



DAWOOD

Dawood Capital Management Ltd.

Manager of



DAWOOD
INCOME FUND

DAWOOD INCOME FUND

ANNUAL REPORT
2015



Corporate Information	02
Mission Statement	03
Report of the Directors of the Management Company	04
Details of Pattern of Holdings (Units)	08
Trustee Report to the Certificate Holders	09
Statement of Compliance with the Code of Corporate Governance for the Year Ended June 30, 2015	11
Review Report to the Unit Holders on Statement of Compliance with the Best Practices of the Code of Corporate Governance	14
Independent Auditors' Report to the Unit Holders	16
Financial Statements:	
Statement of Assets and Liabilities	18
Income Statement	19
Statement of Comprehensive Income	20
Distribution Statement	21
Cash Flow Statement	22
Statement of Movement in Unit Holder's Fund	23
Notes to the Financial Statements	24
Supplementary Non Financial Information	38



CORPORATE INFORMATION

Management Company	Dawood Capital Management Limited 5B Lakson Square Building#1 Sarwar Shaheed Road Karachi-74200 Tel: (92-21) 3562-1002-7 Fax: (92-21) 3562-1010 E-mail: dcm@edawood.com Website: www.edawood.com	
Board of Directors	Ms. Shafqat Sultana Miss Tara Uzra Dawood Ms. Charmaine Hidayatullah Mr. Mohammad Izqar khan Mr. Ansar Hussain Mr. Tahir Mehmood Syed Farhan Abbas	Chairperson Chief Executive Officer Director Director Director Director Director
Chief Financial Officer & Company Secretary	Mr. Waris Jamil	
Audit Committee	Mr. Ansar Hussain Mr. Tahir Mehmood Syed Farhan Abbas	Chairman Member Member
Trustee	MCB Financial Services Limited 3rd Floor, Adamjee House, I.I. Chundrigar Road, Karachi. 74000 PABX: (92-21) 32419770 Fax: (92-21) 32416371 URL: http://mcbfsl.com.pk	
Auditors	Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants	
Tax advisor	Mazher Associates A-1/E-3, Faiza Avenue, Karachi	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza 6-cl-10 Beaumont Road, Karachi 75530 Telephone: (92-21) 3565-7658/9, 3565-7674 Fax: (92-21) 35657673 Email: bawaney@cyber.net.pk	
Registrars	F.D. Registrar Services (SMC-Pvt.) Ltd. Office# 1705, 17th Floor Saima Trade Tower. A, I.I. Chundrigar Road, Karachi. 74000	
Banker:	AlBaraka Bank Pakistan Limited JS Bank Limited Bank Alfalah Limited	



Mission Statement

To offer our unit 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 ("DIF"/"the Fund"), are pleased to present the annual report and the audited financial statements of the Fund for the year ended June 30, 2015.

Economic Review

During the month, money market faced a relatively tight liquidity scenario, evidenced by Rs. 2.5 trillion worth of OMO injections carried out by the State Bank of Pakistan (SBP) coupled with Rs. 109 billion worth of discounting availed by various counters. The SBP also mopped up Rs. 233 billion from the market while banks made floor placements worth Rs. 39 billion. June 2015, CPI clocked in at 3.16% YoY bringing down FY15 CPI average to a record low of 4.53% YoY. The low inflation number and stable exchange rate are forming a base for market expectations of further monetary easing to the tune of 50-100 bps. Contrary to this, the secondary market T-Bill and PIB yields have gone up by 17-35 bps and 56-79 bps respectively. Moreover, two T-bill auctions were conducted during this period whereby in total, Rs. 163 billion was accepted against a participation of Rs. 209 billion (with major acceptance in the 3M category at cut off yields of 6.80% and 6.93%). A PIB auction was also conducted whereby Rs. 50 billion was accepted against a participation of Rs. 69 billion (with major acceptance in the 3Yrs category at a cut off yield of 8.09%). The yields on the latest T-bill and PIB auction went up by 13-15 bps and 54-90 bps respectively.

Compliance with the Best Practices of the Code of Corporate Governance

The management company complies 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 (xvi) of the Code:

- The financial statements, prepared by the management of the listed company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- Proper books of account of the listed company have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures there from has been adequately disclosed and explained;
- The system of internal control is sound in design and has been effectively implemented and monitored with ongoing efforts to improve it further except as disclosed in the statement of compliance annexed with these financial statements.
- There are no significant doubts upon the listed company's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations except as disclosed in the statement of compliance annexed with these financial statements.
- 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 in the relevant notes to the financial statement.



-
- There are no statutory payment on account of taxes, duties, levies and charges outstanding.

Changes in Directors

Casual vacancies occurred on the board on December 6, 2012 could not be filled during the year due to the reason that prior approval of SECP as per NBFC Regulations to ensure the fit and proper criteria for directors of NBFCs was not received by June 30, 2015.

Board of Directors Meetings

During the year, no meeting was held due to lack of quorum of directors.

Audit Committee Meeting

During the year, no meeting was held due to lack of quorum of directors.

Auditors

The present Auditor, M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants are due for retirement and being eligible, offer themselves for re-appointment. 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 auditors for the year ending June 30, 2016.

Auditors' Report

The Auditors have given their opinion on the financial statements of the fund for the year ended June 30, 2015, wherein they have given qualified conclusion and emphasis on certain matters. Our response to the above observation is as follows:

Our response to the basis of qualified conclusion is that the operations of the fund remained suspended from 22 March 2013 to 22 January 2015 under the order of Executive Director-SECP dated March 22, 2013. Management Company filed an appeal in appellate tribunal of SECP against the order of Executive Director-SECP under section 33 of the Securities and Exchange Commission of Pakistan Act, 1997, the Appellate Tribunal of SECP vide Order dated 22 January 2015 set aside the initial order in its entirety on the grounds stated therein. The appellate Tribunal's decision was not appealed in terms of section 34 of the SECP Act and a review application was filed in appellate tribunal against appellate tribunal decision by Executive Director-SECP that was rejected by registrar appellant tribunal SECP and matter has therefore attained finality. Further SECP vide its letter dated January 29, 2016 has allowed to accrue the management fee and therefore the management company of the Fund has accrued the management fee as per regulation 61 of Non-Banking Finance Companies and Notified Entities Regulation 2008

Our response to note 1.2 to the financial statements is that the management company confirms that it will extend its financial support to the Fund in case of redemption of units of the said unit holder and to maintain minimum fund balance of Rs. 100 million.

Our response to note 1.3 to the financial statements is that the management is taking necessary steps to ensure all due compliances and the management has conveyed its commitment to SECP to ensure the compliances with all the laws applicable to Company including Companies Ordinance 1984, Listing rules and regulations, Non Banking Finance Companies and Notified Entities Regulations, 2008 and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.



Risk Management

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

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.

Fund Strategy

The Fund's priority is to keep healthy liquidity, making prudent decisions on residual debt and making risk-averse decisions on future investments. The Fund management is actively pursuing towards the settlement of the residual debt while ensuring the high unit holder protection. Ensuring steady profit while meeting any and all redemption need is the Fund's prime priority.

Fund Performance

As at June 30, 2015, net assets were Rs. 428.17 million as compared to Rs. 402.37 million as at June 30, 2014. Total operating income for the year was Rs. 35.18 million as compared to Rs.29.98 million for the same period last year. Total expenses during the year were Rs. 7.68 million as compared to Rs. 7.21 million in last year. Element of losses was nil due to suspension on redemption and issuance of units. The net profit before distribution for the financial year 2014-15 was Rs.27.5 million, as compared to Rs. 22.76 million last year. The Net Asset Value per unit was Rs. 82.29 as at June 30, 2015.

Dividend

The Board of Directors has announced cash dividend to unit holders of Rs. 4.76 per unit on NAV of June 30, 2015 of Rs.77.5271 which comes out to be 6.49% of the opening Ex-NAV of Rs. 73.3901.

Sales and Redemption of Units

No units were issued in the current year (2014: Nil units worth Rs. Nil million) and Nil units were redeemed with a value of Rs. Nil million (2014: Nil units worth Rs. Nil million). As on June 30, 2015, the total number of outstanding units was 5,203,406 valued as Rs. 428.173 million.



Credit Rating

Asset Manager Rating (AMR) of Management Company is 'AM3-' (2014: AM3-) and that of Fund is A-(f) (2014: A-(f)) rated by Pakistan Credit Rating Agency (PACRA) before suspension of the Fund.

Transaction with Connected Persons/Related Parties

Transactions between the Fund and its connected persons as disclosed in notes to the financial statements 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".

Pattern of Unit Holders as on June 30, 2015

The pattern of unit holders as on June 30, 2015 along with disclosure as required under the Code of Corporate Governance is annexed to these financial statements.

Key Financial Highlights

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

Acknowledgement

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.

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,

January 29, 2016
Karachi.

Chairperson



Details of Pattern of Holdings (Units)
As at June 30, 2015

S. No.	Category	No of Unit Holders	Unit Held	% of Total
1	Directors			
	● Ms. Tara Uzra Dawood, CEO	1	91,086	1.75
2	Associated Companies			
	● Dawood Capital Management Ltd.	1	190,336	3.66
3	Individuals	223	181,407	3.49
4	Insurance Companies	2	33,554	0.64
5	Banks/DFIs	2	4,195,016	80.62
6	Modaraba/Mutual Funds	1	11,968	0.23
7	Others	16	500,038	9.61
	TOTAL	246	5,203,406	100.00

REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

DAWOOD INCOME FUND

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

Dawood Income Fund, an open-end Scheme established under a Trust Deed dated April 08, 2003 executed between Dawood Capital Management Limited, as the Management Company and Bank Al Habib Limited (BAHL), as the Trustee. In June 2011, BAHL retired and MCB Financial Services Limited (MCBFSL) was appointed as the new trustee of the fund.

- I. Dawood Capital Management Limited, the Management Company of Dawood Income Fund has, in all material respects, managed Dawood Income Fund during the year ended 30th June 2015 in accordance with the provisions of the following:
 - (i) Investment limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
 - (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
 - (iii) the creation and cancellation of units are carried out in accordance with the deed;
 - (iv) and any regulatory requirement

For the purpose of information, the attention of unit holders is drawn towards following paragraphs of auditor's report and notes to the financial statements which states that;

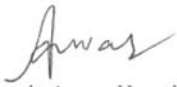
(1) As referred to in note 8.2 to the financial statements, the operations of the Fund remained suspended from 22 March 2013 to 22 January 2015, and in view thereof SECP has prohibited the DCML from charging any management fee during the above referred suspended period. Notwithstanding the above, a management fee of Rs 2.313 million has been charged in the financial statements for the year ended 30th June 2015. Had such management fee not been charged in the financial statements, the profit before tax and net assets would have been higher by Rs. 3.086 million and net assets at 30th June 2015 would have been higher by Rs. 9,544 million.



(2) Note 1.2 to the financial statements, as more fully explained in the said note, a unit holder holds 81% of the units of the Fund as of 30th June 2015. In case of redemption of such units, the Fund's net assets will fall below the minimum requirement of Rs. 100 million prescribed by Regulation 54 of NBFC Regulation 2008. The Management Company has confirmed that it will extend its financial support to the Fund in case of redemption of units by the said unit holder.

(3) note 1.3 to the financial statements which explains that operations of the Fund were suspended for the period from 22 March 2013 to 22 January 2015. Further, note 1.4 to the financial statements explains that the management company of the Fund was not able to comply with various regulatory requirements since the operations of the Funds were suspended. The management company of the Fund intends to seek SECP's guidance on all the outstanding regulatory compliance issues to determine a timeline for the resolution of the same.

Karachi: January 21, 2016


Khawaja Anwar Hussain
Chief Executive Officer
MCB Financial Services Limited

DAWOOD CAPITAL MANAGEMENT LIMITED
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR
THE YEAR ENDED JUNE 30, 2015.

This Statement is being presented to comply with the Code of Corporate Governance (“CCG”) contained in the listing regulations of the stock exchange where the Fund is listed 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 Income Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), and Chief Financial Officer (CFO)/Company Secretary and other necessary personnel to manage the affairs of the Fund.

The Management Company has applied the principles contained in the CCG in the following manner:

1. The Management Company encourages representation of independent non-executive Directors and Directors representing minority interest on its Board of Directors. As at June 30, 2015 the Board includes:

Category	Names	Designation
Independent Directors	Ms. Shafqat Sultana	Chairman
Executive Director	Ms. Tara Uzra Dawood	Chief Executive Officer
Non-Executive Director	Mr. Syed Shabahat Hussain	Director

- 1.1 The operations of the Fund were suspended from 22 March 2013 by SECP vide order number SCD-SD (Enf.)/KHI/DCML/2013/61 in pursuance to a show cause notice issued on 8 November 2012 for violation of Regulation 38(a) and Regulation 38(n) of the Non-Banking Finance Companies and Notified Entities Regulation 2008 (NBFC Regulations). Further Securities and Exchange Commission of Pakistan (SECP), cancelled the license of Management Company to undertake the business of Asset Management Services and Investment Advisory Services and trustees were directed to extinguish / revoke the Fund in the interest of unit / certificate holders. During the year 2013 and subsequent to SECP order, certain Directors of the Management Company resigned from the Board of Directors. Consequently, meetings of Board of Directors could not be held due to lack of quorum of Directors.

Management Company filed an appeal before the appellant bench of the SECP against the above suspension of the Fund and the cancellation of the license to undertake the business of Asset Management Services and Investment Advisory Services on the grounds that the above actions of the SECP were taken without lawful authority and jurisdiction. Subsequently, on 22 January 2015 the appeal was decided in favour of Management Company by the appellant bench.

Based on the above, Management Company is authorized and licensed to undertake Asset Management Services and Investment Advisory Services. Management Company is taking necessary steps to recommence the operations of the Fund.

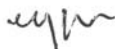
- 1.2 As at August 31, 2015, SECP accorded its approval for appointment of Directors and at present the Board includes:

Category	Names	Designation
Independent Directors	Ms. Shafqat Sultana Ms. Charmaine Hidayatullah Mr. Muhammad Izqar Khan Mr. Ansar Hussain	Chairman Director Director Director
Executive Director	Ms. Tara Uzra Dawood	Chief Executive Officer
Non-Executive Director	Syed Farhan Abbas Mr. Tahir Mehmood	Director Director

my for

The independent Directors meet the criteria of independence under clause i (b) of the CCG.

2. The Directors have confirmed that none of them is serving as a Director in more than seven listed companies, including Management Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancies occurred on the Board of Directors during the period.
5. The Management Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, overall corporate strategy and 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. The powers of the Board could not be exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO could not be taken by the Board / shareholders due to lack of quorum of Directors subsequent to suspension of operations of the Fund as disclosed in clause 1.1 of the Statement.
8. Board meetings could not be held during the year due to lack of quorum of Directors as disclosed in clause 1.1 of the Statement.
9. The Board has not arranged any training programs for its Directors during the year.
10. No new appointment of Chief Financial Officer, Company Secretary and Internal Auditor has been made during the year. The terms of remuneration of the Chief Financial Officer, Company Secretary and Chief Internal Auditor were approved by the Board.
11. The Directors' report for this year 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 Company were duly endorsed and signed by the Chief Executive Officer and Chief Financial Officer before the approval of the Board.
13. The Directors, Chief Executive Officer and Executives do not hold any interest in the units other than that disclosed in the pattern of shareholding.
14. The Management Company could not comply with all the corporate and financial reporting requirements of the Code due to suspension of operations of the Fund as disclosed in clause 1.1 of the Statement.
15. The Board has formed an Audit Committee. Till the suspension of operations of the Fund as disclosed in clause 1.1 of the Statement, Audit Committee comprised 3 members, of whom all were non-executive Directors and the chairman of the Committee was an independent Director. Subsequently, all the members of the Audit Committee resigned from the Board of Directors. At present, Audit Committee comprises three members, of whom the majority are non-executive Directors and the chairman of the Committee is an independent Director.
16. The meetings of the Audit Committee could not be held during the year due to lack of quorum of Directors as disclosed in clause 1.1 of the statement. The terms of reference of the committee was formed and advised to the Committee for compliance.



17. The Board has formed an HR and Remuneration Committee. Till the suspension of operations of the Fund as disclosed in clause 1.1 of the Statement, it comprised three members, of whom the majority were non-executive Directors and the chairman of the Committee was an independent Director. During the year, HR and Remuneration Committee comprised of two members of whom the chairman of the Committee was an independent Director and other member was an executive Director. No meeting of HR and Remuneration Committee was held during the year. At present, HR and Remuneration Committee comprises four members, of whom the majority are non-executive Directors and the chairman of the Committee is an independent Director.
18. The internal audit function was outsourced to a professional firm which resigned last year. Subsequently to its resignation, no new appointment of Internal Auditor was made during the year.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company 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 ICAP.
20. 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.
21. During the year, there were no 'closed period' and business decisions, which may materially affect the market price of Company's securities.
22. There was no material / price sensitive information to be disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the Code have been complied with except for the following which could not be complied due to lack of quorum of Directors for Board and Audit Committee meetings subsequent to suspension of the operations of the Fund as disclosed in clause 1.1 of the Statement including the following:
 - The details of related party transactions could not be placed before the Audit Committee and subsequently to Board of Directors for its review and approval.
 - Quarterly unaudited financial statements, secondly quarterly reviewed and annual audited financial statements along with Directors reviews / reports could not be published and circulated within prescribed time frame.
 - Mechanism for an annual evaluation of the Board of Directors' own performance could not be developed
 - The appointment of auditors for the year could not be suggested by the Audit Committee and approved by Board of Directors.

my/

Date 29 January 2016

Tara Uzra Dawood
On Behalf of the Board of Directors
Dawood Capital Management Limited
Tara Uzra Dawood
Chief Executive Officer



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530
Pakistan

Tel: +9221 3556 0007-11
Fax: +9221 3556 1965
eyfrsh.kci@pk.ey.com
ey.com/pk

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

We have reviewed the enclosed Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of the Management Company of Dawood Income Fund (the Fund) for the year ended 30 June 2015 to comply with the requirements of Listing Regulations of the stock exchange, where the Fund is listed.

The responsibility for compliance with the Code 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 reflects the status of the Management Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 are not required to consider whether the Board of Director's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Management Company for the year ended 30 June 2015.

We draw attention to clause 1.1 of the Statement which states that the operations of the Fund remained suspended for the period from 22 March 2013 for the reasons explained in the said clause. As a consequence, the Management Company could not comply with the various requirements of the Code. Such non-compliance are enumerated below:

eyfr

Serial No	Non-compliance	Clause reference
1	All the powers of the Board of Directors could not be exercised and decisions on material transactions could not be taken by the Board / shareholders;	7
2	Board of Directors meetings could not be held during the year;	8
3	The Board of Directors has not arranged any training programs for its Directors during the year;	9
4	Management Company could not comply with the corporate and financial reporting requirements of the Code;	14
5	There were no members of Audit Committee during the year;	15
6	Meetings of the Audit Committee could not be held during the year;	16
7	There were no members of HR and Remuneration Committee during the year;	17
8	The internal audit function was outsourced to a professional firm which resigned last year. Subsequently to its resignation, no new appointment of Internal Auditor was made during the year;	18
9	The details of related party transactions could not be placed before the Audit Committee and subsequently to Board of Directors for its review and approval;	23
10	Quarterly unaudited financial statements, secondly quarterly reviewed and annual audited financial statements along with directors reviews / reports could not be published and circulated within prescribed time frame;	23
11	Mechanism for an annual evaluation of the Board of Directors' own performance could not be developed; and	23
12	The appointment of auditors for the year could not be suggested by the Audit Committee and approved by Board of Directors.	23

Our conclusion is not qualified in respect of the above matters.

Ernst & Young

 CHARTERED ACCOUNTANTS

Date: 29 January 2016

KARACHI



EY & Young Firm 2015 as Shareholder
Chartered Accountants
Progressive Plaza, DeLamont Road
P.O. Box 12541, Karachi 75500
Pakistan
Tel: +9221 2565 0000/11
Fax: +9221 2565 1965
eyfranchise@pk.ey.com
ey.com/pk

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Dawood Income Fund (the Fund), which comprise the statement of assets and liabilities as at 30 June 2015, and the related statements of income, comprehensive income, distribution, cash flows and movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

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 auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified opinion

As referred to in note 8.2 to the financial statements, the operations of the Fund remained suspended from 22 March 2013 to 22 January 2015, and in view thereof SECP has prohibited the DCML from charging any management fee during the above referred suspended period. Notwithstanding the above, a management fee of Rs 2.313 million has been charged in the financial statements for the period during which operations of the Fund were suspended. Had such management fee not been charged in the financial statement, the profit before tax for the year would have been higher by Rs 3.086 million and net assets as at 30 June 2015 would have been higher by Rs 9.544 million.

Opinion

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2015 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of Matter

We draw attention to:

- (a) note 1.2 to the financial statements, as more fully explained in the said note, a unit holder holds 81% of the units of the Fund as of 30 June 2015. In case of redemption of such units, the Fund's net assets will fall below the minimum requirement of Rs.100 million prescribed by Regulation 54 of NBFC Regulation 2008. The Management Company has confirmed that it will extend its financial support to the Fund in case of redemption of units by the said unit holder.
- (b) note 1.3 to the financial statements which explains that operations of the Fund were suspended for the period from 22 March 2013 to 22 January 2015. Further, note 1.4 to the financial statements explains that the management company of the Fund was not able to comply with various regulatory requirements since the operations of the Funds were suspended. The management company of the Fund intends to seek SECP's guidance on all the outstanding regulatory compliance issues to determine a timeline for the resolution of the same.

Our opinion is not qualified in respect of above matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Ermst & Young (Pvt) Limited

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: 29 January 2016

Karachi



**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2015**

	Note	2015 (Rupees)	2014 (Rupees)
Assets			
Bank Balances	4	445,417,771	396,393,663
Investments	5	-	8,096,708
Mark-up/Interest Receivable	6	4,125,852	11,741,260
Deposits	7	100,000	100,000
Receivable Against Redemption of Investments		366,229	366,229
Total Assets		450,009,852	416,697,860
Liabilities			
Payable to Management Company	8	12,253,483	6,705,799
Payable to Trustee	9	1,447,530	823,728
Annual Fee Payable to Securities and Exchange Commission of Pakistan	10	889,335	577,433
Accrued Expenses and Other Liabilities	11	7,246,192	6,211,138
Total Liabilities		21,836,540	14,318,098
Net Assets		428,173,312	402,379,762
Unit Holder's Fund (As Per Statement Attached)		428,173,312	402,379,762
Number of Units in Issue		5,203,406	5,203,406
Net Asset Value Per Unit – Rupees		82.29	77.33
Contingencies and Commitments	12		

The annexed notes from 1 to 21 form an integral part of these financial statements.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director



**INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2015**

	Note	2015 (Rupees)	2014 (Rupees)
Income			
Mark-up/Interest Income on Investments and Bank Balances	13	35,183,984	32,819,037
Impairment in the Value of Investments Classified as Available for Sale – Net		-	(2,833,425)
Total Income		35,183,984	29,985,612
Expenses			
Remuneration of Management Company	8	4,158,684	3,934,754
Sales Tax on Management Fee	8.3	723,611	684,647
Federal Excise Duty on Management Fee	8.4	665,389	629,561
Remuneration of Trustee	9	623,802	600,000
Annual Fee to Securities and Exchange Commission of Pakistan	10	311,902	295,107
Securities' Transactions Cost		50,699	22,492
Auditor's Remuneration	14	496,808	396,808
Bank Charges		794	-
Workers' Welfare Fund	11.1	561,246	464,645
Fees and Subscription		40,000	40,000
Printing Charges		50,000	150,000
Total Expenses		7,682,935	7,218,014
Net Income from Operating Activities		27,501,049	22,767,598
Element of (Losses)/Gains and Capital (Losses)/Gains Included in Prices of Units Issued Less those in Units Redeemed - Net		-	-
Net Income for the Year		27,501,049	22,767,598

The annexed notes from 1 to 21 form an integral part of these financial statements.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015**

	Note	2015 (Rupees)	2014 (Rupees)
Net Income for the Year		27,501,049	22,767,598
Other Comprehensive Income			
Items to be Reclassified to Profit or Loss in Subsequent Periods			
Net Unrealized Gain on Revaluation of Available-for-Sale Investments	5.5	(1,707,499)	666,819
Total Comprehensive Income for the Year		<u>25,793,550</u>	<u>23,434,417</u>

The annexed notes from 1 to 21 form an integral part of these financial statements.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director



**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2015**

	2015	2014
	(Rupees)	(Rupees)
Undistributed Loss Brought Forward		
- Realised	(117,960,851)	(141,395,268)
- Unrealised	<u>(1,707,499)</u>	<u>(1,040,680)</u>
	(119,668,350)	(142,435,948)
Net Income for the Year	27,501,049	22,767,598
Final Distribution for the Year Ended 30 June 2014 - Note 18	-	-
Undistributed Losses Carried Forward	<u>(92,167,301)</u>	<u>(119,558,350)</u>
Represented By:		
- Realised	(92,167,301)	(117,960,851)
- Unrealised	<u>-</u>	<u>(1,707,499)</u>
	<u>(92,167,301)</u>	<u>(119,668,350)</u>

The annexed notes from 1 to 21 form an integral part of these financial statements.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director



**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2015**

	Note	2015 (Rupees)	2014 (Rupees)
Cash Flows From Operating Activities			
Net Income for The Year		27,501,049	22,767,598
Adjustments For:			
Impairment in the Value of Investments Classified as Available for Sale – Net Financial Charges		-	2,833,425
		<u>794</u>	<u>-</u>
		27,501,843	25,601,023
Decrease/(Increase) in Assets			
Investments		6,389,209	10,608,207
Mark-up/Interest Receivable		7,615,408	(682,352)
Receivable Against Investments		-	890,404
		14,004,617	10,816,259
Increase in Liabilities			
Payable to Management Company		5,547,684	5,248,962
Payable to Trustee		623,802	600,000
Annual Fee Payable to Securities & Exchange Commission of Pakistan		311,902	295,107
Accrued Expenses and Other Liabilities		1,035,054	1,051,453
		7,518,442	7,195,522
Net Cash Inflow from Operating Activities		49,024,902	43,612,804
Cash Flows From Financing Activities			
Financial Charges Paid		(794)	-
Net Cash Outflow from Financing Activities		(794)	-
Net Increase in Cash and Cash Equivalents		49,024,108	43,612,804
Cash and Cash Equivalents at Beginning of the Year		396,393,663	352,780,859
Cash and Cash Equivalents at End of the Year	4	445,417,771	396,393,663

The annexed notes from 1 to 21 form an integral part of these financial statements.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director



**STATEMENT OF MOVEMENTS IN UNIT HOLDER'S FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	2015	2014
	(Rupees)	(Rupees)
Net Assets at the Beginning of the Year	402,379,762	378,945,345
Issue of Nil (2014: Nil) Units	-	-
Redemption of Nil (2014: Nil) Units	-	-
Element of Losses/(Gains) and Capital Losses/(Gains) Included in Prices of Units Issued Less Those in Units Redeemed	-	-
Net Income for the Year	27,501,049	22,767,598
Other Comprehensive Income	(1,707,499)	666,819
Total Comprehensive Income for the Year	25,793,550	23,434,417
Net Assets as at End of the Year	428,173,312	402,379,762
Net Asset Value Per Unit at The Beginning of the Year	77.33	72.83
Net Asset Value Per Unit at the End of the Year	82.29	77.33

The annexed notes from 1 to 21 form an integral part of these financial statements.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

1. LEGAL STATUS AND NATURE OF THE BUSINESS

- 1.1 Dawood Income Fund (the Fund) was established under a Trust Deed executed on 8 April 2003 between Dawood Capital Management Limited (DCML) as Management Company and Bank AL-Habib Limited (BAHL) as Trustee. In June 2011, BAHL retired and MCB Financial Services Limited (MCBFSL) was appointed as the new trustee of the Fund and the name of the Fund was also changed from "Dawood Money Market Fund" to "Dawood Income Fund". These changes, after necessary regulatory approvals, were duly incorporated in the Trust Deed of the Fund by way of First Supplemental Trust Deed. The registered office of the Management Company is situated at 5B, Lakson Square Building No.1, Sarwar Shaheed Road, Karachi, Pakistan.

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.

The Fund is categorized as "income scheme" in accordance with Circular No. 7 of 2009. 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.

- 1.2 As at 30 June 2015, The Bank of Khyber (a related party) held 4,194,990 units (81% holding) of the Fund. Management based on discussion with the Bank of Khyber believes that the Bank of Khyber will continue its investments in the Fund. Furthermore, In case if Bank of Khyber redeems its investment in the Fund, the Fund's net assets will fall below the minimum requirement of Rs.100 million as prescribed by Regulation 54 of the NBFC Regulations 2008. DCML has confirmed that it will extend its financial support to the Fund in case of redemption of units by Bank of Khyber.

1.3 Suspension of the Fund during the period from 22 March 2013 to 22 January 2015

The operations of the Fund were suspended from 22 March 2013 to 22 January 2015 by SECP vide order number SCD-SD (Enf./KHI/DCML/2013/61 in pursuance to a show cause notice issued on 8 November 2012 for violation of Regulation 38(a) and Regulation 38(n) of the Non-Banking Finance Companies and Notified Entities Regulation 2008 (NBFC Regulations). Further Securities and Exchange Commission of Pakistan (SECP), cancelled the license of DCML to undertake the business of Asset Management Services and Investment Advisory Services and trustees were directed to extinguish / revoke the Fund in the interest of unit / certificate holders .

DCML filed an appeal before the appellant bench of the SECP against the above suspension of the Fund and the cancellation of the license to undertake the business of Asset Management Services and Investment Advisory Services on the grounds that the above actions of the SECP were taken without lawful authority and jurisdiction. Subsequently, on 22 January 2015 the appeal was decided in favor of DCML by the appellant bench.

Based on the above, DCML is authorized and licensed to undertake Asset Management Services and Investment Advisory Services. DCML is taking necessary steps to recommence the operations of the Fund.

- 1.4 Due to suspension of operations of the Fund from 22 March 2013 to 22 January 2015, DCML was not able to comply with various requirements of the NBFC Rules, NBFC Regulations and other regulatory requirements. SECP vide its letter No. SCD/AMCW/DCML/151/2015 dated 05 November 2015 advised DCML to submit documents / information showing Board of Directors approved commitment along with timelines to comply with regulatory non-compliances. The Board is fully committed to comply with the regulatory requirements. The Fund intends to seek SECP's guidance on all outstanding compliance issues to determine a timeline for the resolution of the same.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

2.2 Basis of Measurement

These financial statements have been prepared under the historical cost convention except for investments which are accounted for as stated in notes 3.1 and 3.2 below.

2.3 Functional and Presentation Currency

These financial statements have been presented in Pakistan Rupees which is the functional and presentation currency of the Fund.

2.4 Accounting Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.



Judgments made by management in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment are explained in the relevant accounting policies / notes in the financial statements.

2.5 Changes in Accounting Policy and Disclosures

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

New Standards, Interpretations and Amendments

The Fund has adopted the following revised standard, amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 – Employee Benefits – (Amendment) - Defined Benefit Plans: Employee Contributions
IAS 32 – Financial Instruments : Presentation – (Amendment) - Offsetting Financial Assets and Financial Liabilities
IAS 36 – Impairment of Assets – (Amendment) - Recoverable Amount Disclosures for Non-Financial Assets
"IAS 39 – Financial Instruments: Recognition and Measurement – (Amendment) (note 3 below)
- Novation of Derivatives and Continuation of Hedge Accounting"
IFRIC 21 – Levies

Improvements to Accounting Standards Issued by the IASB

IFRS 2 Share-based Payment - Definitions of vesting conditions
IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination
IFRS 3 Business Combinations - Scope exceptions for joint ventures
IFRS 8 Operating Segments – Aggregation of operating segments
IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)
IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – proportionate restatement of accumulated depreciation / amortisation
IAS 24 Related Party Disclosures - Key management personnel
IAS 40 Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above amendments, revisions, improvements to accounting standards and interpretations did not have any effect on the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Investment

The investments, upon initial recognition, are classified as investment at fair value through profit or loss, held to maturity investment or available for sale investment, as appropriate, in accordance with the requirements of International Accounting Standards (IAS) 39; 'Financial Instruments : Recognition and Measurement'.

All investments are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit and 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.

All regular way purchases and sales of investments are recognised on the trade date i.e. the date the Fund commits to purchase / sell the investment. Regular way purchases and sales of investments require delivery of securities within the time frame generally established by regulation or market convention.

The investments of the Fund are classified in the following categories:

a) Financial assets at Fair Value Through Profit or Loss

These include held for trading investments and such other investments that, upon initial recognition, are designated under this category. Investments are classified as held for trading if they are acquired 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 is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. After initial measurement, such investments are carried at fair value and the gains or losses on revaluation are recognised in the income statement in the period in which they arise.

b) 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.



c) Held to Maturity

Investments with fixed maturities and fixed or determinable payments are classified as held to maturity investments when management has both the intent and ability to hold to maturity. After initial measurement, such investment are carried at amortised cost less any provision for impairment except for in case of debt securities (listed but not regularly traded on a stock exchange) and government securities, which are carried at fair value in accordance with the requirements of the NBFC Regulations and directives issued by SECP.

d) 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. After initial measurement, such investments are measured at fair value with unrealised gains or losses recognised in other comprehensive income as a part of the unit holders' fund until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recognised in unit holders' fund is taken to the income statement.

Fair value of investments is determined as follows:

Debt securities:

Fair value of debt securities, other than government securities, is determined on the basis of prices announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the SECP's Circular No. 1 of 2009 dated 06 January 2009, read with Regulation 66(b) of the NBFC Regulations.

Fair value of unlisted debt securities, other than government securities, is also determined by reference to the average rates notified by MUFAP and where such rates are not so notified, with reference to quotations obtained from brokerage houses.

3.2 Impairment

The carrying amounts of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of such assets is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement and are 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 SECP.

To fulfil the requirement of SECP Circular No. 13 dated 04 May 2009 the BOD approved a comprehensive provisioning policy whereby the Investment Committee can make accelerated provision against any debt security or exposure other than debt security after considering the financial difficulties of the issuer, probability of the borrower entering bankruptcy or financial reorganization, deterioration of key financial ratios, downgrade of credit rating, measurable decrease in cash flows and industry outlook.

3.3 Derecognition

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

3.4 Securities Under Repurchase/Resale Agreements

Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the statement of assets and liabilities. Amounts paid under these agreements are included in receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverse-repo agreement.

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of assets and liabilities and are measured in accordance with accounting policies for investment securities. The counterparty liabilities for amounts received under these transactions are recorded as liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the life of the repo agreement using the effective interest method.

3.5 Issue and Redemption of Units

Units issued are recorded at the offer price, determined by the Management Company, for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus provision of duties and charges and provision of transaction costs, if applicable.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications 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 duties, taxes, charges on redemption and provision for transaction costs, if applicable.

Redemption of units is recorded on acceptance of application of redemption.



3.6 Element of Income/(Loss) and Capital Gain/(Loss) Included in Prices of Units Sold Less Those in Units Redeemed

An equalisation account called the "element of income / (loss) included in prices of units sold less those in units redeemed" is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

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 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 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.

3.7 Net asset Value Per Unit

The net asset value per unit disclosed in the statement of assets and liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at year end. Net assets are defined in NBFC Regulation, 2008 clause 66.

3.8 Taxation

The Fund is exempt from taxation on income under clause 99 of Part I to the Second Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90 percent of its accounting income excluding realised and unrealised capital gain for the year is distributed amongst the unit holders. The Fund intends to avail this exemption for current and future periods. Accordingly, no provision is made for current and deferred taxation in these financial statements.

3.9 Revenue Recognition

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

Dividend income is recognised when the right to receive the dividend is established.

Income on reverse repurchase, certificates of investment, placements, bank deposits, commercial papers, federal government securities and investments in debt securities are recognised at rate of return implicit in the instrument on a time proportionate basis.

3.10 Financial Instruments

All the financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to receive cash flows related to the asset expire. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to the income statement in the period in which it arises.

3.11 Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are only offset and net amount reported in the statement of assets and liabilities when there is a legally enforceable right to set off the recognised amount and the Fund intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.12 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.

3.13 Provision

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

The amount recognized as 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.

3.14 Distribution to Unit Holders

Distribution to unit holders is recognised upon declaration and approval by the Board of Directors of the management company.

3.15 Standards, Interpretations and Amendments to Approved Accounting Standards that are Not Yet Effective

The following standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:



Standard or Interpretation

	Effective Date (annual Periods Beginning on or After)
IFRS 10 – Consolidated Financial Statements	1 January 2015
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities (Amendment)	1 January 2015
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)	1 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	1 January 2016
IFRS 11 – Joint Arrangements	1 January 2015
IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)	1 January 2016
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2015
IFRS 13 – Fair Value Measurement	1 January 2015
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	1 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	1 January 2016
IAS 16 Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)	1 January 2016
IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)	1 January 2016

The above standards and amendments are not expected to have any material impact on the Fund's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2016. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	1 January 2018
IFRS 14 – Regulatory Deferral Accounts	1 January 2016
IFRS 15 – Revenue from Contracts with Customers	1 January 2018

	Note	2015 (Rupees)	2014 (Rupees)
4. BANK BALANCES			
PLS Saving Accounts	4.1	<u>445,417,771</u>	<u>396,393,663</u>
4.1 Profit Rates on Savings Accounts Range from 5% to 8% (2014: 5% to 8.5%) Per Annum.			
5. INVESTMENTS			
Available for Sale Securities			
Listed Term Finance Certificates and Sukuks	5.1	-	92,095
Unlisted Term Finance Certificates and Sukuks	5.2	-	8,004,613
		-	8,096,708
Held-to-maturity			
Certificates of Investment	5.3	-	-
		<u>-</u>	<u>8,096,708</u>



Note	As at at 01 July 2014	Purchased during the year	Sold during the year	Matured during the year	As at 30 June 2015	Cost as at 30 June 2015	Market Value/ Carrying Value as at 30 June 2015	Impairment / Unrealised Loss as at 30 June 2015	Return on Investment	Percentage of Net Asset	Percentage of Total Investment
<----- Number of Certificates ----->						<----- Rupees ----->			<---- % ---->		
5.1 Listed Term Finance Certificates and Sukuks											
<i>Financial Services</i>											
Invest Capital Investment Bank Limited (05-09-07)	5.1.1	6,000	-	-	6,000	30,000,000	-	(30,000,000)	1.9% + 6 month KIBOR	-	-
Escort Investment Bank Limited (15-03-07)		500	-	500	-	-	-	-	-	-	-
Trust Investment Bank Limited (04-07-08)	5.1.2	10,000	-	-	10,000	18,742,500	-	(18,742,500)	1.85% + 6 month KIBOR	-	-
<i>Real Estate Investment and Services</i>											
Pace Pakistan Limited (15-02-08)	5.1.3	2,800	-	-	2,800	9,089,080	-	(9,089,080)	2% + 6 month KIBOR	-	-
<i>Construction and Material</i>											
Dewan Cement Company Limited	5.1.4	30,000	-	-	30,000	150,000,000	-	(150,000,000)	2% + 6 month KIBOR	-	-
Total Listed Term Finance Certificates and Sukuks						207,831,580	-	(207,831,580)		-	-

5.1.1 Invest Capital Investment Bank Limited (ICIBL) defaulted on its payment of principal and markup due on 18 September 2010. The security was classified as non-performing by MUFAP on 17 May 2012 and accrual of income on the same was suspended. Accordingly, the security was fully provided in accordance with the requirements of SECP's Circular No. 01 of 2009 and the Board's approved provisioning policy.

5.1.2 Trust Investment Bank Limited defaulted on its payment of principal and markup due on 4-July-12. The security was classified as non-performing by MUFAP on 18 October 2012 and accrual of income on the same was suspended. Accordingly, the security was provided in accordance with the requirements of SECP's Circular No. 01 of 2009 and the Board's approved provisioning policy.

5.1.3 Pace Pakistan Limited defaulted on its payment of principal and markup due on 21 August 2011. Consequently, the security was classified as non-performing by MUFAP on 5 September 2011 and accrual on the same was suspended. Accordingly, the security has been fully provided in accordance with the requirements of SECP's circular No. 1 of 2009 and the Board's approved provisioning policy.

5.1.4 Dewan Cement Company Limited defaulted on its initial public offering and was classified as non-performing by MUFAP. Accordingly, the security has been fully provided in accordance with the requirements of SECP's circular No. 1 of 2009 and the Board's approved provisioning policy.

5.2 Unlisted Term Finance Certificates and Sukuks

<i>Cable & Electric Goods</i>											
New Allied Electronics Industries Limited (15-05-07)	5.2.1	11,523	-	-	11,523	25,433,190	-	(25,433,190)	2.75% + 3 month KIBOR	-	-
<i>Hotels</i>											
Avari Hotel Limited. (30-04-09)		5,573	-	5,573	-	-	-	-	-	-	-
						25,433,190	-	(25,433,190)		-	-
<i>Sukuks</i>											
<i>Financial Services</i>											
<i>Construction and Material</i>											
Kohat Cement Company Limited (20-12-07)		6,335	-	6,335	-	-	-	-	-	-	-
<i>Real Estate Development</i>											
Eden Housing Limited (31-03-08)	5.2.2	2,933	-	-	2,933	2,887,171	-	(2,887,171)	2.5% + 3 month KIBOR	-	-
						2,887,171	-	(2,887,171)		-	-
Total Unlisted Term Finance Certificates and Sukuks						28,320,361	-	(28,320,361)		-	-
Total Available for Sale Securities						236,151,941	-	(236,151,941)		-	-

Certificates of Rs. 5,000 each, unless otherwise stated.

* Face Value of Rs. 100,000/-

5.2.1 New Allied Electronics Industries Limited defaulted on its payment of principal and markup due on 25 December 2008. Consequently, the security was classified as non-performing by MUFAP on 9 January 2009 and accrual on the same was suspended. Accordingly, the security has been fully provided in accordance with the requirements of SECP's circular No. 1 of 2009 and the Board's approved provisioning policy.

5.2.2 Eden Housing defaulted on its payment of principal and markup due on 21 April 2011. Consequently, the security was classified as non-performing by MUFAP on 06 May 2011 and accrual on the same was suspended. Accordingly, the security has been provided in accordance with the requirements of SECP's circular No. 1 of 2009 and the Board's approved provisioning policy.

Note	Opening as at 1 July 2014	Purchased	(Matured/ Settlement)	Closing as at 30 June 2015	Impairment Loss	Carrying Value as at 30 June 2015	Date of Maturity	Return on Investment	Percentage of Net Asset	Percentage of Total Investments	
----- Rupees -----								<----- % ----->			

5.3 Certificates of Investment (COI)

Trust Investment Bank Limited	8,041,359	-	-	8,041,359	(8,041,359)	-	March 11, 2009	K1	-	-
	8,041,359	-	-	8,041,359	(8,041,359)	-				



5.3.1 Trust Investment Bank Ltd. defaulted in repayment of scheduled amounts in August 2010. A request for restructuring was made by TIBL, however the management of the Fund did not agree to the same. Investment Committee, on the basis of prudence, has decided to reverse the provision gradually upon receipt of cash.

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

Circular no. 16 dated 7 July 2010 issued by the SECP requires details of investments not compliant with the investment criteria specified by the category assigned to open-end collective investment schemes or the investment requirements of the constitutive documents of the Fund to be disclosed in these condensed interim financial statements of the Fund. Details of such non-compliant investments are given below:

Name of Non-Compliant Investment	Type of Investment	Value Before Provision	Provision Made	Value After Provision	% of Net Assets	% of Gross Assets	Remarks
..... Rupees							
Invest Capital Investment Bank Limited (05-09-07)	TFC	30,000,000	30,000,000	-	-	-	Non-Compliant Investment due to credit rating less than required as per SECP Circular No. 7 of 2009.
Trust Investment Bank Limited (04-07-08)	TFC	18,742,500	18,742,500	-	-	-	
Pace Pakistan Limited (15-Feb-08)	TFC	9,089,080	9,089,080	-	-	-	
Dewan Cement Limited	TFC	150,000,000	150,000,000	-	-	-	
New Allied Electronics Industries Limited (15-May-07)	TFC	25,433,190	25,433,190	-	-	-	
Eden Housing Limited (31-Mar-08)	Sukuk	2,887,171	2,887,171	-	-	-	
Trust Investment Bank Limited	COI	8,041,359	8,041,359	-	-	-	

At the time of purchase/investment, the TFCs and Sukuks were in compliance with the investment requirement of the Constitutive Documents and investment restriction parameters laid down in NBFC Regulations or NBFC Rules. However, subsequently they were defaulted or downgraded to non-investment grade or become non-compliant with investment restrictions parameters laid down in NBFC Regulations or NBFC Rules and with the requirements of Constitutive Documents.

	2015 (Rupees)	2014 (Rupees)
5.5 Net unrealized (Diminution)/Appreciation in the value of investments classified as 'available for sale'		
Market Value of Securities	-	8,096,708
Less: Cost of Securities	(244,193,301)	(250,582,510)
	(244,193,301)	(242,485,802)
Net Impairment at the Beginning of the Year	244,193,301	241,359,876
Impairment Charged/(Reversed) During the Year	-	2,833,425
Realised on Redemption	-	-
Net Impairment at the End of the Year	244,193,301	244,193,301
Net Unrealized Appreciation in the Market Value of Securities Classified as Fair Value Through Available for Sale at the End of the Year	-	1,707,499
Less: Net Unrealized Appreciation/(Diminution) in the Market Value of Securities Classified as Fair Value Through Available for Sale at the Beginning of the Year	1,707,499	1,040,680
Net Unrealized Appreciation/(Diminution) in the Market Value During the Year	(1,707,499)	666,819

5.6 During the year the Fund purchased and redeemed Market Treasury Bills having face value of Rs. 193 million.



	2015 (Rupees)	2014 (Rupees)
6. MARK-UP/INTEREST RECEIVABLE		
On		
- Bank Deposits	4,125,852	7,599,372
- Investments		
Term Finance Certificates and Sukuks	-	4,141,888
	<u>4,125,852</u>	<u>11,741,260</u>
7. DEPOSITS		
Security Deposit with Central Depository Company of Pakistan Limited	<u>100,000</u>	<u>100,000</u>

8. PAYABLE TO MANAGEMENT COMPANY

- 8.1.** The Regulations allow remuneration to DCML 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 DCML is currently charging 1% per annum of the average annual net assets value of the Fund. During the current year, DCML has charged an amount of Rs 4.159 million in respect of management fee to the Fund.
- 8.2.** As disclosed in note 1.3 to the financial statements, the operations of the fund were suspended for the period from 22 March 2013 to 22 January 2015. The DCML on 5 October 2015, wrote to SECP requesting clarification regarding accrual of its remuneration in the financial statement of its collective investments schemes. SECP vide its letter no. SCD/AMCW/DCML/130/2015 dated 16 October 2015 conveyed DCML that it cannot charge management fee during this period as there was no management of funds with DCML during this period. In response to SECP's above letter, DCML contended that DCML has rendered services and incurred significant expenses during the above referred period. Subsequently, SECP vide its letter no. SCL/AMCW/DCML/151/2015 dated 5 November 2015 advised DCML to submit certain documents and information in order for SECP to reconsider its decision regarding charge of management fee by DCML. The management fee charged by DCML from 1 July 2014 to 22 January 2015 amounts to Rs 2.313 million (2014: Rs 3.935 million).
- 8.3.** During the current year, an amount of Rs. 0.724 million (30 June 2014: Rs. 0.685 million) was charged on account of sales tax on management fee levied through Sindh Sales Tax on Services Act, 2011.
- 8.4.** As per the requirements of the Finance Act 2013, Federal Excise Duty (FED) at the rate of 16% on the services of the Management Company has been applied effective 13 June 2013. The Management Company is of the view that since the remuneration is already subject to provincial sales tax, further levy of FED results in double taxation, does not appear to be the spirit of the law. The matter has been collectively taken up by the Asset Management Companies and Central Depository Company of Pakistan Limited on behalf of schemes through a constitutional petition filed in the Honorable Sindh High Court (SHC) in September 2013 which is pending adjudication.

However, the SHC has issued a stay order against the recovery of FED. The Fund, as a matter of abundant caution, has charged FED and sales tax on service thereon in these financial statements.

9. PAYABLE TO TRUSTEE

MCBFSL is entitled to a monthly remuneration for the services rendered to the Fund under the provision of the Trust Deed at the following rates:

On net assets up to Rs. 1,000 million	Rs. 0.6 million or 0.15% per annum of the net assets whichever is higher
On net assets exceeding Rs. 1,000 million	Rs. 1.5 million plus 0.09% per annum of the amount \ exceeding Rs. 1,000 million

10. ANNUAL FEE PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of Regulation 62 of the NBFC, the Fund is required to pay an annual fee to SECP, an amount equal to 0.075% of the average daily net assets of the Fund.

	Note	2015 (Rupees)	2014 (Rupees)
11. ACCRUED EXPENSES AND OTHER LIABILITIES			
Accrued Expenses		1,570,116	1,186,308
Other Liabilities		1,107,125	1,017,125
Workers' Welfare Fund	11.1	4,568,951	4,007,705
		<u>7,246,192</u>	<u>6,211,138</u>



11.1 WORKER'S WELFARE FUND

Through the Finance Act, 2008, an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' was made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, it was alleged that all Collective Investment Schemes (CISs) / mutual funds whose income exceeds Rs.0.5 million in a tax year were 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 was filed by certain CISs through their trustees in the Honorable High Court of Sindh (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

In August 2011, the Lahore High Court (LHC) issued a judgment in response to a petition in similar case whereby the amendments introduced in WWF Ordinance through Finance Acts, 2006 and 2008 have been declared unconstitutional and therefore struck down. However, during March 2013, the SHC larger bench issued a judgment in response to various petitions in similar cases whereby the amendments introduced in the Workers' Welfare Fund Ordinance, 1971 through Finance Act, 2006 and 2008 respectively (Money Bills) have been declared constitutional and overruled a single-member Lahore High Court (LHC) bench judgment issued in August 2011.

Further, in May 2014, the Honorable Peshawar High Court held that the impugned levy of contribution introduced in the Ordinance through Finance Act, 1996 and 2009 lacks the essential mandate to be introduced and passed through Money Bill under the constitution and, hence, the amendments made through the Finance Act are declared as 'Ultra Vires'.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds due to show cause notices issued to a number of mutual funds, DCML as a matter of abundant caution has decided to continue to maintain the provision for WWF amounting to Rs. 4.569 million up to 30 June 2015. If the same were not made, the NAV per unit would be higher by Rs. 0.88 per unit (2014: Rs. 0.77 per unit).

The Finance Act 2015 has excluded Mutual Funds and Collective Investment Schemes from the definition of 'industrial establishment' subject to WWF under WWF Ordinance, 1971. Accordingly, no provisions for WWF will be made from 1 July 2015 onwards. However, provisions made till 30 June 2015 has not been reversed as the above lawsuit is pending in the SHC.

12. CONTINGENCIES AND COMMITMENTS

There were no Contingencies and Commitments as at 30 June 2015.

13. MARK-UP /INTEREST INCOME	2015	2014
	(Rupees)	(Rupees)
Return on:		
- Bank Deposit	29,664,573	30,143,620
- Investments		
Term Finance Certificates and Sukuk Certificates	2,276,081	2,678,417
Government Securities	3,243,330	-
	<u>35,183,984</u>	<u>32,819,037</u>

13.1 Mark-up on non performing securities amounting to Rs. 261 million (2014: Rs. 221 million) based on outstanding principal has not been recognised in these financial statements, in accordance with the requirements specified by SECP.

14. AUDITORS' REMUNERATION

Annual Audit	245,000	245,000
Half Yearly Review	90,000	90,000
Code of Corporate Governance	100,000	-
Out of Pocket Expenses	48,408	48,408
Sales Tax	13,400	13,400
	<u>496,808</u>	<u>396,808</u>

15. TRANSACTIONS WITH RELATED PARTIES/CONNECTED PERSONS

Connected persons of the fund include DCML, other collective investment schemes being managed by DCML, the trustee, directors and key management personnel's, other associated undertakings and unit holders holding more than 10 % units.

Remuneration payable to the management company and the trustee is determined in accordance with the provisions of the NBFC Regulations, 2008 and the Trust Deed respectively. Details of transactions with related parties and balances with them at the year end are as follows:

The transactions with related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.



15.1 Details of transactions and balances at year end with related parties / connected persons, other than those which have been disclosed elsewhere in these financial statements, are as follow:

	<u>2015</u>		<u>2014</u>	
	(Units)	(Rupees)	(Units)	(Rupees)
Units Held by:				
Unit holders holding more than 10%				
The Bank of Khyber	4,194,990	345,193,692	4,194,990	324,398,910
Balances with related parties:				
			2015	2014
			(Rupees)	(Rupees)
Dawood Capital Management Limited				
Balance as at 01 July			6,705,799	1,456,837
Remuneration for the Year Including Sales Tax			5,547,684	5,248,962
Balances as at 30 June			<u>12,253,483</u>	<u>6,705,799</u>
Investment at Year End			<u>15,614,087</u>	<u>14,673,480</u>
Units Held (Number of Units)			189,751	189,751
MCB Financial Services Limited – Trustee				
Balance as at 01 July			823,728	223,728
Remuneration for the Year			623,802	600,000
Balances as at 30 June			<u>1,447,530</u>	<u>823,728</u>
First Dawood Investment Bank Ltd - Employees Contributory Provident Fund				
Investment at Year End			5,927,695	5,570,605
Units Held (Number of Units)			72,037	72,037
Directors, Officers and Connected Persons of the Management Company				
Investment at Year End			14,933,549	14,033,939
Units Held (Number of Units)			181,481	181,481

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund's objective in managing risks is the creation and protection of Unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP.

Financial risk in Fund is the possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings/net assets or may result in imposition of constraints on Fund's ability to meet its business objectives. Such constraints pose a risk as these could hinder a Fund's ability to conduct its ongoing business or to take benefit of opportunities to enhance its business.

These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the management company supervises the overall risk management approach within the Fund. The Fund is exposed to market risk (which includes profit rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds.

Regardless of the sophistication of measures, Fund often distinguish between expected and unexpected losses. Expected losses are those that the management knows with reasonable certainty will occur (e.g. the expected decline in prices) and are typically reserved for in some manner. Unexpected losses are those associated with unforeseen events.

Risk management activities broadly take place simultaneously at following different hierarchy levels:

a) Strategic Level: It encompasses risk management functions performed by senior management and Board of Directors. It is concerned with the overall risk management of the organization starts with identifying of risk, planning to mitigate them, implementation of strategies and monitoring.



b) Macro Level: It encompasses risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk reviews fall into this category.

c) Micro Level: It involves 'On-the-line' risk management where risks are actually created. This is the risk management activities performed by individuals who take risk on organization's behalf such as front office and transactions origination functions.

Risk management starts at the highest management level. Its responsibility rests with the Board of Directors. Senior management makes sure that the policies of risk management are ingrained in the organization's culture.

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets.

Concentrations of risk may arise if the Fund has a significant exposure in a single industry, or aggregate exposure in several industries that tend to move together. In order to avoid excessive concentration of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Fund Manager is instructed to reduce exposure to manage excessive risk concentrations when they arise.

16.1 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, debt security prices and foreign exchange rates.

(i) Interest Rate Risk

Interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market interest rate. As of 30 June 2015, the Fund is exposed to such risk in respect of bank balances, term deposits and investment in debt securities. The bank balances are subject to interest rates as declared by the respective bank on a periodic basis. Majority of the debt securities are subject to floating interest rates.

Management of the fund estimates that 1% increase/(decrease) in the market profit rate/fair value, with all other factors remaining constant, would increase/(decrease) the Fund's net assets by;

	Increase/(Decrease) in Basis Points	Sensitivity of Profit Income Increase/(Decrease)
2015	100 (100)	4,454,178 (4,454,178)
2014	100 (100)	4,044,904 (4,044,904)

The Fund's exposure to profit rate risk based on contractual repricing and maturity dates, whichever is earlier is as follows:

2015	0 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-Interest bearing	Total
	----- Rupees -----						
Bank Balances	445,417,771	-	-	-	-	-	445,417,771
Investments	-	-	-	-	-	-	-
Mark-Up/Interest Receivable	-	-	-	-	-	4,125,852	4,125,852
Deposits, Prepayments and Other Receivable	-	-	-	-	-	100,000	100,000
Receivable Against Investment	-	-	-	-	-	366,229	366,229
Total Assets	445,417,771	-	-	-	-	4,592,081	450,009,852



2014	0 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-Interest bearing	Total
	----- Rupees -----						
Bank Balances	396,393,663	-	-	-	-	-	396,393,663
Investments	-	92,095	8,004,613	-	-	-	8,096,708
Mark-Up/Interest Receivable	-	-	-	-	-	11,741,260	11,741,260
Deposits	-	-	-	-	-	100,000	100,000
Receivable Against Investment	-	-	-	-	-	366,229	366,229
Total Assets	396,393,663	92,095	8,004,613	-	-	12,207,489	416,697,860

(ii) Price Risk

The risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Fund is not exposed to equity price risk because the Fund does not have equity instruments as at year end.

(iii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund does not have any financial instruments in foreign currencies and hence is not exposed to such risk.

16.3 Liquidity Risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. 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 redeemable units on a regular basis. Units are redeemable at the unit 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 documents.

In order to manage the Fund's overall liquidity, the Fund has the ability to withhold daily redemption requests in excess of ten percent of the units in issue and such request would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any significant redemption during the year.

The table below summaries the maturity profile of the Fund's financial instruments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity date.

2015	Not Later than One Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
	----- Rupees -----					
Financial Assets						
Bank Balances	445,417,771	-	-	-	-	445,417,771
Investments	-	-	-	-	-	-
Mark-Up/Interest Receivable	4,125,852	-	-	-	-	4,125,852
Deposits, Prepayments and Other Receivable	100,000	-	-	-	-	100,000
Receivable Against Investment	366,229	-	-	-	-	366,229
Sub-Total	450,009,852	-	-	-	-	450,009,852
Financial Liabilities						
Payable to Management Company	-	-	12,253,483	-	-	12,253,483
Payable to Trustee	-	-	1,447,530	-	-	1,447,530
Payable to SECP	-	-	889,335	-	-	889,335
Accrued and Other Liabilities	-	-	7,246,192	-	-	7,246,192
Sub-Total	-	-	21,836,540	-	-	21,836,540
Liquidity Gap	450,009,852	-	(21,836,540)	-	-	428,173,312



2014	Not later than one month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
-----Rupees-----						
Financial Assets						
Bank Balances	396,393,663	-	-	-	-	396,393,663
Investments	-	92,095	8,004,613	-	-	8,096,708
Mark-Up/Interest Receivable	11,741,260	-	-	-	-	11,741,260
Deposits, Prepayments and Other Receivable	100,000	-	-	-	-	100,000
Receivable Against Investment	366,229	-	-	-	-	366,229
Sub-Total	408,601,152	92,095	8,004,613	-	-	416,697,860
Financial Liabilities						
Payable to Management Company	-	-	-	6,705,799	-	6,705,799
Payable to Trustee	-	-	-	823,728	-	823,728
Payable to SECP	-	-	-	577,433	-	577,433
Accrued and Other Liabilities	-	-	-	6,211,138	-	6,211,138
Sub-Total	-	-	-	14,318,098	-	14,318,098
Liquidity Gap	408,601,152	92,095	8,004,613	(14,318,098)	-	402,379,762

16.4 Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Fund by failing to discharge its obligation. The Fund's credit risk is primarily attributable to its investment in term finance certificates, certificates of investment, term deposits and balances with banks. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies, offering document and investment guidelines (approved by Investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a approved rating agency. Due to defaults made by the issuers of certain TFCs the rating of the instrument have down graded from the investment grade. The table below analyses the Fund's maximum exposure to credit risk:

	2015 (Rupees)	2014 (Rupees)
Investments	-	8,096,708
Bank Balances	445,417,771	396,393,663
Mark-Up/Interest Receivable	4,125,852	11,741,260
Deposits	100,000	100,000
Receivable Against Redemption of Investments	366,229	366,229
	450,009,852	416,697,860

The analysis below summarizes the credit quality of the Fund's balances with banks:

	2015		2014	
	(Rupees)	%	(Rupees)	%
AA- to AA+	24,116	0%	24,116	0%
A- to A+	445,393,655	100%	396,369,547	100%
Total	445,417,771		396,393,663	

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 policy is to maintain a diversified portfolio of financial assets and to enter into transactions with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk.

16.5 Capital Management

The Fund's objective when managing unit holder's funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders and to ensure reasonable safety of capital. The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in market's conditions. The capital structure depends on the issuance and redemption of units.



17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial assets which are tradable in an open market are revalued 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. Currently investment of the Fund that are non performing are fully provided.

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Financial assets which are tradable in an open market are revalued 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. Currently investment of the Fund that are non performing are fully provided.

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

18. NON-ADJUSTING EVENT AFTER REPORTING DATE

The Board Of Directors in its meeting held on January 29, 2016 approved cash/ bonus distribution of 4.76 per unit (2014: 3.94 per unit) for the Fund under its management for the year ended 30 June 2015. The financial statements for the year ended 30 June 2015 do not include the effect of the distribution for the year ended 30 June 2013, 30 June 2014 and 30 June 2015 which will be accounted for in the financial statements for the year ending 30 June 2016.

19. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by The Board of Directors of the management company on January 29, 2016.

20. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding unit holding pattern, top five brokers, members of the Investment Committee, fund manager, meetings of the Board of Directors of the management company and rating of the Fund and the management company has been disclosed in Annexure I to the financial statements.

21. GENERAL

21.1 Figures have been rounded off to nearest Rupee.

21.2 The comparative figures have been re-arranged and reclassified for comparison purposes. However, there were no material reclassifications to report.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director



**SUPPLEMENTARY NON FINANCIAL INFORMATION
AS REQUIRED UNDER SECTION 6(D), (F), (G), (I) AND (J)
OF THE FIFTH SCHEDULE TO THE NBFC REGULATIONS**

(i) UNIT HOLDING PATTERN OF THE FUND

	Number of unit holders	Number of units held	Amount	% of Total
Individuals	223	282,083	23,211,798	5
Associated Companies & Directors	2	163,123	13,422,922	3
Insurance Companies	2	33,554	2,761,062	1
Banks/DFIs	2	4,195,016	345,195,802	81
NBFC	1	11,968	984,812	0
Retirement Funds	7	70,524	5,803,217	1
Others	9	447,138	36,793,699	9
	<u>246</u>	<u>5,203,406</u>	<u>428,173,312</u>	<u>100</u>

(ii) LIST OF TOP FIVE BROKERS BY PERCENT OF THE COMMISSION PAID

No trading took place during the financial year.

(iii) THE MEMBERS OF THE INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience
Ms. Tara Uzra Dawood	Chief Executive Officer	Doctorate of Juridical Science	12 years
Mr. Waris Jamil	Chief Financial Officer and Company Secretary	ACA	9 years
Mr. Muhammad Abbas	Manager Finance	MBA Finance	16 years

(iii) MEETINGS OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Due to lack of quorum, no meetings of Board of Directors of the management company were conducted during the financial year.

(iv) RATING OF THE FUND AND THE MANAGEMENT COMPANY

Asset Manager Rating (AMR) of Management Company is 'AM3-' (2012: AM3-) and that of Fund is A-(f) (2012: A-(f)) rated by Pakistan Credit Rating Agency (PACRA) before suspension of the Fund.

**For Dawood Capital Management Limited
(Management Company)**

Chief Executive

Director

Director

BOOK POST

If undelivered, please return to:

DAWOOD INCOME FUND
5B Lakson Square Building #1,
Sarwar Shaheed Road, Karachi 74200.



Managed by Dawood Capital Management Ltd.

Trustee: MCB Financial Services Limited

5B Lakson Square Building #1, Sarwar Shaheed Road, Karachi 74200

Tel: (92-21) 3562-1002-7 Fax: (92-21) 3562-1010

Email: dcm@edawood.com

Website: www.edawood.com

