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## **CORPORATE INFORMATIONS**

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<b>Management Company</b>	Dawood Capital Management Limited 5B Lakson Square Building #1 Sarwar Shaheed Road Karachi 74200 Tel: (92-21) 3562-1001-6 Fax: (92-21) 3562-1010 E-mail: dcm@edawood.com Website: www.edawood.com	
<b>Board of Directors</b>	Miss Tara Uzra Dawood Mr. Masood A. S. Wahedna Mr. Nazimuddin Feroz Syed Shabhat Hussain Mr. Gul Nawaz	Chief Executive Officer/Acting Chairperson Director (Nominee of BoK) Director (Nominee of BRRGM) Director (Nominee of NIT) Director
<b>Chief Financial Officer &amp; Company Secretary</b>	Syed Kabiruddin	
<b>Audit Committee</b>	Mr. Gul Nawaz Mr. Masood A. S. Wahedna Syed Shabhat Hussain	Chairman Member Member
<b>Trustee</b>	MCB Financial Services Limited 3rd Floor, Adamjee House, I.I. Chundrigar Road, Karachi-74000 PABX: 92-21 32419770 Fax: 92-21 32416371 URL: <a href="http://mcbfsl.com.pk">http://mcbfsl.com.pk</a>	Note No. 1.4
<b>Former Trustee</b>	Bank AL Habib Limited Mackinnons Building I.I. Chundrigar Road, Karachi Telephone: 92-21 3241-2421 Fax: 92-21 3241-9752	Note No. 1.4
<b>Auditors</b>	M. Yousuf Adil Saleem & Co., Chartered Accountants	
<b>Tax Advisor</b>	Mazhar Associates A-1/E-3, Faiza Avenue Karachi.	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza 6-cl-10 Beaumont Road, Karachi 75530 Telephone: (021) 3565-7658/9, 3565-7674 Fax: (021) 3565-7673 E-mail: bawaney@cyber.net.pk	
<b>Registrars</b>	Gangjees Registrar Services (Pvt.) Limited Room # 516, 5th. Floor, Clifton Centre Kehkashan Clifton, Karachi	
<b>Banker</b>	Bank AL Habib Limited Bank Alfalah Limited	
<b>Rating</b>	A-(f)	
<b>AMC</b>	Rating PACRA: AM3-	



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## *Mission Statement*

*To offer our certificate holders the best possible return by expertly diversifying the Fund's investment portfolio into minimal risk and high yielding instruments and at all time to be a good corporate citizen*



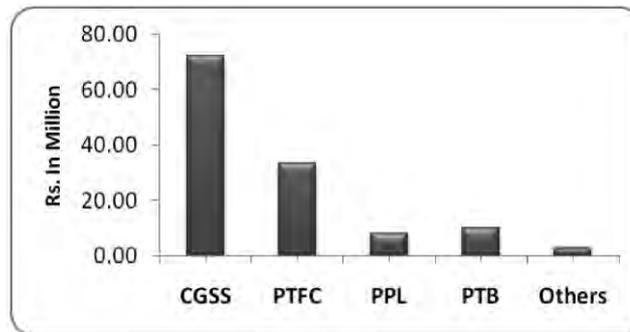
## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Dawood Capital Management Ltd. ("DCM" or the "Company") the Management Company of **Dawood Income Fund** (formerly Dawood Money Market Fund) ("DIF"/"the Fund"), are pleased to present the ninth annual report and the audited financial statements of the Fund for the year ended June 30, 2011.

### Fund Performance

As at June 30, 2011, net assets were Rs. 452.13 million as compared to Rs. 384.10 million as at June 30, 2010. Total operating income for the year was Rs. 126.39 million as compared to Rs. 100.63 million for the same period last year. Total expenses during the year reduced to Rs. 44.43 million as compared to Rs. 140.90 million in last year. The decrease in expenses was mainly due to reduction in impairment losses on debt securities and financial charges. Element of loss was Rs. 15.78 million as opposed to income of Rs. 115.77 million last year. The net profit before distribution for the financial year 2010-11 was Rs. 66.178 million, as compared to Rs. 75.498 million last year. The Net Asset Value per unit was Rs. 83.9655 as at June 30, 2011.

### Income Derived



CGSS = Capital Gain on Sale of Securities-Net  
PTFC = Profit on Term Finance Certificates  
PPL = Profit on Placements  
PTB = Profit on Treasury Bills  
Others = Profit on Other Investments

### Investment Strategy

During the year, DIF greatly optimized its portfolio and maintained major investments in government securities and bank deposits due to higher risks on other available instruments in the market. Only the exposure in the government securities and bank deposits during the illiquid market maintains a low risk threshold and yields consistent returns for the fund.

### Dividend

The Board of Directors has announced bonus dividend to unit holders of Rs. 11.10 per unit on NAV of June 30, 2011 of Rs. 83.9655. Which comes out to be 16.96% of the opening Ex-NAV of Rs. 65.4382. Unit holders will get 15.2335 bonus units per 100 units held.

The total return on investment including the appreciation in NAV amount to 28.31%

### Sales and Redemption of Units

The Fund was launched on May 20, 2003 with a seed capital of Rs. 300 million as core investment with the conditions that these core units are not redeemable for a period of two years from the date of issue.



A total of 2,313,919 units were issued in the current year (Including 1,040,545 Bonus Units Issued) valued at Rs. 97.89 million (2010: 454,226 units worth Rs. 33.048 million) and 1,758,417 units were redeemed, with a value of Rs. 126.21 million (2010: 6,402,626 units worth Rs. 512.12 million). As on June 30, 2011, the total number of outstanding units was 5,384,682 valued as Rs. 452.127 million.

### Credit Rating

The Pakistan Credit Rating Agency Limited (PACRA) has assigned a stability rating of "A-(f)" (Single A Minus-fund rating) to your Fund.

### Economic Outlook

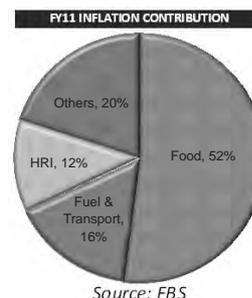
#### FY 2011 at a Glance

#### Pakistan's Economy

This year Pakistan's economy went through a rollercoaster owing to economic challenges and preparations. The disastrous floods in early FY11 caused a substantial loss to the economy due to which country's GDP growth remained 2.4% in FY11, much lower than the initial target of 4.5%. Worsening power crisis and the elephant size circular debt also deterred the economy, already pressurized by increasing POL prices and power tariffs during FY11.

#### Headline Inflation

According to the Federal Bureau of Statistics (FBS), average headline inflation remained slightly below revised estimate of 14.0%. Inflationary pressures during May-June 2011 remained muted due to a significant decline in perishable food item prices (10.1% fall) and lower international commodity prices (especially crude oil) on fears of a global slowdown in economic growth. Thus, average CPI inflation for the fiscal year came at 13.9%, slightly below government's revised estimate of 14.0%.



Source: FBS

#### Food and Energy Prices and FY11 CPI Inflation

Retail inflation in FY11 was mainly driven by higher food and energy prices with food, fuel and lighting and transport and communication groups contributing 68% to average inflation during the year. Food prices increased by 17.9% on average during the fiscal year, initially due to supply shocks created by widespread floods early in the year and later because of an uptick in global prices. While energy prices were driven higher by upward revision in electricity rates and significant jump in retail fuel prices.

#### Headline and Non-Food Non-Energy (NFNE) Core Inflation

Though headline inflation depicted a stable trend during the last few months of FY11, NFNE core inflation started to accelerate, rising from 9.20% in February to 10.40% in June. The above indicates a shift in inflation drivers from food and energy to other groups. There are two reasons: 1) a prolonged and significant increase in food and energy prices is feeding into other prices; 2) after remaining subdued for the last several months, HRI inflation started picking up now.

#### Improvements in External Accounts

Current account for FY11 has posted a surplus of USD 542mn (+0.3% of GDP) showing a considerable improvement over a deficit of US\$ 3.9 billion (-2.2% of GDP) last year. The surplus came after long 7 years of wait. This was mainly on account of a 26% YoY growth in exports and a 29% YoY jump in workers' remittances. Strong growth in external flows consequently marks underlying improvement, which helped in building the foreign exchange reserves above ~US\$18 billion. However despite this remarkable growth



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the balance of trade recorded a deficit of USD 12.3 billion (against USD 13.2 billion) as imports augmented by 14% YoY to USD 35.64 billion during the period.

### **FDI**

Foreign Direct Investment (FDI) has declined for the third consecutive year. The Foreign Direct Investments (FDI) posted a YoY decline of 27% (USD 1.57 billion in FY11) however portfolio investment (PI) recorded an inflow of USD 0.35 billion against a net outflow of USD 0.06 billion last year. This is in keeping with a sluggish economic environment where GDP growth has averaged just 2.9% since FY08.

### **Tax Collection**

FY11 revised tax collection target was PKR1,588 billion, down from initially set target of PKR 1,667 billion. This curtailment was in the view of fiscal deficit likely to surpass the government original target of 4.7% of the GDP. Despite austere measure taken throughout the year, the final numbers shows worrisome facts. Overall tax collection shows a mere 10% YoY increase.

### **Outlook**

The local economy remains largely immune to the emerging problems in the US/EU, in the wake of rising fiscal troubles in the US and risk of sovereign defaults in the EU.

The government has set a GDP growth target of 4.2% for FY12, which is close to the original target for FY11, and is based mainly on the benefit to be derived from low-base effect of agricultural and industrial growth.

Government has set the tax collection target for FY12 of PKR 1,952 billion (+22.9% Y/Y over and above revised FY11 target). Nominal GDP growth of 16.2% (12% inflation + 4% real GDP growth) also suggests that these are highly ambitious numbers. Therefore, if the government is serious about achieving this target for FY12, they have to follow the slogan "all income is subject to tax" and it would have to be done through sheer political will to include untapped sectors like agriculture income in the tax net.

Inflation to pick-up in July-August before declining later in the year. We expect CPI inflation to rise to 15.0-16.0% in July-August, due to upcoming revision in utility prices as well as onset of Ramadan, when food prices increase by 5.0-10.0% on an average. However, beyond that, we expect inflation to gradually decline to 11.0-12.0% by December. We estimate CPI inflation to average at 12% during FY12.

Though we expect gradual abatement in inflationary pressures in FY12, any decline in interest rates would depend upon the size of the fiscal deficit and its funding mix. Due to persistence of double digit inflation and some acceleration in real GDP growth, nominal GDP is estimated to increase by 16.5% in FY12.

Foreseeing a current account deficit in FY12 and hence plugging in the deficit gap will be laid on financial account. However, we doubt that the financial inflows in FY12 would be enough to bridge the void left by current account deficit. We fear that financial inflows may not exceed USD 2 billion, owing to global economic slowdown, political and economic turbulences. Monetization of funds under military aid (expected aid of USD 2.4 billion per year); Coalition Support Fund (CSF) and most importantly through IMF SBA will render support to overall balance of payment.



**Money Market Review**

**Interest Rates**

The year started with a 0.50 bps hike in interest rates to 13% by SBP in its first MPS for FY11 in July 2010. In the next two policy statements till Nov-10, SBP followed the same strategy of rising interest rate by 0.50 bps each time to reach at 14%. The rationale behind hikes were concerns of high inflation, along with larger than expected fiscal deficit, government borrowing, major fiscal hurdles, power sector problems, which have been overshadowing the improvements in Current Account Deficit (CAD) and economic recovery.

After third increase, SBP maintained its policy rate at 14% in its consecutive two MPS till Jun-11. This pause in rate increase could be described by agreed lower governmental borrowings and expenditures and improvements in external accounts.

**Treasury Bills & PIBs**

SBP conducted 26 auctions during the FY11. The weighted average yields on 3, 6 & 12 months reached to 13.45%, 13.70% & 13.89% respectively in Jun-11. This was mainly due to the increasing policy rates, inflationary pressures, increased governmental borrowings & expenditures and most importantly greater banking participation rather than to release funds to corporate sectors. Increasing investors' interest in government papers due to defaults of corporate sectors with increasing interest rates coupled with the launch of government securities funds also contributed in the rising trend.

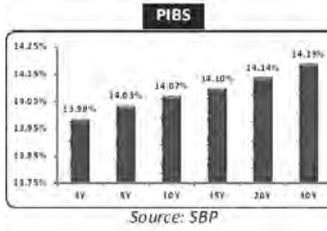
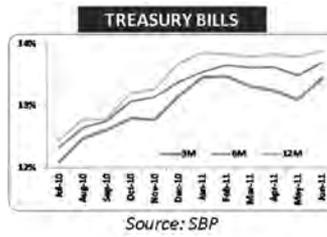
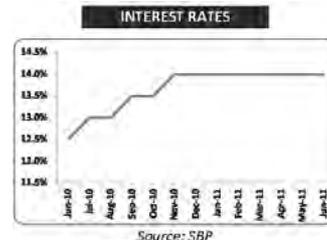
Same trend was seen in the PIBs where 10Y and 20Y bonds issued at 14.01% and 14.14% respectively.

**Debt Market Review**

Similar to FY10, debt market remained under pressure throughout the FY11 also. Downgrading and downward valuation continues at MUFAP coupled with defaults of major investee companies led towards negative market sentiments. Also the pressure selling of debt scripts by mutual funds to meet liquidity requirements joined the party. These issues hampered the secondary market led towards the shaky investors' confidence on the Mutual Fund industry especially in income funds. With the launch of few money market and government securities funds with 70%-80% investments in T-Bills, industry is now attracting new investors with increasing yields.

**6M KIBOR**

6M KIBOR showed an increasing trend with increasing policy rates by SBP in 1HFY11 till Jan-11 where SBP maintained the policy rate. 6M KIBOR showed a stable trend in 2HFY11 in line with SPB policy rate till Jun-11. Increasing KIBOR rates caused uncertainty in the private and public sector industries where issuers of debts faced difficulties in paying interests on borrowings and maintaining liquidity with increasing inflation.





### Compliance with the Best Practices of the Code of Corporate Governance

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The statement is being presented to comply with the "Code of Corporate Governance"(Code) contained in the listing regulations of the Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed Fund is managed in compliance with the best practices of Code. The directors of the Management Company hereby confirm the following as required by clause (xix) of the Code:

- r The Financial statements of the Fund, prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- r The Management Company has maintained proper books of accounts of the Fund.
- r Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- r International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements, and departure (if any) has been adequately disclosed.
- r The system of internal control is sound in design and has been effectively implemented and monitored.
- r There are no significant doubts upon the Fund's ability to continue as a going concern.
- r There has been no trading during the year in the units of the Fund carried out by the Directors, Chief Executive Officer, Company Secretary and their spouses and their minor children except as disclosed below:

Trades By	Investment (No. of Units)	Redemption (No. of Units)
Chief Executive Officer	48,498	-
Officer	1,637	-
-		

- r There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.
- r There are no statutory payment on account of taxes, duties, levies and charges outstanding.
- r There has been no departure from the best practices of transfer pricing.

### Change of Trustee and Change of Name of Fund

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At the year end, the name of your Fund has been changed from "**Dawood Money Market Fund**" to "**Dawood Income Fund**".

Further, **Bank AL Habib Limited** the trustee of Dawood Money Market Fund ("the Fund") has retired as Trustee of the Fund and **MCB Financial Services Limited** has been appointed as the new Trustee of the Fund.

Formal amendments have been made in the Trust Deed of Dawood Income Fund (formerly Dawood Money Market Fund) to record the change of Trustee and change of name of Fund. These amendments shall not prejudice the interests of the Unit Holders in any manner and have already been approved by the SECP.

The First Supplemental Trust Deed modifying the relevant Clauses is available at the registered office of the Company and is also available on our website at [www.edawood.com](http://www.edawood.com)

### Changes in Directors

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During the year, a casual vacancy occurred in the Board on July 06, 2010 which was filled on the same day. Two other casual vacancies occurred on February 17, 2011, which, we are in the process of filling.

Currently, the Company has five directors out of which four are non-executive directors.



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### Board of Directors Meetings

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During the year, five meetings were held on July 06, October 04, October 26 in 2010, February 17 and April 27 in 2011. Following is the attendance table: -

S. No	Name	Designation	Entitlement to Attend Meeting	Leave of Absences
1.	Ms. Tara Uzra Dawood	Chief Executive	5	-
2.	Mr. Gul Nawaz	Director	5	-
3.	Syed Shabihat Hussain	Director	5	-
4.	Mr. NazimuddinFeroz	Director	5	3
5.	Mr. AVM (Retd.) Zulfiqar Shah**	Director	4	1
6.	Mr. Masood A. S. Wahedna*	Director	4	1
7.	Mr. Feroze Sayeed-ud-Deane **	Chairman	4	2
8.	Mr. Iftikhar Hussain **	Director	1	1

\* Appointed During the Year

\*\* Resigned During the Year

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### Audit Committee

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The Board of Directors of the Management Company in compliance with the Code of Corporate Governance has constituted an Audit Committee with specific terms of reference comprising the following three members including the Chairman, who is an independent non-executive director.

Mr. Gul Nawaz	Chairman
Mr. Masood A. S. Wahedna	Member
Syed Shabihat Hussain	Member

The Audit Committee reviewed the quarterly, half-yearly and annual financial statements before submission to the Board and their publication. The Audit Committee had detailed discussions with the external auditors. The Audit Committee also reviewed internal audit findings and held separate meetings with internal and external auditor as required under the Code of Corporate Governance.

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### Auditors

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The present Auditor, Deloitte M.Yousuf Adil Saleem & Co, Chartered Accountants has completed five years being external auditor of fund therefore not eligible for next year. As required under the Code of Corporate Governance, the Audit Committee of Management Company has recommended the appointment of Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants as the external auditors of the Fund for the year ending June 30, 2012.

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### Risk Management

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Risk taking is an integral part of any business and is rooted in the philosophy of risk versus reward, that is, the higher the risk the greater the reward. Our fundamental objective is to maximize unit holder's value, but this must be carried out in a clearly articulated risk tolerance framework.

DIF is exposed to a variety of risks including credit, liquidity, Interest rate, market risk and operational risk.



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Our risk management policies and procedures ensure that risks are effectively identified, evaluated, monitored and managed. Risk management is a dynamic function and management must continuously monitor its internal risk procedures and practices in order to reduce earnings variability.

The Board has formed the following committees to manage the various types of risks the Fund is exposed to:

- \* Board's Audit Committee
- \* Investment Committee

#### **Statement of Ethics and Business Practices**

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The Board of Directors of the Management Company has adopted a statement of ethics and business practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to business and regulations.

#### **Marketing Function/Role**

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DIF continues to be one of the most exciting and profitable Income Fund in Pakistan. It is also the most innovative fund in the industry with its DAWOODPERKS® loyalty program (which has grown to over 20 eminent partners) and DAWOOD SAVINGS FUNDS® including BABYFUND® (children's trust fund), LADIESFUND® and SHAADIF-SUND®. The DCM family has now grown to include joint promotions with various enterprises including restaurants, art galleries, boutiques, salons and variety of other stores. A list of current partners and promotions is available on our website [www.dawoodperks.com](http://www.dawoodperks.com)

As part of its corporate social responsibility, DCM has also held a series of fundraisers for Dawood Global Foundation(TM)'s LADIESFUND® Fellowships and Scholarships Program to meet UNDP's Millennium Goals (Goal 3 Women's economic empowerment - Innovative Approaches to Promoting Women's Economic Development). These events include LADIESFUND® Entrepreneurship Conference 2010 at Avari Karachi, LADIESFUND® Women of Influence Networking Luncheon at the British Deputy High Commission and 3rd LADIESFUND® Women's Awards at Mohatta Palace Museum. DCM also published LADIESFUND® Magazine, Pakistan's first magazine for women professionals and entrepreneurs.

In addition to the above stated marketing, further publicity is derived from interviews, newspaper articles and participation in industry events.

#### **Information Technology**

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The IT department has been an integral department of the organization. A cutting-edge computerized environment and efficient utilization of information technology has been the hallmark of your company's policy.

The company continuously invests in technology to improve internal decision-making operational efficiencies and the quality of service to customers.

The IT function besides creating an efficient IT environment in the organization also keeps abreast with the latest trends in information technology. In addition, DCM continues to implement initiatives to reduce the usage of paper through the utilization of information technology as part of the company's long tenure objective to strive towards a paperless environment.

The Fund is also constantly upgrading its website, [www.edawood.com](http://www.edawood.com) which provides corporate product information.



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### **Human Resource Training and Development**

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DCM's employees are its greatest asset. Hence, several significant initiatives have been taken during the year to improve upon the hiring including retention and work environment-related issues, grooming of skills to match with the changing business needs, induction of qualified and experienced professionals. Training and Human Resource Development continues to be of prime importance in 2011-12.

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### **Transaction with Connected Persons/Related Parties**

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Transactions between the Fund and its connected persons are carried out on an arm's length basis and the relevant terms of the transactions are determined in accordance with the "Comparable Uncontrolled Price Method". The Fund has fully complied with the best practices on transfer pricing as contained in the Listing Regulation of the Karachi Stock Exchange.

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### **Pattern of Certificate Holders as on June 30, 2011**

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The pattern of certificate holders as on June 30, 2011 along with disclosure as required under the Code of Corporate Governance is annexed.

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### **Key Financial Highlights**

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Key financial highlights are summarized and annexed to these financial statements.

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### **Acknowledgement**

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We take the opportunity to thank our investor, business associates, leading banks and financial institutions for putting their trust with us and allowing us to cater to their financial needs. We also appreciate the guidance provided to the fund by the Management Company, the Trustee and the Securities and Exchange Commission of Pakistan. We truly appreciate and value the contribution of our staff who have worked tirelessly to bring quality and growth to the fund and to grow our investor base.

In closing, we reaffirm our commitment to our unit holders to further enhance the value of their investment in the Company.

For and on behalf of the  
Board of Directors,

Karachi  
Date: September 7, 2011

**Chairperson**



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

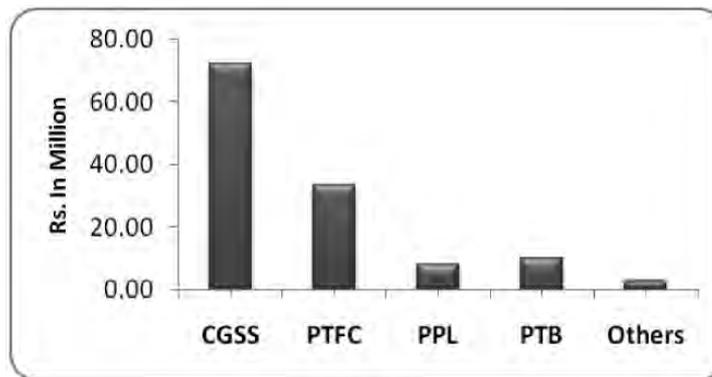
### Fund Objective

To preserve the investor's capital while providing a return greater than that offered by other investments of similar risk profile through investments in a portfolio of money market instruments.

### Fund Performance

As at June 30, 2011, net assets were Rs. 452.13 million as compared to Rs. 384.10 million as at June 30, 2010. Total operating income for the year was Rs. 126.39 million as compared to Rs. 100.63 million for the same period last year. Total expenses during the year reduced to Rs. 44.43 million as compared to Rs. 140.90 million in last year. The decrease in expenses was mainly due to reduction in impairment losses on debt securities and financial charges. Element of loss was Rs. 15.78 million as opposed to income of Rs. 115.77 million last year. The net profit before distribution for the financial year 2010-11 was Rs. 66.178 million, as compared to Rs. 75.498 million last year. The Net Asset Value per unit was Rs. 83.9655 as at June 30, 2011.

### Income Derived



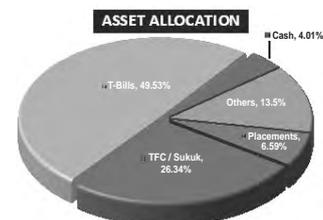
CGSS = Capital Gain on Sale of Securities-Net  
 PTFC = Profit on Term Finance Certificates  
 PPL = Profit on Placements  
 PTB = Profit on Treasury Bills  
 Others = Profit on Other Investments

Fund performed tremendously in FY11 posted a healthy return of 28.31%. Increasing sales volumes resulted in increase in fund size by 17.71%. The main reasons behind are: a) reversals of provisions taken in the previous years; b) offloading of debt securities on better rates; c) investments in high yielding government securities and bank deposits.

Fund remained totally liquid throughout the year with major investments in T-Bills and bank deposits. Management acted very actively and prudently in the best interest of unit holders for successful restructuring of defaulted investments in the outgoing year. Few investments are still in process of restructuring and management is very hopeful that these will also come through resulted in the better sales volumes in upcoming years.

With this stellar performance, active fund management and optimization of portfolio, PACRA has assigned "A-" Stability Rating to the Fund.

DIF is still an attractive investment for those who want to make quick capital gains on their investments.

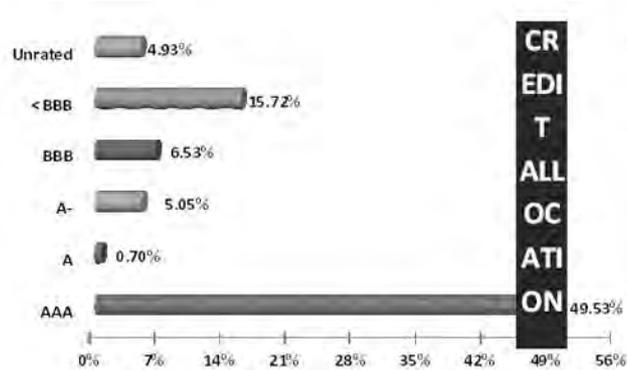




## INVESTMENT STRATEGY

During the year, fund greatly optimized its portfolio and maintained major investments in government securities and bank deposits due to higher risks on other available instruments in the market. Only the exposure in the government securities and bank deposits during the illiquid market maintains a low risk threshold and yields consistent returns for the fund.

During FY11, debt market showed some recovery and trading observed especially by the introduction of BATS. Management of the Fund successfully offloaded its low graded debt securities which not only increased the unitholders' value but also increased the fund size.



As at June 30, 2011, fund reduced its exposure in debt securities to 33% and maintained 66% liquidity in the portfolio. Debt securities are all high rated corporate instruments paying on regular basis.

The investment strategy of DIF is modeled on a conservative approach towards investments. The Fund's strategy emphasizes the safety of capital and aims to achieve the highest rate of return while maintaining a low risk threshold. Investors are provided the convenience of redeeming units or subscribing to DIF at their discretion.

### Major Strategies and Policies Employed During the Year 2011

On the basis of our objective of capital protection, the Fund mostly adopted the strategy to invest only cash & equivalent instruments. Details of major strategies and policies employed are as under.

- \* Fund adopted the strategy to offload as much debt securities at better rates to increase the liquidity as well as to optimize the allocation. Fund successfully reduced its debt securities to 33% as compared to 85% in FY10.
- \* Fund has prudently offloaded a major chunk of its non performing debt securities during the year at best available market rates to ensure more liquidity in the fund.
- \* The liquidity received was mainly invested in bank deposits and short-term government and money market securities (under 90 DTM) which are the safest avenues to maintain consistency in returns while ensuring liquidity.

### Dividend

The Board of Directors has announced bonus dividend to unit holders of Rs. 11.10 per unit on NAV of June 30, 2011 of Rs. 83.9655. Which comes out to be 16.96% of the opening Ex-NAV of Rs. 65.4382. Unit holders will get 15.2335 bonus units per 100 units held.



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## **Outlook**

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The local economy remains largely immune to the emerging problems in the US/EU, in the wake of rising fiscal troubles in the US and risk of sovereign defaults in the EU.

Foreseeing a current account deficit in FY12 and hence plugging in the deficit gap will be laid on financial account. However, we doubt that the financial inflows in FY12 would be enough to bridge the void left by current account deficit. We fear that financial inflows may not exceed USD 2bn, owing to global economic slowdown, political and economic turbulences. Monetization of funds under military aid (expected aid of USD 2.4bn per year); Coalition Support Fund (CSF) and most importantly through IMF SBA will render support to overall balance of payment.

## **Monetary Sector**

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SBP took three consecutive hikes of 50 bps in interest rates each time in its three MPS from Jul'10 to Nov'10 to reach at 14%. The SBP took the same strategy on account of rising inflation, higher government borrowing, larger than expected fiscal deficit, major fiscal hurdles and power sector problems.

After third increase, SBP maintained its policy rate at 14% in its consecutive two MPS till Jun-11. This pause in rate increase could be described by agreed lower governmental borrowings and expenditures and improvements in external accounts.

## **Fiscal Sector**

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FY11 revised tax collection target was PKR1,588bn, down from initially set target of PKR 1,667 Billion. It was in the view of fiscal deficit likely to surpass the government original target of 4.7% of the GDP. Despite austere measure taken throughout the year, the final numbers shows worrisome facts. Overall tax collection shows a mere 10% YoY increase.

## **Inflation**

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According to the Federal Bureau of Statistics (FBS), average headline inflation for the fiscal year remained at 13.9%, slightly below revised estimate of 14.0%. Inflationary pressures during May-June 2011 remained muted due to a significant decline in perishable food item prices and lower international commodity prices on fears of a global slowdown in economic growth.

## **Money Market Review**

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The weighted average yields on 3, 6 & 12 months reached to 13.45%, 13.70% & 13.89% respectively in Jun-11. This was mainly due to the increasing policy rates, inflationary pressures, increased governmental borrowings & expenditures and most importantly greater banking participation rather than to release funds to corporate sectors. Same trend was seen in the PIBs where 10Y and 20Y bonds issued at 14.01% and 14.14% respectively.

## **Debt Market Review**

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During the year debt market remained under pressure. Downgrading and downward valuation continues at MUFAP coupled with defaults of major investee companies led towards negative market sentiments and shaky investors' confidence. Also the pressure selling of debt scripts by mutual funds to meet liquidity requirements joined the party. These issues hampered the secondary market. With the launch of few money market and government securities funds with 70%-80% investments in T-Bills and bank deposits, industry is now attracting new investors with increasing yields.

6M KIBOR showed an increasing trend with increasing policy rates by SBP in 1HFY11 till Jan-11 where SBP maintained the policy rate. Increasing KIBOR rates caused uncertainty in the private and public sector industries where issuers of debts faced difficulties in paying interests on borrowings and maintaining liquidity with increasing inflation.



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**Challenges Ahead**

Government is still facing the biggest and hard-hitting challenge of rebuilding entire infrastructure, destroyed by historic floods of 2011. Foreign aid was not enough for rebuilding. Therefore, to meet its development expenditures, government imposed several taxes including flood surcharge of 15% but still seems insufficient. Increasing taxes has given rise to inflationary pressures in the economy in the 1HFY11.

In the upcoming years, government will definitely pass on this burden in terms of removing subsidies on various utilities and increase its borrowing from central bank. These steps will likely to increase inflation in the economy in the upcoming years.

**Future Outlook**

The local economy remains largely immune to the emerging problems in the US/EU, in the wake of rising fiscal troubles in the US and risk of sovereign defaults in the EU.

With rising inflation in the first two months of FY12 on account of Ramadan effect, it will be hard-hitting challenge for Mutual Funds Industry to attract new investors. Off course, yield on government bond funds will rise with increasing interest rates, but prevailing economic, political and law & order situation coupled with increasing inflation on consumer basket will restrain investors for investments.

Launch of government bond funds during FY11 with attractive yields gaining the advantage of increasing interest rates, seems able to attract new investors towards Mutual Funds Industry. But still a lot has to be done in terms of information transparency and investors' education to increase the savings to this form of investment.



**Detail of Pattern of Holdings (Units)  
As at June 30, 2011**

<i>Category</i>	<i>No. of Unit Holders</i>	<i>Unit Held</i>	<i>% of Total</i>
<b>Associated Companies</b>			
Dawood Capital Management Ltd.	1	172,312	3.20
<b>Chief Executive Officer</b>			
Ms. Tara Uzra Dawood	1	138,135	2.57
<b>Directors</b>			
Mr. Gul Nawaz	1	168	0.00
Mr. Nazimuddin Feroz	1	58	0.00
<b>Individuals</b>	269	757,532	14.07
<b>Insurance Companies</b>	2	27,241	0.51
<b>Banks/DFIs</b>	3	3,641,376	67.62
<b>NBFC</b>	1	9,717	0.18
<b>Retirement Funds</b>	12	264,112	4.90
<b>Others</b>	11	374,031	6.95
<b>TOTAL</b>	<u><u>302</u></u>	<u><u>5,384,682</u></u>	<u><u>100</u></u>



**TRUSTEE REPORT TO THE UNITHOLDERS**

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

During the period July 1, 2010 to June 30, 2011, Dawood Capital Management Limited ("DCML"), the Management Company of Dawood Income Fund ("DIF") (formerly Dawood Money Market Fund) has in our opinion managed DIF in accordance with the provisions of the constitutive documents of DIF and Non-Banking Finance Companies and Notified Entities Regulations, 2008 ("Regulations") in all material respects, except for some non-compliant investments disclosed in the notes to the financial statements of DIF for the year ended June 30, 2011, as required by SECP Circular No. 16 dated July 7, 2010.

**Bank AL Habib Limited**

**Authorized Signatory**

**Authorized Signatory**

Karachi: September 11, 2011



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

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**Statement of Compliance with the Code of Governance**

This Statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi Stock Exchange (Guarantee) Limited 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.

Dawood Capital Management Limited (the Company), the management company of **Dawood Income Fund** (formerly Dawood Money Market Fund) (The Fund) has applied the principles contained in the Code in the following manner:-

- 1) The Company encourages representation of independent non-executive directors on its Board of Directors. At present, the Board comprises of five directors out of which four are non-executive directors.
- 2) The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
- 3) All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- 4) A casual vacancy occurred in the Board on July 06, 2010 which was filled on the same day. Two other casual vacancies occurred on February 17, 2011 which have not yet been filled as the SECP did not grant approval for appointment of persons applied to fill the said casual vacancies.
- 5) The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Company.
- 6) The Board of Directors has adopted a vision / mission statement and all the overall corporate strategy of the Company and has also formulated significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- 7) All the powers of the Board have been duly exercised and decisions on material transactions, including determination of remuneration and terms and conditions of Chief Executive Officer (CEO) have been taken by the Board.
- 8) The meetings of the Board were chairperson over by the Chairman. The Board met at least once in every quarter during the year. Written notices of the meetings of the Board of Directors, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- 9) No orientation courses were arranged for the directors during the year. However, the Board encourages the participation of its Directors and Executives in the orientation courses to apprise them of their duties and responsibilities. The directors of the Board of the Company are individuals with vast diversified experience of the financial and corporate affairs. They are also directors in other companies and are well conversant with their duties and responsibilities. Copies of Memorandum of Association, Article of Association have been provided to them.
- 10) The Board of Directors of the Company has approved the appointment of the Chief Financial Officer (CFO) and Company Secretary including his 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 CFO before approval of the Board.
- 13) The directors, CEO and executives do not hold any interest in the units of the Fund other than those disclosed in the pattern of unit-holdings.
- 14) The Company has complied with all the corporate and financial reporting requirements of the Code with respect to the Fund.



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- 15) The Board has formed an Audit Committee. As at June 30, 2011, it comprises of 2 members, both of whom are non-executive directors including the chairman of the committee.
  - 16) The meetings of the Audit Committee (AC) were held atleast once every quarter except that the first AC meeting was held in the second quarter on 4th October, 2010. AC meetings were held prior to approval of interim and annual 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 Company and advised to the committee for compliance.
  - 17) The Board has outsourced its internal audit function to a firm of Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
  - 18) The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
  - 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 and have been placed before the audit committee and approved by the board of directors of the Company.
  - 21) We confirm that all other material principles contained in the Code have been complied with.

**On Behalf of the Board of Directors  
Dawood Capital Management Limited**

**Karachi  
Date: September 7, 2011**

**Tara Uzra Dawood  
Chief Executive Officer**



**Deloitte.**

**M. Yousuf Adil Saleem & Co**  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Sharea Faisal,  
Karachi-75350  
Pakistan

UAN: +92 (0) 21 111-55-2626  
Fax: +92 (0) 21-3454 1314  
Web: [www.deloitte.com](http://www.deloitte.com)

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

We have reviewed the statement of compliance with the best practices contained in the code of Corporate Governance prepared by the Board of Directors of DAWOOD CAPITAL MANAGEMENT LIMITED (the Management Company) of the **DAWOOD INCOME FUND** (formerly DAWOOD MONEY MARKET FUND) (the Fund) to comply with the Listing Regulation 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 Fund'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.

The Code of Corporate Governance requires board of directors to approve related party transactions bifurcating 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. In this connection we are only required and have ensured compliance of requirement to the extent of board of directors approving the related party transactions in the aforesaid manner. We have not carried out any procedures to enable us to express an opinion as to whether the related party transactions were carried out at arm's length price.

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 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.

**Chartered Accountants**

**Karachi**  
**Date: September 7, 2011**

A member firm of  
**Deloitte Touche Tohmatsu**



**Deloitte.**

**M. Yousuf Adil Saleem & Co**  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Sharea Faisal,  
Karachi-75350  
Pakistan

UAN: +92 (0) 21 111-55-2626  
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Web: www.deloitte.com

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Dawood Income Fund** (formerly Dawood Money Market Fund) (the Fund), which comprises the statement of assets and liabilities as at June 30, 2011, and the income statement, statement of comprehensive income, distribution statement, statement of movements in unit holder's fund, cash flow statement and a summary of significant accounting policies together with other explanatory notes.

### Management Company's Responsibility for the Financial Statement

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 misstatement.

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 judgment, 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 fund'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 fund'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, 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.

### Other Matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Karachi.  
Date: September 7, 2011

Chartered Accountants

Engagement Partner  
Mushtaq Ali Hirani

A member firm of  
Deloitte Touche Tohmatsu



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

	Note	2011 Rupees	2010 Rupees
<i>Assets</i>			
Bank Balances	5	18,302,764	43,584,085
Receivable From the Sale of Investments		55,471,133	-
Investments	6	376,581,775	327,064,662
Advance, Deposit and Profit Receivable	7	6,333,475	16,385,707
<b>Total Assets</b>		<b>456,689,147</b>	<b>387,034,454</b>
<i>Liabilities</i>			
Remuneration Payable to Management Company	8	380,271	293,429
Remuneration Payable to Trustee	9	204,078	178,698
Annual Fee Payable to Securities and Exchange Commission of Pakistan	10	290,314	437,687
Payable to Unit Holders Against Redemption		-	24,902
Accrued and Other Liabilities	11	3,687,159	1,995,515
<b>Total Liabilities</b>		<b>4,561,822</b>	<b>2,930,231</b>
<b>NET ASSETS</b>		<b>452,127,325</b>	<b>384,104,223</b>
<b>UNIT HOLDERS FUND (as per statement attached)</b>		<b>452,127,325</b>	<b>384,104,223</b>
Contingencies & Commitments	12		
<b>Number of Units in Issue</b>		<b>5,384,682</b>	<b>4,829,179</b>
		<b>(Rupees)</b>	
Net Asset Value per Unit (Face Value per Unit Rs. 100/-)		<b>83.97</b>	<b>79.54</b>

The annexed notes from 1 to 30 form an integral part of these financial statements.

*For Dawood Capital Management Limited  
(Management Company)*

Chief Executive Officer

Director

Director



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

	Note	2011 Rupees	2010 Rupees
<i>Income</i>			
Profit/Return on			
- Term Finance Certificates		33,340,479	59,815,089
- Placements		7,960,431	24,602,477
- Treasury Bills		10,029,216	789,295
- Term Deposit Receipts		-	349,315
- Bank Balances		3,008,376	1,789,800
Capital Gain on Sale of Securities - Net		72,054,506	13,287,785
Unrealized Diminution in Value of Investments at Fair Value Through Profit & Loss Account	6.1	(6,971)	
<b>Total Income</b>		<b>126,386,037</b>	<b>100,633,761</b>
<b>Expenses</b>			
Impairment Loss on Investments	6.5	37,374,441	130,917,940
Remuneration of Management Company	8	3,870,854	5,835,514
Remuneration of Trustee	9	762,091	958,552
Annual Fee of Securities and Exchange Commission of Pakistan	10	290,314	437,687
Securities Transactions Cost		75,914	186,007
Auditors' Remuneration	13	318,500	295,000
Legal and Professional		250,000	200,000
Financial Charges	14	24,954	439,389
Workers Welfare Fund	15	1,350,572	1,540,781
Listing Fee		40,000	40,000
Printing Charges		70,631	52,150
<b>Total Expenses</b>		<b>44,428,271</b>	<b>140,903,020</b>
<b>NET INCOME/(LOSS) FROM OPERATING ACTIVITIES</b>		<b>81,957,766</b>	<b>(40,269,259)</b>
Element of (Loss)/Income and Capital (Losses)/Gains in Prices of Units Sold Less Those in Units Redeemed - Net		(15,779,742)	115,767,539
<b>NET INCOME FOR THE YEAR BEFORE TAXATION</b>		<b>66,178,024</b>	<b>75,498,280</b>
Taxation	16	-	-
<b>NET INCOME FOR THE YEAR CARRIED TO DISTRIBUTION STATEMENT</b>		<b>66,178,024</b>	<b>75,498,280</b>
<b>EARNINGS PER UNIT</b>	17		

The annexed notes from 1 to 30 form an integral part of these financial statements.

*For Dawood Capital Management Limited  
(Management Company)*

Chief Executive Officer

Director

Director



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

	<b>2011 Rupees</b>	<b>2010 Rupees</b>
Undistributed Loss Brought Forward		
- Realized	(87,047,173)	(162,545,453)
- Unrealized	-	-
	<u>(87,047,173)</u>	<u>(162,545,453)</u>
Final Distribution (1,040,545 Issue of Bonus Units) At the Rate of Rs. 14.10 Per Unit For the Year Ended June 30, 2010 (June 30, 2009: At the rate of Rs. Nil Per Unit)	(68,091,413)	
	<u>(155,138,586)</u>	<u>(162,545,453)</u>
Net Income For the Year	<b>66,178,024</b>	75,498,280
Undistributed Loss Carried Forward	<u>(88,960,562)</u>	<u>(87,047,173)</u>
<b>Represented By:</b>		
- Realized	(88,953,591)	(87,047,173)
- Unrealized	(6,971)	-
	<u>(88,960,562)</u>	<u>(87,047,173)</u>

The annexed notes from 1 to 30 form an integral part of these financial statements.

*For Dawood Capital Management Limited  
(Management Company)*

Chief Executive Officer

Director

Director



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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>2011</b>	<b>2010</b>
	<b>Rupees</b>	<b>Rupees</b>
Net Income For the Year	<b>66,178,024</b>	75,498,280
<b>Other Comprehensive Income</b>		
Unrealized Appreciation on Remeasurement of Investments Classified as 'Available For Sale Investments'	<b>14,386,198</b>	30,103,564
<b>Total Comprehensive Income for the Year</b>	<b><u>80,564,222</u></b>	<u>105,601,844</u>

The annexed notes from 1 to 30 form an integral part of these financial statements.

*For Dawood Capital Management Limited  
(Management Company)*

**Chief Executive Officer**

**Director**

**Director**



**STATEMENT OF MOVEMENTS IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	2011 Rupees	2010 Rupees
Net Assets at Beginning of the Year	384,104,223	873,342,417
Amount Received on Issue of Units*	97,888,124	33,048,290
Amount Paid on Redemption of Units**	(126,208,986)	(512,120,789)
	(28,320,862)	(479,072,499)
	355,783,361	394,269,918
Element of Loss/(Income) and Capital Losses/(Gains) in Prices of Units Sold Less Those in Units Redeemed - Net	15,779,742	(115,767,539)
Capital Gain on Sale of Securities - Net	72,054,506	13,287,785
Unrealized Diminution in Value of Investments at Fair Value Through Profit & Loss Account	(6,971)	-
Unrealized Appreciation on Remeasurement of Investments Classified as 'Available For Sale Investments'	14,386,198	30,103,564
Other Net (Loss)/Income For the Year	(5,869,511)	62,210,495
Net Assets at End of the Year	452,127,325	384,104,223
Net Assets Value per Unit	83.97	79.54
	-----Number of Units-----	
* Number of Units Issued (Including 1,040,545 Bonus Units Issued During the Year Ended June 30, 2011 and Nil Bonus Units Issued During the Year Ended June 30, 2010)	2,313,919	454,226
** Number of Units Redeemed	1,758,417	6,402,626

The annexed notes from 1 to 30 form an integral part of these financial statements.

*For Dawood Capital Management Limited  
(Management Company)*

Chief Executive Officer

Director

Director



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

	2011 Rupees	2010 Rupees
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income for the Year	66,178,024	75,498,280
<i>Adjustments For:</i>		
Capital Gain on Sale of Securities - Net	(72,054,506)	(13,287,785)
Element of Loss/(Income) and Capital Losses/(Gains) in Prices of Units Sold Less Those in Units Redeemed - Net	15,779,742	(115,767,539)
Impairment Loss on Investments	37,374,441	130,917,940
Financial Charges	24,954	439,389
	<u>47,302,655</u>	<u>77,800,285</u>
<i>(Increase)/Decrease in Assets:</i>		
Investments	(450,850)	438,534,063
Receivable From the Sale of Investments	(55,471,133)	
Advance, Deposits & Profit Receivable	10,052,232	20,494,064
	<u>(45,869,751)</u>	<u>459,028,127</u>
<i>Increase/(Decrease) in Liabilities:</i>		
Remuneration Payable to Management Company	86,842	293,429
Remuneration Payable to Trustee	25,380	(411,716)
Annual Fee Payable to Securities and Exchange Commission of Pakistan	(147,373)	(899,660)
Payable to Unit Holders Against Redemption	(24,902)	(12,605,841)
Accrued and Other Liabilities	1,691,644	606,546
	<u>1,631,591</u>	<u>(13,017,242)</u>
<i>Net Cash Generated From Operating Activities</i>	<u>3,064,495</u>	<u>523,811,170</u>
<b>B. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Financial Charges Paid	(24,954)	(439,389)
Net Payments Against Redemption of Units	(28,320,862)	(479,072,499)
<i>Net Cash Used in Financing Activities</i>	<u>(28,345,816)</u>	<u>(479,511,888)</u>
Net (Decrease)/Increase in Cash And Cash Equivalents For the Year	(25,281,321)	44,299,282
Cash and Cash Equivalents at Beginning of the Year	43,584,085	(715,197)
Cash and Cash Equivalents at End of the Year	<u>18,302,764</u>	<u>43,584,085</u>

The annexed notes from 1 to 30 form an integral part of these financial statements.

*For Dawood Capital Management Limited  
(Management Company)*

Chief Executive Officer

Director

Director



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

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

- 1.1** Dawood Income Fund (formerly Dawood Money Market Fund) (the Fund) was established under a Trust Deed executed on April 08, 2003 between Dawood Capital Management Limited (DCML) as Management Company and Bank Al-Habib Limited (BAHL) as Trustee. The Securities and Exchange Commission of Pakistan (SECP) approved the appointment of Trustee and licensed the Management Company of the Fund to act as an Asset Management Company and Bank Al-Habib Limited (BAH) as Trustee. The registered office of the Management Company is situated at 5B, Lakson Square Building No.1, Sarwar Shaheed Road, Karachi, Pakistan.
- 1.2** The Fund is an open-ended mutual fund and is listed on the Karachi 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.
- 1.3** The principal activity of The Fund is to make investment in spread transactions and debt-based securities including Government securities, Commercial Papers and other money market instruments and placement of funds.
- 1.4** During the year, Bank AL-Habib Limited has been retired and MCB Financial Services Limited has been appointed as the new Trustee of the Fund. Further the name of the Fund has also been changed from the "Dawood Money Market Fund" to "Dawood Islamic Fund". These changes, after necessary regulatory approvals, were duly incorporated in the Trust Deed of the Fund.
- 1.5** As at June 30, 2011, Asset Manager Rating (AMR) of the Management Company is 'AM3-' (2010: 'AM4+') and that of Fund is A-(f) (2010: 2 star), rated by Pakistan Credit Rating Agency (PACRA).

### **2. STATEMENT OF COMPLIANCE**

- 2.1** These financial statements have been prepared in accordance with requirements of approved accounting standards as applicable in Pakistan, the requirements of the Companies Ordinance, 1984 (the Ordinance), the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulations), The Non Banking Finance Companies (establishment and Regulation) Rules, 2003 (the Rules), the Trust deed and directives issued by the SECP. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Rules, the Regulations, the Ordinance or directives issued by SECP differ with the requirements of these standards, the requirements of the Regulations, the Rules, the Ordinance and the said directives take precedence.

#### **2.2 Adoption of New International Financial Reporting Standards**

In the current year, the Fund has adopted all new Standards issued by the IASB and as notified by the Securities and Exchange Commission of Pakistan that are relevant to its operations and effective for Fund's accounting period beginning on July 01, 2010.

Amendments to IAS 7 - Statement of Cash Flows

*Effective from accounting period  
beginning on or after January 01, 2010*



The amendments (part of Improvements to IFRSs (2009)) specify that only expenditures that result in a recognized asset in the balance sheet can be classified as investing activities in the statement of cash flows. Consequently, any cash flows in respect of items that do not qualify for recognition as an asset (and, therefore, are recognized in profit or loss as incurred) would be reclassified from investing to operating activities in the statement of cash flows and prior year amounts be restated for consistent presentation. There is no such classification in financial statements of the Fund for the year ended June 30, 2011.

Following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 2 - Share based Payment	<i>Effective from accounting period beginning on or after January 01, 2010</i>
Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	<i>Effective from accounting period beginning on or after January 01, 2010</i>
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	<i>Effective from accounting period beginning on or after January 01, 2010</i>

### 2.3 New Accounting Standards and IFRS Interpretations that are Not Yet Effective

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them:

IFRS 9 - Financial Instruments	<i>Effective from accounting period beginning on or after January 01, 2013</i>
Amendments to IAS 24 - Related Party Disclosures	<i>Effective from accounting period beginning on or after January 01, 2011</i>
IAS 27 (Revised) – Separate Financial Statements	<i>Effective from accounting period beginning on or after January 01, 2013</i>
IAS 28 – Investment in Associates and Joint Ventures	<i>Effective from accounting period beginning on or after January 01, 2013</i>
IAS 12 - Income Taxes (Amendment)	<i>Effective from accounting period beginning on or after January 01, 2012</i>
IFRS 7 - Financial Instruments: Disclosures (Amendment)	<i>Effective from accounting period beginning on or after July 01, 2011</i>
IAS 1 - Presentation of Financial Statements (Amendment)	<i>Effective from accounting period beginning on or after January 01, 2011</i>
IAS 34 - Interim Financial Reporting (Amendment)	<i>Effective from accounting period beginning on or after January 01, 2011</i>
IFRIC 13 - Customer Loyalty Programmes (Amendment)	<i>Effective from accounting period beginning on or after January 01, 2011</i>
"IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendment)"	<i>Effective from accounting period beginning on or after January 01, 2011</i>



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### **3. BASIS OF MEASUREMENT**

#### *3.1 Accounting Convention*

These financial Statements have been prepared under the historical cost convention except for certain financial instruments which have been carried at fair value.

#### *3.2 Functional Currency*

These financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund.

#### *3.3 Critical Accounting Estimates and Judgments*

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances.

In the process of applying the fund's accounting policies, management has made the following estimates and judgments which are significant to the financial statements in respect of classification of investments (note 4.1) and impairment losses (note 4.2).

### **4. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### *4.1 Investment*

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognized at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

The Management Company determines the appropriate classification of the Fund's investments in accordance with the requirements of International Accounting Standard (IAS) 39; 'Financial Instruments: Recognition and Measurement', at the time of purchases and re-evaluates this classification on a regular basis.

Investments of the Fund are categorized as follows: -

##### *4.1.1 Financial Assets at Fair Value through Profit or Loss*

These financial assets are classified as held for trading or designated by the management at fair value through profit or loss at inception. Financial assets held for trading are those acquired principally for the purpose of selling in the near term. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

##### *4.1.2 Loans and Receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise of bank balances, receivable from the sale of securities, advances, deposits and profit receivable.



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#### *4.1.3 Held-to-Maturity*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity.

#### *4.1.4 Available-for-Sale*

These are non-derivative financial assets that are designated as available-for-sale and may be sold in response to needs for liquidity or changes in interest rates or market prices or are not classified in any of the three other categories

#### *4.1.5 Initial Recognition and Measurement*

Financial assets are initially recognized at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are charged in the income statement.

#### *4.1.6 Subsequent Measurement*

Subsequent to initial recognition, financial assets designated by the management at fair value through profit or loss and available-for-sale are valued as follows:

##### *a) Un-Quoted Securities*

Government securities are valued on the basis of rates announced by the Financial Market Association of Pakistan.

"Debt securities are valued in accordance with the methodology for the valuation of debt securities prescribed in the SECP's Circular No. 01 dated January 06, 2009. Accordingly, investment in debt securities have been valued at the rates notified by the Mutual Funds Association of Pakistan (MUFAP)."

##### *b) Quoted Securities*

Debt securities are valued in accordance with the methodology for the valuation of debt securities prescribed in the SECP's Circular No. 01 dated January 06, 2009. Accordingly, investment in such debt securities have been valued at the rates notified by the Mutual Funds Association of Pakistan (MUFAP).

Net gains or losses arising on changes in fair values in respect of the financial assets at fair value through profit or loss are taken to income statement.

Net gains and losses arising on changes in fair values in respect of the available-for-sale financial assets are taken to other comprehensive income as part of Unit Holders' Funds. When securities are disposed off or impaired, the related fair value adjustments previously taken to Unit Holders' Fund are transferred to the income statement.

#### *4.1.7 Derecognition*

All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and either (a) the Company has transferred substantially all risks and rewards of ownership or (b) the Company has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred the control of the asset.



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#### *4.2 Impairment*

The carrying amount of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement and is reversed through the profit and loss account as well.

Provision of non-performing debt securities is made on the basis of time based criteria as prescribed under Circular No. 01 of 2009 issued by the Securities and Exchange Commission of Pakistan.

If required, the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid Circular, in accordance with provisioning policy approved by the Board of Directors.

#### *4.3 Provisions*

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

#### *4.4 Securities Under Repurchase Agreements*

Transaction of sale under repurchase (repo) of marketable and government securities are entered into at contracted rates for specified period of time. Securities sold with a simultaneous commitment to repurchase at a specific future date (repo) continue to be recognized in the Statement of Assets and Liabilities and are measured in accordance with accounting policies for investment in securities. The counterparty liabilities for amount received under these transactions are recorded as liabilities. The difference between sale and repurchase price treated as borrowing charges and accrued over the period of the repo agreement.

#### *4.5 Cash and Cash Equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of bank balance net of short-term running finance under mark-up arrangements, if any.

#### *4.6 Accrued and Other Liabilities*

Accrued and Other liabilities are carried at cost which is the fair value of consideration to be paid in the future for the services received whether billed or not to the Fund.

#### *4.7 Taxation*

The charge for the current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any.

The Fund has not recognized any amount of deferred tax in these financial statements as the Fund intends to continue availing tax exemption in future years by distributing at least 90% of the accounting income for the year as reduced by capital gain, whether realized or unrealized to its unit holders every year.



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*4.8 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 on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowance for sales load, provision for transaction costs and any provision for duties and charges, if applicable. Currently, the Fund is not charging any sales load, transactions costs or any provision for duties and charges.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption request during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, provision for transaction costs and any provision for duties and charges, if applicable. Currently, the Fund is not charging any back-end load, transactions costs or any provision for duties and charges.

*4.9 Element of Income and Capital Gains in Prices of Units Sold Less Units Redeemed*

To prevent the dilution of per unit income and distribution of income already paid out on redemption, as dividend, an equalization account called “element of income and capital gains in prices of units sold less those in units redeemed” is created.

The “element of income and capital gains in prices of units sold less those in units redeemed” account is credited with the amount representing net income and capital gains accounted for in the last announced net asset value and included in the sale proceeds of units. Upon redemption of units, the “element of income and capital gains in prices of units sold less those in units redeemed” account is debited with the amount representing net income and capital gains accounted for in the last announced net asset value and included in the redemption price.

The “element of income and capital gains in prices of units sold less those in units redeemed” during an accounting period is transferred to the income statement.

*4.10 Net Assets Value per Unit*

The net assets value per unit disclosed in the net Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

*4.11 Dividend Distributions and Appropriations*

Dividend distributions and appropriations, if any, are recognized in the period in which the distributions and appropriations are approved.

*4.12 Revenue Recognition*

Income on debt securities, placements and bank deposits is recognized on a time proportionate basis.

Gains/(losses) arising on sale of investments are included in the income statement on the date at which transaction takes place.

Unrealized gains/losses arising on remeasurement of investments classified as ' Financial assets at fair value through profit or loss ' are included in the income statement in the period in which they arise.

*4.13 Financial Assets and Liabilities*

Financial Assets carried on the Statement of Assets and Liabilities include investments, bank balance, advances and other receivables. Financial Liabilities include remuneration payable to Management Company, remuneration payable to Trustee, payable to unit holders against redemption of units and accrued and other liabilities.



All the Financial assets and liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument and de-recognized when the Fund loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. The particular recognition method adopted for measurement of financial assets and financial liabilities is disclosed in the individual policy statement associated with each item.

#### 4.14 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of Assets and Liabilities when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liabilities simultaneously.

	Note	2011 Rupees	2010 Rupees
<b>5. BANK BALANCE</b>			
Deposit Account	5.1	<u>18,302,764</u>	<u>43,584,085</u>
5.1 The profit rate on this account is 10.25% per annum (2010: 10% per annum).			
	Note	2011 Rupees	2010 Rupees
<b>6. INVESTMENTS</b>			
<i>At Fair Value through Profit or Loss</i>			
Government Securities	6.1	226,209,736	-
<i>Available-for-Sale</i>			
<b>Investment in Debt Securities</b>			
Quoted Debt Securities	6.2	56,451,510	177,413,821
Un-Quoted Debt Securities	6.3	63,839,789	99,650,841
		<u>120,291,299</u>	277,064,662
<b>Placements</b>			
Certificates of Musharika	6.4	30,080,740	50,000,000
		<u>376,581,775</u>	<u>327,064,662</u>

#### 6.1 Government Securities

	Face Value as at June 30, 2011	Carrying Value as at June 30, 2011	Unrealized diminution as at June 30, 2011	Date of Maturity	Return on Investment (%)	Percentage of Total Investment (%)
Market Treasury Bills	230,000,000	226,209,736	(6,971)	Latest by September 22, 2011	12.95 to 13.49	60.07



	Opening as at July 01, 2010	Received on Settlement of Certificates Investment (Note 6.3.1)	(Matured)/ (Sold)	Closing as at June 30, 2011	Cost as at June 30, 2011	Market Value/ Carrying Value as at June 30, 2011	Unrealised loss at June 30, 2011	Return on investment	Percentage of Total Investment
	←----- Number of Certificate -----→			←----- Rupees -----→			←----- % -----→		
6.2 <i>Investment in Debt Securities</i>									
Face Value of Rs. 5,000/- Each									
<u>Quoted Debt Securities</u>									
<i>Term Finance Certificates (TFCs)</i>									
<i>Financial Services</i>									
Invest Capital Investment Bank Limited. (Note 6.5)	6,000	-	-	6,000	30,000,000	16,500,000	(13,500,000)	K6+1.9	4.38
Escort Investment Bank Limited	10,000	500	(10,000)	500	682,781	732,741	49,960	K6+2.5	0.19
Trust Investment Bank Limited	10,000	-	-	10,000	31,237,500	29,814,913	(1,422,587)	K6+1.85	7.92
						47,047,654			
<i>Bank</i>									
NIB Bank Limited	3,999	-	(3,999)	-	-	-	-	K6+1.15	-
<i>Real Estate Investment and Services</i>									
Pace Pakistan Limited	-	2,800	-	2,800	9,089,080	9,403,856	314,776	K6+2	2.50
<i>Construction and Material</i>									
Dewan Cement Company Limited (Note 6.5)	30,000	-	-	30,000	150,000,000	-	(150,000,000)	K6+2	-
<i>Chemicals</i>									
Engro Fertilizers Limited	11,400	-	(11,400)	-	-	-	-	K6+1.55	0.00
<i>Total Quoted Debt Securities</i>					<u>221,009,361</u>	<u>56,451,510</u>	<u>(164,557,851)</u>		<u>14.99</u>



	Opening as at July 01, 2010	Received on Settlement of Certificates Investment (Note 6.3.1)	(Matured)/ (Sold)	Closing as at June 30, 2011	Cost as at June 30, 2011	Market Value / Carrying Value as at June 30, 2011	Unrealised Loss as at June 30, 2011	Return on investment	Percentage of Total Investment
	←----- Number of Certificate -----→			←----- Rupees -----→			←----- % -----→		
<i>Unquoted Debt Securities</i>									
<i>Term Finance Certificates (TFCs)</i>									
<i>Financial Services</i>									
Grays Leasing Company	6,300	3,600	-	9,900	2,125,000	2,062,500	(62,500)	K6+2.5	0.55
<i>Cable &amp; Electric Goods</i>									
New Allied Electronics Industries Limited. (Note 6.5)	11,523	-	-	11,523	25,433,190	-	(25,433,190)	K3+2.75	-
<i>Hotels</i>									
Avari Hotel Limited.	-	5,573	-	5,573	19,275,643	23,043,085	3,767,442	K6+2.50	6.12
<i>Printing and Publishing</i>									
Flying Paper & Board	-	8,000	(8,000)	-	-	-	-	K6+1.5	-
<i>Transport</i>									
Optimus Limited.	9,200	800	(10,000)	-	-	-	-	K6+2.1	0.00
<i>Information Technology</i>									
Trakker Pakistan Limited. *	200	-	-	200	2,500,000	2,472,595	(27,405)	K6+3.5	0.66
<i>Sukuks</i>									
<i>Financial Services</i>									
Invest Capital Investment Bank Limited. (Note 6.5)	4,000	-	-	4,000	15,569,441	8,563,193	(7,006,248)	K6+1.9	2.27
<i>Construction and Material</i>									
Kohat Cement Company Limited. (Note 6.5)	6,335	-	-	6,335	30,598,050	20,440,232	(10,157,818)	K3+1.8	5.43
<i>Real Estate Development</i>									
Eden Housing Limited. (Note 6.5)	-	2,933	-	2,933	10,448,812	7,258,184	(3,190,628)	K3+2.5	1.93
					<b>56,616,303</b>	<b>36,261,609</b>	<b>(20,354,694)</b>		
<i>Total Unquoted Debt Securities</i>					<b>105,950,136</b>	<b>63,839,789</b>	<b>(42,110,347)</b>	<b>9.63</b>	
<i>Total Debt Securities</i>					<b>326,959,497</b>	<b>120,291,299</b>	<b>(206,668,198)</b>	<b>16.95</b>	
Impairment Loss					-	-	209,287,884	<b>31.94</b>	
					<b>326,959,497</b>	<b>120,291,299</b>	<b>2,619,686</b>		

\* Face Value of Rs. 100,000/-



	Opening as at July 01, 2010	Purchased	(Matured/ Settlement)	Closing as at June 30, 2011	Impairment Loss	Carrying Value as at June 30, 2011	Date of Maturity	Return on Investment	Percentage of Total Investment
	←----- Rupees -----→							←----- % -----→	
<b>6.3 Certificates of Investment (COI)</b>									
Saudi Pak Leasing Company Limited. (Note 6.3.1 & 6.5)	106,533,333	-	(106,533,333)	-	-	-		9.00	-
Trust Investment Bank Limited. (Note 6.5)	29,041,359	-	(18,000,000)	11,041,359	(11,041,359)	-	March 11, 2009	K1	-
	<u>135,574,692</u>	<u>-</u>	<u>(124,533,333)</u>	<u>11,041,359</u>	<u>(11,041,359)</u>	<u>-</u>			<u>-</u>

6.3.1 During the year, as part of a settlement arrangement, Saudi Pak Leasing Company Limited (SPLCL) has redeemed its COI of Rs.11.5 million in cash, and transferred certain TFCs (as mentioned in note 6.2) for the balance outstanding principal of Rs.95 million. These TFCs had market value of Rs. 45 million at the time of settlement. As the COI of SPLCL was fully impaired in the books and accounts of the Fund at the time of settlement, a corresponding capital gain of Rs 45 million has been included in the 'Capital Gain on Sale of Securities' shown in income statement.

**6.4 Certificates of Musharika (COM)**

Invest Capital Investment Bank Limited.-II (Note 6.4.1 & 6.5)	50,000,000	-	(8,750,000)	41,250,000	(11,169,260)	30,080,740	January 10, 2016	-	<u>7.99</u>
	<u>50,000,000</u>	<u>-</u>	<u>(8,750,000)</u>	<u>41,250,000</u>	<u>(11,169,260)</u>	<u>30,080,740</u>			

6.4.1 On December 31, 2010, the Management Company entered into an agreement for repayment of this COM in two monthly installments of Rs. 2.5 million each and 60 equal monthly installments of Rs. 0.75 million each from February 2011. Profit on this investment has been waived effective from August 29, 2010.

K = Karachi Inter Bank Offer Rate

Details of Non Compliance Investments Under SECP Circular No. 16 dated July 07, 2010 are as follows:

Name of Non-Compliant Investment	Type of Investment	Value of Investment Before Provision	Provision Held	Value of Investment After Provision	% of Net Assets	% of Gross Assets
Invest Capital Investment Bank Limited	COM	41,250,000	11,169,260	30,080,740	6.65%	6.59%
Invest Capital and Investment Bank Limited	TFC	30,000,000	13,500,000	16,500,000	3.65%	3.61%
Invest Capital and Investment Bank Limited	Sukuk	15,569,441	7,006,248	8,563,193	1.89%	1.88%
Dewan Cement Limited	TFC	150,000,000	150,000,000	-	0.00%	0.00%
Grays Leasing Company Limited	TFC	2,062,500	-	2,062,500	0.46%	0.45%
New Allied Electronics Industries Limited	TFC	25,433,190	25,433,190	-	0.00%	0.00%
Trust Investment Bank Limited	COI	11,041,359	11,041,359	-	0.00%	0.00%
Pace Pakistan Limited	TFC	9,403,856	-	9,403,856	2.08%	2.06%
Kohat Cement Company Limited	Sukuk	20,440,232	-	20,440,232	4.52%	4.48%
Eden Housing Limited. (Note 6.5)	Sukuk	7,258,184	-	7,258,184	1.61%	1.59%



6.5 Break up of impairment loss on investments classified as non-performing are as follows:

	<b>2011 Rupees</b>	<b>2010 Rupees</b>
<b>Term Finance Certificates &amp; Sukuk</b>		
Invest Capital Investment Bank Limited - TFCs	<b>13,500,000</b>	-
Invest Capital Investment Bank Limited - Sukuk	<b>7,006,248</b>	-
Kohat Cement Company Limited - TFCs	<b>2,508,305</b>	42,901,268
Eden Housing Limited- Sukuk	<b>3,190,628</b>	-
Gharibwal Cement Company Limited	-	7,495,500
New Allied Electronics Industries Limited	-	1,196,480
	<b>26,205,181</b>	51,593,248
<b>Placements</b>		
Saudi Pak Leasing Company Limited.	<b>11,169,260</b>	69,033,333
Trust Investment Bank Limited	-	10,291,359
	<b>11,169,260</b>	79,324,692
<b>Total</b>	<b>37,374,441</b>	130,917,940

**7. ADVANCE, DEPOSIT AND PROFIT RECEIVABLE**  
- Considered Good

Profit/Return Accrued on:		
- Term Finance Certificates	<b>6,233,475</b>	13,707,941
- Placements	-	2,370,412
- Bank Balances	-	307,354
Security Deposit - Central Depository Company	<b>100,000</b>	-
	<b>6,333,475</b>	16,385,707

**8. REMUNERATION OF MANAGEMENT COMPANY**

The Regulations allow remuneration to the management company for services rendered to the Fund up to a maximum of 3% per annum of the average annual net assets of the Fund for the first five years and 2% per annum of the average annual net assets thereafter. The Management Company is currently charging 1% per annum of the average annual net assets value of the Fund.

Average Annual Net Assets	<b>387,085,400</b>	583,551,400
Remuneration (1% of Average Annual Net Assets)	<b>3,870,854</b>	5,835,514

**9. REMUNERATION OF TRUSTEE**

The Trustee is entitled to a monthly remuneration for the services rendered to the Fund under the provision of the Trust Deed at the rate of 0.25% on the first Rupees 250,000,000 of the average daily net assets and thereafter 0.1% on amount exceeding Rs. 250,000,000 of average daily net assets of the Fund, subject to a minimum of Rs. 625,000 per annum.



**10. ANNUAL FEE OF SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN**

Under the provisions of Regulation 62 the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to pay annual fee to SECP, an amount equal to 0.075% of the average daily net assets of the Fund.

	Note	2011 Rupees	2010 Rupees
<b>11. ACCRUED AND OTHER LIABILITIES</b>			
Accrued Expenses		693,426	385,000
Other Liabilities		102,380	-
Workers' Welfare Fund	15	2,891,353	1,540,781
Mark-up on Running Finance		-	69,734
		<u>3,687,159</u>	<u>1,995,515</u>

**12. CONTINGENCIES AND COMMITMENTS**

There were no contingency and commitment as at June 30, 2011.

**13. AUDITORS' REMUNERATION**

Annual Audit Fee		180,000	180,000
Half Yearly Review Fee		85,000	80,000
Code of Corporate Governance		25,000	15,000
Out of Pocket Expenses		28,500	20,000
		<u>318,500</u>	<u>295,000</u>

**14. FINANCIAL CHARGES**

Bank Charges		24,954	17,784
Mark-Up on Running Finance		-	421,605
		<u>24,954</u>	<u>439,389</u>

**15. WORKERS WELFARE FUND**

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it is alleged 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, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh, 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.



Subsequent to the year ended June 30, 2010, 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) vide its letter dated October 06, 2010 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. However, the FBR vide its letter dated January 04, 2011 have cancelled its earlier letter dated October 06, 2010 ab initio and issued show cause notices to certain mutual funds for collecting WWF. In respect of such show cause notices, one of the mutual funds has been granted stay by Honorable High Court of Sindh vide its order dated February 10, 2011 on the basis of the pending constitutional petition in the said court as referred above and the remaining mutual funds are in the process of filing petitions for stay of proceedings in this case.

Subsequent to the year end, Lahore High Court vide its judgement on a similar case has declared the amendments introduced vide Finance Act 2006 and Finance Act, 2008 in WWF Ordinance as unconstitutional and therefore struck down on the basis that the contribution paid towards the fund under WWF Ordinance is a fee and not a tax. However, the management on prudence basis has decided to continue to make a provision of WWF in its books of accounts and shall consider adjustments, if any after announcement of decision of Honorable High Court of Sindh.

#### **16. TAXATION**

No provision for taxation has been made as the Fund is exempt from income tax under clause 99 of Part 1 of Second Schedule to the Income Tax Ordinance, 2001 (the Ordinance), subject to the condition that not less than 90% of its accounting income for the year, as reduced by the capital gains whether realized or unrealized, is distributed amongst its unit holders.

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

#### **17. EARNINGS PER UNIT**

Earnings per unit (EPU) has not been disclosed as, in the opinion of management, the determination of weighted average units for calculating EPU is not practicable.

#### **18. LIST OF BROKERS IN ORDER OF PERCENTAGE OF COMMISSION PAID**

<b>For the Year Ended June 30, 2011</b>	<b>Percentage of commission paid</b>
	<b>%</b>
i) JS Global Capital Limited	83.55
ii) IGI Finex Securities Limited	16.45
<b>For the Year Ended June 30, 2010</b>	<b>%</b>
i) First Capital Securities Corporation Limited	42.38
ii) JS Global Capital Limited	31.06
iii) KASB Securities Limited	25.55
iv) Invest Capital Investment Bank Limited	1.01

#### **19. TRANSACTIONS WITH CONNECTED PERSONS**

"Connected persons comprise of management company, associated undertakings, directors, trustee and key management personnel of the management company.



	<b>2011 Rupees</b>	<b>2010 Rupees</b>
<i>Dawood Capital Management Limited - Management Company</i>		
Remuneration For the Year (Rupees)	<b>3,870,854</b>	5,835,514
Number of Units Issued	<b>31,300</b>	-
Value of Units Issued (Rupees)	<b>2,048,216</b>	-
Number of Units Transferred	<b>3,789</b>	-
Value of Unit Transferred (Rupees)	<b>283,364</b>	-
<i>Directors and Officers of the Management Company</i>		
Number of Units Issued	<b>50,135</b>	80,828
Value of Units Issued (Rupees)	<b>3,968,000</b>	5,880,790
<i>Bank AL-Habib Limited - Former Trustee</i>		
Remuneration For the Year (Rupees)	<b>762,091</b>	958,552
Mark-up on Short-Term Finance (Rupees)	-	421,605
Profit on Bank Balances (Rupees)	<b>3,008,376</b>	1,789,800
Term Deposit Receipts (Rupees)	-	25,000,000
Term Deposit Receipts Matured (Rupees)	-	25,000,000
Profit of Term Deposit Receipts (Rupees)	-	349,315
<i>First Dawood Investment Bank Limited</i>		
Number of Units Redeemed	-	884,030
Value of Units Redeemed (Rupees)	-	62,166,513
<i>BRR Guardian Modaraba</i>		
Number of Units Issued	<b>316,129</b>	-
Value of Units Issued (Rupees)	<b>25,000,000</b>	-
Number of Units Redeemed	<b>316,129</b>	722,637
Value of Units Redeemed (Rupees)	<b>25,706,453</b>	52,609,442

**20. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

Financial assets, which are tradable in an open market, are valued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value, as majority of these items are short-term in nature.



*Fair Value Hierarchy*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
	-----Rupees-----		
<b>Available-For-Sale</b>			
Quoted Debt Securities	56,451,510	-	-
Unquoted Debt Securities	-	63,839,789	-

**At Fair Value Through Profit or Loss**

Government Securities	226,209,736	-	-
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There were no transfers between Level 1 and 2 in the period.

**21. FINANCIAL RISK MANAGEMENT POLICIES**

The Fund's activities expose it to the variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

"The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance."

The Fund use different methods to measure and manage various types of risks to which it is exposed; these are summarized below;

*21.1. Price Risk*

Price risk the risk that the value of a financial instrument may fluctuate as a result of changes in market prices. This risk arises from the investments held by Fund for which prices are uncertain in future. The Management Company manages its price risk through diversification and by continued monitoring of its investment portfolio by following the internal guidelines and NBFC regulations laid down by the SECP.



### 21.2 Yield/Interest/Mark-Up Rate Risk

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve. Interest/markup rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market interest/mark-up rates.

Sensitivity to the interest/markup rate risk arises from mismatches or gaps in the amounts of interest/mark-up based assets and liabilities that mature or reprice in a given period.

The Fund is mainly exposed to interest/mark-up rate risk on its floating rate investments and on balances held with banks. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that the risk is managed within acceptable limits.

The interest/mark-up rate profile of the Fund is as follows which shows that majority of the financial assets of the Fund carry fixed interest rates:

	Floating Interest/Mark-Up Rate	Fixed Interest/Mark-Up Rate	Non Interest/Mark-Up Bearing	Total
Rupees				
<i>As at June 30, 2011</i>				
Term Finance Certificates	120,291,299	-	-	120,291,299
Placements in				
- Musharika Certificates	-	-	30,080,740	30,080,740
Government Securities	-	226,209,736	-	226,209,736
Profit/Return accrued on Investments	-	-	6,233,475	6,233,475
Bank Balance	-	18,302,764	-	18,302,764
	<b>120,291,299</b>	<b>244,512,500</b>	<b>36,314,215</b>	<b>401,118,014</b>
<i>As at June 30, 2010</i>				
Term Finance Certificates	277,064,662	-	-	277,064,662
Placements in				
- Musharika Certificates	-	50,000,000	-	50,000,000
Profit/Return Accrued on Investments	-	-	16,385,707	16,385,707
Bank Balance	-	43,584,085	-	43,584,085
	<b>277,064,662</b>	<b>93,584,085</b>	<b>16,385,707</b>	<b>387,034,454</b>

#### 21.2.1 Interest/Mark-Up Rate Sensitivity

If the interest/mark-up rate would have been higher/lower by 50 basis points and all the other variable remains constant, the Fund's profit would have been lower/higher by Rs. 3,300,478 for the year ended June 30, 2011 (June 30, 2010: lower/higher by Rs. 4,047,376). This is attributable to the Funds exposure to interest/mark-up rates on its floating rate securities.

Management is of the view that the above sensitivity analysis are not representative of the year as a whole, since the level of exposure changes frequently as part of the interest/mark-up rate risk management process used to meet the Fund's objectives.



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### *21.3 Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Management Company follows the investment restrictions/exposure limits to minimize credit risk. Transactions are entered into with approved brokers and with diverse credit-worthy counter parties, thereby mitigating significant credit risk and its concentration, if any.

The management has accounted for the credit risk as follows:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Investment transactions are carried out with brokers, whose credit worthiness is taken into account so as to minimise the risk of default.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of trade reports, credit ratings and financial statements on a regular basis. In addition, the investment Committee approves the trading of securities of entities with good credit ratings approved by external rating agencies.
- Cash is held with reputable bank with high quality external credit rating.

#### *21.3.1 Concentration of Credit Risk*

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk. Details of Fund's concentration of credit risk of the financial instruments by industrial distribution are given in the respective note 6.2 to the financial statements.

### *21.4 Liquidity Risk*

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet its obligations and commitments associated with financial instruments. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. No such borrowings were made during the year. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with repayment within 90 days of such borrowings. Liquidity is also augmented by making disposal of investments, where necessary.

#### *21.4.1 Liquidity*

The Fund's financial liabilities amounting to Rs 4.56 million (June 30, 2010: Rs 2.93 million) which are non interest bearing and are payable within three months.



## 22. CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividend and 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. The Fund's objective when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for unit holders and to maintain an optimal fund structure to reduce the cost of the Fund.

## 23. PERFORMANCE TABLE

	2011	2010	2009
Total Net Asset Value (Rupees)	<b>452,127,325</b>	384,104,223	873,342,417
Net Assets Value per Unit	<b>83.97</b>	79.54	81.03
Redemption Price as at June 30	<b>83.97</b>	79.54	81.03
Repurchase Price as at June 30	<b>83.97</b>	79.54	81.03
Highest Issue Price of Units	<b>84.81</b>	85.01	104.04
Lowest Issue Price of Units	<b>67.02</b>	70.92	72.10
Highest Redemption Price of Units	<b>83.97</b>	84.17	104.04
Lowest Redemption Price of Units	<b>66.36</b>	70.22	71.96
Net Income/(Loss) for the Year	<b>66,178,024</b>	75,498,280	(187,496,037)
Income Distribution	<b>59,769,962</b>	68,091,413	-
Return on Fund ( % )	<b>14.64</b>	19.66	(5.30)
Capital Growth on Return on Fund ( % )	<b>1.42</b>	1.93	(5.30)
Income Distribution on Return on Fund ( % )	<b>13.22</b>	17.73	-
Distribution Date	<b>July 06, 2011</b>	July 06 and October 04, 2010	-
Dividend Distribution Per Unit (Rupees)	<b>11.10</b>	14.10	-
Average Annual Return ( % )		Note 16	
One Year	<b>28.30</b>	(7.84)	(19.33)
Two Year	<b>12.23</b>	(8.05)	(4.75)
Three Year	<b>0.53</b>	(5.47)	0.61
Average Portfolio Duration (Days)	<b>426</b>	853	877

- The income distribution have been shown against the year to which they relate although these were declared and distributed subsequently to the year end.
- Past performance is not necessarily indicative of future performance, and that unit price and investment return may go down, as well as up.
- The breakdown of the Fund's investment portfolio between industry sectors have been disclosed in note 6.2 to these financial statements.



**24. PARTICULARS OF FUND MANAGER**

<b>Name of Fund Manager</b>	<b>Qualification</b>	<b>Name of Other Funds Managed</b>
Miss Tara Uzra Dawood (Acting Fund Manager)*	Doctorate of Juridical Science (J.D.)	Dawood Islamic Fund First Dawood Mutual Fund
Mr. Muhammad Abbas (Debt Fund Manager)*	MBA Finance	Dawood Islamic Fund First Dawood Mutual Fund
Mr. Muhammad Ahmed **	B.Com	Dawood Islamic Fund First Dawood Mutual Fund

\* Appointed during the year

\*\* Left during the year

**25. DETAIL OF MEMBERS OF INVESTMENT COMMITTEE OF THE MANAGEMENT COMPANY**

<b>Name of Members</b>	<b>Qualification</b>	<b>Experience</b>
Miss Tara Uzra Dawood*	Doctorate of Juridical Science (J.D.)	8 Years
Mr. Syed Kabiruddin*	ACMA & ACIS	20 Years
Mr. Muhammad Abbas*	MBA Finance	12 Years
Mr. Zeeshan Swalaheen*	MA - Eco. & Finance	02 Years
Mr. Mustansir Shabbar**	MCS and MPA	8 Years
Mr. Muhammad Amir Siddiqui**	C.A. Finalist	8 Years
Mr. Muhammad Ahmed **	B.Com.	19 Years
Mr. Saleem Munshi**	MBA Finance	30 Years

\* Appointed During the Year

\*\* Left During the Year

**26. ATTENDANCE OF MEETING OF BOARD OF DIRECTORS (BoD) OF THE MANAGEMENT COMPANY**

During the year, five meetings were held on July 06, October 04, October 26 in 2010, February 17 and April 27 in 2011. Following is the attendance table: -

<b>Name of Directors</b>	<b>Held</b>	<b>Attended</b>	<b>Leave Granted</b>
Miss Tara Uzra Dawood	5	5	-
Mr. Nazimuddin Feroz	5	2	3
Syed Shabhat Hussain	5	5	-
Mr. Gul Nawaz	5	5	-
Mr. Feroze Sayeed-ud-Deane**	4	2	2
Mr. AVM (Retd) Zulfiqar Ahmed Shah**	4	3	1
Mr. Masood A. S. Wahedna*	4	3	1
Mr. Iftikar Hussain **	1	-	1

\* Appointed During the Year

\*\* Left During the Year



27. PATTERN OF UNIT HOLDING

2011

Category	No. of Unit Holders	Units Held	Investment Amount Rupees	% of Total
Individuals	269	757,532	63,606,553	14.07
Associated Companies & Directors	4	310,673	26,085,776	5.77
Insurance Companies	2	27,241	2,287,303	0.51
Banks/DFIs	3	3,641,376	305,749,827	67.62
NBFC	1	9,717	815,892	0.18
Retirement Funds	12	264,112	22,176,287	4.90
Others	11	374,031	31,405,687	6.95
	<b>302</b>	<b>5,384,682</b>	<b>452,127,325</b>	<b>100%</b>

2010

Category	No. of Unit Holders	Units Held	Investment Amount Rupees	% of Total
Individuals	274	519,514	41,321,210	10.76
Associated Companies & Directors	1	144,883	11,523,733	3.00
Insurance Companies	2	22,412	1,782,610	0.46
Banks/DFIs	4	3,254,509	258,857,797	67.39
NBFC	1	7,994	635,833	0.17
Retirement Funds	18	638,145	50,756,906	13.21
Others	9	241,722	19,226,134	5.01
	<b>309</b>	<b>4,829,179</b>	<b>384,104,223</b>	<b>100%</b>



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**28. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company has approved a stock dividend of Rs.11.10 per unit for the year ended June 30, 2011, amounting to Rs. 59.769 million in their meetings held on July 06, 2011. These financial statements do not include the effect of this appropriation as this will be accounted for in the financial statements for the year ended June 30, 2012.

**29. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were approved and authorized for issue on September 7, 2011 by the Board of Directors of the Management Company.

**30. FIGURES**

All figures have been rounded off to the nearest Rupee except otherwise mentioned.

*For and on behalf of Dawood Capital Management Limited  
(Investment Advisor)*

*Chief Executive Officer*

*Director*

*Director*