162</u>	<u>623,857</u>	<u>100.00</u>



### 23. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	-----Dates of Board of Directors Meetings and Directors' present therein-----								
		July 6, 2010	Aug 20, 2009	Sep 1, 2009	Oct 9, 2009	Oct 20, 2009	Nov 16, 2009	Dec 8, 2009	Feb 15, 2010	April 27, 2010
Mr. Ariful Islam	Chairman	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoab	Chief Executive	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mr. Tasnimul Haq Farooqui *	Director	Yes	Yes	Yes	Yes	No	Yes	Yes	-	-
Mr. Aliuddin Ansari	Director	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mr. P. Ahmed **	Director	-	-	-	-	-	Yes	Yes	Yes	Yes
Mr. Rana Ahmed Humayun *	Director	-	-	-	-	-	-	-	-	Yes
Mr. Rizwan Ata	Director	Yes	Yes	No	No	Yes	-	-	-	Yes
Mr. Mazhar Sharif	Director	Yes	No	Yes	Yes	No	Yes	-	Yes	Yes
Syed Owais Wasti **	Director	Yes	Yes	Yes	Yes	Yes	-	-	-	-

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

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

### 24. NON ADJUSTING EVENT

The board of directors of the management company of the Fund in its meeting held on July 7, 2010 has announced a final payout of 3.38% (2009: 0.30%) amounting to Rs 170.806 million equivalent to 3,416,130 bonus units (2009: Rs 1.865 million equivalent to 37,301 bonus units). The financial statements for the period ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

#### 2010                      2009 Number of Units

The effect of issue of bonus units is as follows:

Number of units in issue before bonus units	<u>101,068,945</u>	<u>12,436,145</u>
Number of units in issue after bonus units	<u>104,485,075</u>	<u>12,473,446</u>

#### Rupees

Net assets value per unit before bonus issue	51.69	50.16
Net assets value per unit after bonus issue	50.00	50.01

### 25. DATE OF AUTHORISATION FOR ISSUE

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

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

**Mohammad Shoab, CFA**  
Chief Executive

**Mazhar Sharif**  
Director