



INVESTMENTS

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786 INVESTMENTS LIMITED



DAWOOD INCOME FUND

**ANNUAL REPORT
2018**



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CORPORATE INFORMATION

Management Company	786 Investments Limited G-3 Ground Floor, B.R.R. Tower, Hassan Ali Street, Off I.I. Chundrigar Road, Karachi - 74000 Pakistan Tel: (92-21) 32603751-54 Email: info@786investments.com Website: www.786investments.com
Board of Directors	Ms. Shafqat Sultana Chairperson Miss Tara Uzra Dawood Chief Executive Officer Ms. Charmaine Hidayatullah Director Mr. Ahmed Salman Munir Director Syed Shabahat Hussain Director Mr. Tahir Mehmood Director Syed Farhan Abbas Director
Chief Financial Officer & Company Secretary	Mr. Talal Ismail Pasha
Audit Committee	Syed Shabahat Hussain Chairman Mr. Tahir Mehmood Member Syed Farhan Abbas Member
Human Resource Committee	Ms. Shafqat Sultana Chairperson Miss Tara Uzra Dawood Member Mr. Tahir Mehmood Member
Trustee:	MCB Financial Services Limited 4th Floor, Pardasi House, 2/1 R-Y old Queens Road, Karachi
Auditors	Riaz Ahmad & Company Chartered Accountants
Legal Advisor	Rauf & Ghaffar Law Associates (Advocates & Consultants) Suite # 65, 5th Floor, Fareed Chamber, Abdullah Haroon Road, Saddar – Karachi, Pakistan.
Registrars	F.D. Registrar Services (SMC-Pvt.) Ltd. Office# 1705, 17th Floor Saima Trade Tower. A, I.I. Chundrigar Road, Karachi-74000, Pakistan.
Banker:	Al Baraka Bank (Pakistan) Limited JS Bank Limited BankIslami Pakistan Limited Bank Alfalah Limited
Rating	PACRA: AA-(f)



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 786 Investments Limited. ("786" or the "Company") the Management Company of **Dawood Income Fund** is pleased to present the annual report and the audited financial statements of the Company for the year ended June 30, 2018.

Economic Review

Pakistan's economic performance in FY18 continued to post an improvement with real GDP growth accelerating to 5.79% compared to 5.37% in the year before. FY18's GDP growth rate was the highest in the past 10 year. Key factors behind the higher GDP growth rate were increase in growth rate of agricultural sector, which posted 3.81% growth vs 2.07% growth, the growth in production of three important crops namely rice, sugarcane and cotton is estimated at 8.7%, 7.4%, and 11.8% respectively. Meanwhile, industrial growth came in at 5.80% and service sector posted 6.43% growth. CPI inflation comes out to be 3.9%. The increase in CPI inflation is being majorly attributed due to the base effect kicking because of contained food prices and budgetary measures adopted last year. Pakistan's fiscal deficit as % of GDP reduced to 4.3% from previous year's 5.8%. During second of FY18 State Bank of Pakistan increased Discount Rate twice, first in January'18 and then in May'18 by 25 bps and 50 bps respectively to 7%. The reasons were (i) the multiplier-effect of a strong fiscal expansion during second half of FY18 is likely to offset the contractionary impact of monetary tightening in the recent months on domestic demand; (ii) higher international oil prices have continued to inflate the import bill; (iii) rising inflation projections and the ensuing fall in real interest rates; and (iv) a notable reduction in PKR and US interest rate differential.

Money Market Review:

The SBP held twenty-six Treasury bill auctions during FY18. The cumulative participation witnessed were PKR 21,100bn against the pre-announced auction target of PKR 16,925bn while the SBP accepted an amount of PKR 16,052bn during the period under review. That being said, acceptance in 3 months tenor represented 92.11% of the total accepted amount while the 6 months and 12 months were 7.64% and 0.26% respectively. Further, during this period, SBP conducted twelve Pakistan Investment Bond (PIB) auctions and raised PKR 94.9bn the last cut-off yields were 7.5%, 8.48% and 8.70 % for 3, 5 and 10 years respectively. State Bank of Pakistan also revised coupons rates and increased it by 25bps for 3 and 5 year tenor for Jul'18 auction while keeping the rates constant for 10 and 20 year. Towards the end of second half of FY18, SBP introduced Floating Rate Bonds (FRB) based on spread over 6 months weighted average cut-off T.Bills and conducted two auctions. The cumulative participation witnessed were PKR 296.13bn against the auction target of PKR 100bn while the SBP accepted an amount of PKR 34.65bn with spread over 50 bps on 6 months T.Bills. The SBP did not conduct any GOP Ijarah Sukuk auction during the period under review.

Future Outlook:

Pakistan's economy received multiple jolts during fiscal year 2018 and almost all economic indicators worsened. The economy is faced with new and bigger challenges in fiscal year 2019. The economy took off with Gross Domestic Product (GDP) being declared at a decade high level of 5.3% in fiscal 2017. It achieved a 13-year high growth of around 5.8% in FY18. However, now it is estimated to recede to 4.7-4.8% in FY19. Economic fundamentals have deteriorated over the previous year and are set to mess up the economy down the road. The water crisis may further hamper economic growth in fiscal year 2019. As per international organizations, Pakistan is likely to face a major water crisis by 2025. The crisis may slow down agriculture growth this fiscal year. Its share in the economy stands at around one-fifth.



Given the bleak economic scenario, where the country's foreign currency reserves have dropped to a critical level of less than two months import cover at \$9.66 billion on June 22, 2018; it is an obvious scenario that Pakistan will enter into the International Monetary Fund's (IMF) program sometime late first quarter or early second quarter 2018. We expect more currency devaluation in FY19 and hike in key interest rate by December 2018.

Corporate Governance and Financial Reporting Framework

The Directors are pleased to state as follows:

- The financial statements, prepared by the company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity.
- Proper books of account have been maintained by the company.
- 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.
- There are no significant doubts upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance 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 is no statutory payment on account of taxes, duties, levies and charges outstanding.
- One of the Director has completed Directors Training Program, rest of the Directors will attend Director Training Program or take exemption from the Commission.
- During the year, Ansar Hussain resign from the Directorship and was replaced by Syed Shabahat Hussain.

Board of Directors Meetings

During the year, four meetings were held. The attendance of each Director is as follows:



Names	No of Meetings held	No of Meetings attended	Leave granted
Ms. Shafqat Sultana	4	4	-
Ms. Tara Uzra Dawood	4	4	-
Mr. Ansar Hussain*	4	-	1***
Mr. Muhammad Izqar Khan	4	-	4***
Ms. Charmaine Hidayatullah	4	3	1***
Mr. Tahir Mehmood	4	4	-
Syed Farhan Abbas	4	4	-
Syed Shabihat Hussain**	4	-	-

*Ansar Hussain resigned as Director on October 30, 2017.

**Syed Shabihat Hussain appointed as Director on casual vacancy on April 16, 2018.

***Leave of absence was granted.

Audit Committee Meeting

During the year, four meetings were held. The attendance of each member is as follows:

Names	No of Meetings held	No of Meetings attended	Leave granted
Mr. Ansar Hussain*	4	-	1****
Mr. Tahir Mehmood	4	4	-
Syed Farhan Abbas	4	4	-
Ms. Charmaine Hidayatullah **	4	2	1****
Syed Shabihat Hussain***	-	-	-

*Ansar Hussain resigned as Director on October 30, 2017.

**Charmaine Hidayatullah joined Audit committee on October 30, 2017.

*** Syed Shabihat Hussain appointed as Director on casual vacancy on April 16, 2018.

****Leave of absence was granted.

Auditors

The present Auditor, Riaz Ahmed & Company retire. The Board Audit Committee have recommended the appointment of Grant Thornton Anjum Rahman as statutory auditors for the year ending June 30, 2019 and the Board have endorsed the communication.

Principle Risk & Uncertainties

The Asset Management industry is in growing phase and competition in the market is expected that can increase the industry AUM and on other side shrink the existing size of the companies.

The Company managed open ended funds, invested in the capital markets which are influenced by the macroeconomic, and political factors which may impact the Company's performance. Increase political turmoil in the country will remains a risk because of this, Foreign and local investor may take out from the market resulting down prices and return. Exchange rates may also impact the performance of the capital market and hence the profitability of the Company.



The Company's 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.

Statement of Ethics and Business Practices

The Board of Directors of 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, 2018, net assets were Rs. 334.72 million as compared to Rs. 247.74 million as at June 30, 2017. Total operating income for the year was Rs. 47.01 million as compared to Rs. 34.76 million for the same period last year. Total expenses during the year were Rs. 11.90 million as compared to Rs. 1.86 million last year. Element of income was Rs. 22.17 million as compared to Rs. 2.09 last year. The net profit before distribution for the financial year 2018 was Rs.35.11 million, as compared to Rs. 34.99 million last year. The Net Asset Value per unit was Rs. 88.31 as at June 30, 2018.

Dividend

The Board of Directors has announced cash dividend to unit holders of Rs. 8.5273 per unit for the year ended June 30, 2018 which comes out to be 8.53% of the par value per unit of Rs. 100.

Sales and Redemption Units

3,255,583 units worth Rs.279.12 million were issued in the current year (2017: 2,711,299 units worth Rs. 222.32 million) and 2,604,025 units worth Rs. 217.61 were redeemed in the current year (2017: 1,625,347 units worth Rs. 136.86 million). As on June 30, 2018, the total number of outstanding units was 3,790,392 valued as Rs. 334.72 million.

Credit Rating

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of "AM3", to the Company and that of Fund is AA-f.

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.



Pattern of Unit Holding as on June 30, 2018

The pattern of unit holders as on June 30, 2018 is annexed to these financial statements.

Key Financial Highlights

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

Acknowledgement

The Board of Directors of the Management Company is thankful to the Securities and Exchange Commission of Pakistan and the management of the Pakistan Stock Exchange Limited for their continued support and cooperation. The Directors also appreciate the efforts put in by the employees of the Company for their commitment and dedication and shareholders for their confidence in the Company.

Tara Uzra Dawood
Chief Executive Officer

Shafqat Sultana
Chairperson

September 17, 2018
Karachi.



بینچمنٹ کمپنی کے ڈائریکٹرز کی رپورٹ

داؤد اسٹاک فنڈ (786 یادی کمپنی) بینچمنٹ کمپنی، 786 انویسٹمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز 30 جون 2018 کو ختم ہونے والے سال کی سالانہ رپورٹ اور نظر ثانی شدہ مالیاتی گوشوارے پیش کرتے ہوئے خوشی محسوس کرتے ہیں۔

اقتصادی جائزہ

FY18 میں پاکستان کی اقتصادی کارکردگی کی رفتار گزشتہ سال میں 5.37 فیصد کے مقابلے میں 5.79 فیصد اصل جی ڈی پی نمو کے ساتھ مسلسل بہتر ہوئی ہے۔ FY18 کی جی ڈی پی نمو کی شرح گزشتہ 10 سالوں میں کی شرح سب سے زیادہ تھی زرعی شعبے کی ترقی کی شرح نمو اعلیٰ جی ڈی پی کی شرح نمو کے پیچھے اہم عوامل ہیں، جس نے 2.07 فیصد نمو کے مقابلے میں 3.81 فیصد نمو درج کرائی ہے، تین اہم ضلعوں چاول، گنا اور کپاس کی پیداوار میں نمو کا اندازہ بالترتیب 8.7 فیصد، 7.4 فیصد اور 11.8 فیصد لگایا گیا ہے۔ دریں اثنا، صنعتی ترقی 5.80 فیصد اور خدمات کے شعبے میں 6.43 فیصد نمو درج کرائی گئی۔ سی پی آئی افراط زر 3.9 فیصد رہا۔ سی پی آئی افراط زر میں اضافہ گزشتہ سال خوراک کی قیمتوں اور بجٹ کے اقدامات کی وجہ سے بنیادی اثرات کو ختم کرنے سے منسوب کیا جا رہا ہے۔ پاکستان کا مالی خسارہ پچھلے سال کے 5.80 فیصد سے کم ہو کر جی ڈی پی کا 4.34 فیصد ہو گیا۔ FY18 کی دوسری ششماہی میں اسٹیٹ بینک آف پاکستان نے ڈسکاؤنٹ کی شرح میں دو گنا اضافہ ہوا، سب سے پہلے جنوری 18 میں اور پھر مئی 18 میں بالترتیب 25 پی پی ایس اور 50 پی پی ایس یعنی 7 فیصد تک اضافہ ہوا۔ جس کی وجوہات تھیں (i) FY18 کی دوسری ششماہی کے دوران مضبوط مالیاتی توسیع کے ضوابط کا اثر مقامی طلب پر حالیہ مہینوں میں غیر معمولی توجہ کے خاتمہ پر اثر انداز ہو سکتا ہے (ii) بین الاقوامی تیل کی قیمتوں میں اضافہ نے درآمدی مل کو بڑھا دیا ہے (iii) افراط زر میں مسلسل اضافہ اور اصل شرح سود میں کمی، اور (iv) پاکستانی روپیہ کی قدر میں قابل ذکر کمی اور امریکی ڈالر کی شرح سود میں فرق۔

اسٹاک مارکیٹ کا جائزہ:

مالی سال 2017-18 کے دوران، پاکستان اسٹاک مارکیٹس 100 انڈیکس 5.97 فیصد خراب کارکردگی کا مظاہرہ کیا۔ زبردست جائزہ مدت کے دوران، مارکیٹ غیر مستحکم رہی ہے، یہ 3 اگست 2017 کو 47,084 پوائنٹس کی بلند ترین سطح تک پہنچنے کے بعد، مسلسل کم ہوتی چلی گئی اور 19 دسمبر 2017 کو 37,919 پوائنٹس کی اپنی سب سے کم سطح پہنچ گئی۔ مالی سال 2018 کا نمایاں مثبت اقتصادی اشاروں، قابل قدر جی ڈی پی نمو، بہتر ملک کے تصور، SME کی پہچان کے ساتھ آغاز ہوا کیونکہ ملک کی معیشت کا اہم افتتاح اور اورینٹل پاکستانیوں کی طرف سے ترسیل زر جاری ہو گیا۔ نئے کیلنڈر سال 2018 کے شروع میں ہی، مارکیٹ نے رفتار بڑھائی۔ 29 جون کو، PSX 1100 پوائنٹس 41,910.90 پوائنٹس پر ختم ہوئی جبکہ مارکیٹ کی سرمایہ کاری 8.66 ٹریلین روپے تھی۔ جولائی 2017-2018 کے دوران غیر ملکی سرمایہ کاروں نے 32.33 بلین روپے مالیت کی سیکورٹیز کی سرمایہ کاری کی، جو مقامی انفرادی سرمایہ کاروں، کمپنیوں اور انشورنس کمپنیوں کے ذریعے کی گئی۔ مقامی سرمایہ کاروں کی طرف سے یہ ہماری خریداری پاکستان کی ایکٹیو مارکیٹ میں سرمایہ کاروں کے اعتماد کو ٹھکانے کرتی ہے۔

مٹی مارکیٹ کا جائزہ:

ایس بی پی نے مالی سال 18 کے دوران چھبیس ٹریڈری بل آکشن منعقد کرائیں۔ مجموعی شرکت کا مشاہدہ پہلے اعلان کردہ نیلامی ہدف 16,925bn روپے کے برخلاف 21,100bn روپے تھا جبکہ ایس بی پی نے زبردست جائزہ مدت کے دوران 16,052bn روپے کی رقم کی منظوری دی۔ یہ کہا جا رہا ہے کہ 3 ماہ کی مدت میں جو قیمت کل قابل قبول رقم کی 92.11 فیصد کی نمائندگی کرتی ہے۔ جبکہ 6 ماہ اور 12 ماہ کی بالترتیب 7.64 فیصد اور 0.26 فیصد تھی۔

مزید، اس عرصے کے دوران، ایس بی پی نے بارہ (12) پاکستان انویسٹمنٹ بانڈ (پی آئی بی) نیلامیوں کا انعقاد کیا اور 94.9bn روپے اکٹھے کئے 5،3 اور 10 سالوں کی پیداوار بالترتیب 7.5 فیصد، 8.48 فیصد اور 8.70 فیصد تھی۔ اسٹیٹ بینک آف پاکستان نے کوپن کی شرحوں میں بھی نظر ثانی کی اور اسے جولائی 18 کی آکشن میں 3 اور 5 سال کے لئے 25 پی پی ایس تک بڑھا دیا، جبکہ 10 اور 20 سالوں کے لئے ریش مستقل رکھے۔

FY18 کی دوسری ششماہی کے اختتام کے لئے، ایس بی پی نے 6 ماہ کی اوسط کٹ آف ٹی بلز پر محیط فلوئنگ ریٹ بانڈ (FRB) متعارف کرائے اور دو نیلامیاں منعقد کیں۔ مجموعی شمولیت کا مشاہدہ 100bn روپے کے نیلامی ہدف کے خلاف 296.13bn روپے کیا گیا تھا جبکہ ایس بی پی نے 6 ماہ ٹی بلز پر 50 پی پی ایس پر محیط 34.65bn روپے کی منظوری دی ہے۔ زبردست جائزہ مدت کے دوران ایس بی پی نے کوئی جی او پی اجارہ سبک آکشن کا انعقاد نہیں کیا۔



مستقبل کا نقطہ نظر:

مالیاتی سال 2018 کے دوران پاکستانی معیشت کو بہت سی مشکلات پیش آئیں اور تقریباً تمام معاشی اشارے بدترین تھے۔ مالیاتی سال 2019 میں معیشت کو سنبھالنے اور بڑے چیلنجوں کا سامنا ہے۔ مالی سال 2017 میں معیشت دہائی کی بلند ترین سطح پر 5.3 فیصد مجموعی مقامی مصنوعات (جی ڈی پی) کا اعلان کیا گیا۔ مالی سال 2018 میں اس نے تقریباً 5.8 فیصد نمو گزشتہ 13 سالوں میں سب سے زیادہ حاصل کی ہے۔ تاہم، اب مالی سال 2019 میں اس کا تخمینہ 4.7-4.8 فی صد تک لگایا گیا ہے۔ پچھلے سال کے دوران اقتصادی بنیادیں بہت کشیدہ ہو گئیں اور جنہوں نے معیشت کو مرکز سے نیچے اتار دیا۔ پانی کا بحران مالی سال 2019 میں معاشی ترقی کو مزید نقصان پہنچا سکتا ہے۔ بین الاقوامی تنظیموں کے مطابق پاکستان کو 2025 تک پانی کے بحران کا سامنا کرنا پڑ سکتا ہے۔ بحران اس مالی سال میں زراعت کی ترقی کو سست کر سکتا ہے۔ معیشت میں اس کا تقریباً پانچواں حصہ ہے۔

غیر معمولی اقتصادی صورتحال کو دیکھتے ہوئے، جہاں 22 جون 2018 کو ملک کے فیڈرل زرمبادلہ کے ذخائر دو ماہ سے کم عرصہ میں درآمد کے لحاظ سے 9.66 بلین ڈالر کی کم سے کم سطح پر پہنچ گئے، یہ ایک واضح منظر ہے کہ پاکستان 2018 کی پہلی سہ ماہی کے فوراً بعد یا دوسری سہ ماہی کے آغاز میں بین الاقوامی مانیٹری فنڈ (آئی ایم ایف) کے پروگرام میں داخل ہو جائے گا۔ ہمیں مالی سال 2019 میں کرنسی کی قدر مزید کم اور دسمبر 2018 تک کلیدی شرح سود میں تیزی سے اضافہ ہونے کی توقع ہے۔

کارپوریٹ گورننس اور مالیاتی رپورٹنگ کا دائرہ کار

ڈائریکٹرز بخوشی بیان کرتے ہیں کہ:

- کمپنی کی انتظامیہ کی طرف سے تیار کردہ، مالیاتی حسابات، اس کے امور، آپریشنز کے نتائج، نقدی بہاؤ اور ایکٹیوٹی میں تبدیلیوں کو منصفانہ طور پر ظاہر کرتے ہیں۔
- کمپنی کے کھاتہ جات بالکل صحیح طور سے بنائے گئے ہیں۔
- مالی حسابات کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کو تسلسل کے ساتھ لاگو کیا گیا ہے اور اکاؤنٹنگ کے تخمینہ جات مناسب اور دانشمندانہ فیصلوں پر مبنی ہیں۔
- مالی حسابات کی تیاری میں پاکستان میں لاگو بین الاقوامی مالیاتی رپورٹنگ کے معیارات کی پیروی کی گئی ہے اور کسی انحراف کا واضح انکشاف اور وضاحت کی گئی ہے۔
- اندرونی کنٹرول کے نظام کا ڈیزائن مستحکم ہے اور اسکی مؤثر طریقے سے عملدرآمد اور نگرانی کی جاتی ہے۔
- کمپنی کے گونگ کنسرن ہونے کی صلاحیت پر کوئی قابل ذکر شکوک و شبہات نہیں ہیں۔
- کارپوریٹ گورننس کے بہترین عمل سے کوئی مادی انحراف نہیں کیا گیا ہے سوائے جن کامالی گوشواروں کے ساتھ منسلک تعمیلی بیان میں انکشاف کیا گیا۔
- فنڈ کے پونٹ میں کسی ڈائریکٹر، چیف ایگزیکٹو آفیسر، کمپنی سیکرٹری اور ان کے زوج اور ان کے نابالغ بچوں کی طرف سے سال کے دوران کوئی تجارت نہیں کی گئی سوائے جن کامالی گوشواروں سے متعلقہ نوٹس میں انکشاف کیا گیا۔
- ٹیکسز، ڈیوٹیز، لیویز اور بقایا چارجز کی مد میں کوئی قانونی ادائیگی نہیں ہے۔
- ایک ڈائریکٹر نے ڈائریکٹرز مینٹ پروگرام مکمل کر لیا ہے، باقی ڈائریکٹرز ڈائریکٹرز مینٹ پروگرام میں شرکت کریں گے یا کمیشن سے ایگزیکٹو مینٹ حاصل کر لیں گے۔
- سال کے دوران، محضر حسین ڈائریکٹرز شپ سے مستعفی ہو گئے اور ان کی جگہ سید شہناز حسین کو مقرر کیا گیا۔



بورڈ آف ڈائریکٹرز کے اجلاس

سال کے دوران، چار اجلاس منعقد ہوئے۔ ہر ایک ڈائریکٹر کی حاضری حسب ذیل ہے:

نام	منعقدہ اجلاسوں کی تعداد	تعداد حاضری اجلاس	تغیبات
محترمہ شفقت سلطانہ	4	4	-
محترمہ تارہ عزرا دادو	4	4	-
جناب عنصر حسین*	4	-	1***
جناب محمد اذکار خان	4	-	4***
محترمہ شرمین ہدایت اللہ	4	3	1***
جناب طاہر محمود	4	4	-
سید فرحان عباس	4	4	-
سید شہباز حسین**	4	-	-

* عنصر حسین بحیثیت ڈائریکٹر 30 اکتوبر 2017 کو مستعفی ہو گئے۔

** سید شہباز حسین 16 اپریل 2018 کو خالی آسامی پر بحیثیت ڈائریکٹر مقرر ہوئے۔

*** غیر حاضری کی چھٹی دی گئی۔

آڈٹ کمیٹی کا اجلاس

سال کے دوران، چار اجلاس منعقد ہوئے۔ ہر ایک ڈائریکٹر کی حاضری حسب ذیل ہے:

نام	منعقدہ اجلاسوں کی تعداد	تعداد حاضری اجلاس	تغیبات
جناب عنصر حسین*	4	-	1**
جناب طاہر محمود	4	4	-
سید فرحان عباس	4	4	-
محترمہ شرمین ہدایت اللہ*	4	2	1**

* عنصر حسین بحیثیت ڈائریکٹر 30 اکتوبر 2017 کو مستعفی ہو گئے۔

* شرمین ہدایت اللہ 30 اکتوبر 2017 کو آڈٹ کمیٹی میں شامل ہوئیں۔

** غیر حاضری کی چھٹی دی گئی۔

آڈیٹر

ریٹائر ہونے والے موجودہ آڈیٹر، میسرز ریاض احمد اینڈ کمپنی ہے۔ بورڈ کی آڈٹ کمیٹی نے گرانٹ تھورنٹن انجمن الرمن کو 30 جون 2019 کو ختم ہونے والے سال کے لئے آڈیٹر کی حیثیت سے

تقرری کی سفارش کی ہے اور بورڈ نے اس کی منظوری دے دی ہے۔



اصل خطرہ اور غیر یقینی

ایسٹ ہینجمنٹ انڈسٹری ترقی کے مراحل میں ہے اور مارکیٹ میں مقابلہ متوقع ہے جو ایک طرف انڈسٹری AUM بڑھا سکتا ہے اور دوسری طرف کمپنیوں کے موجودہ سائز کو کم کر سکتا ہے۔ کمپنی نے کمپنیل مارکیٹوں میں اوپن انڈیڈ فنڈز کی سرمایہ کاری کا انتظام کیا ہے جو مائیکرو اکنامک سے متاثر ہونے میں اور سیاسی عناصر جو کمپنی کی کارکردگی کو متاثر کر سکتے ہیں۔ ملک میں سیاسی کشش میں اضافہ ایک خطرہ رہے گا اس کی وجہ سے غیر ملکی اور مقامی سرمایہ کار مارکیٹ سے باہر جاسکتے ہیں جس کے نتیجے میں قیمتوں اور منافع میں کمی آسکتی ہے۔ زرمبادلہ کی شرحیں بھی کمپنیل مارکیٹ کی کارکردگی اور کمپنی کی منافع پائی کو متاثر کر سکتی ہیں۔

کمپنی کی رسک ہینجمنٹ پالیسیاں اور پروسیجرز یقینی بناتے ہیں کہ رسک کی مؤثر طریقے سے شناخت، تشخیص، نگرانی اور انتظام کیا گیا ہے۔ رسک ہینجمنٹ ایک متحرک فنکشن ہے اور ہینجمنٹ آمدنی میں تغیر کو کم کرنے کے لئے اپنے داخلی رسک پروسیجرز اور عوامل کی مسلسل نگرانی لازمی بناتی ہے۔

اخلاقیات اور کاروباری طریقوں کا بیان

کمپنی کے بورڈ آف ڈائریکٹرز نے اخلاقیات اور کاروباری طریقوں پر عمل کیا ہے۔ تمام ملازمین کو اس بیان بارے میں مطلع کیا گیا ہے اور کاروباری قواعد و ضوابط کے سلسلے میں ان اصولوں پر عمل کرنا ضروری قرار دیا گیا ہے۔

فنڈ کی حکمت عملی

سرمایہ کاری کی حکمت عملی شریعت کی بنیاد پر سیکورٹیز بشمول اسٹاک، قرض سیکورٹیز اور گورنمنٹ سیکورٹی موزوں مواقع کے ساتھ سرمایہ کاروں کو فراہم کرنے کی کوشش کرتی ہے۔ فنڈ کی حکمت عملی کا مقصد صرف سرمایہ کاروں کے سرمایہ کو محفوظ بنانا نہیں بلکہ ان کی سرمایہ کاری کی قدر کو زیادہ مستحکم کرنے کے لئے اہل آمدنی فراہم کرنا ہے۔

پورٹ فولیو ہینجمنٹ ٹیم ملک کے سیکرہا اشاروں کی روشنی میں مختلف تجزیاتی مضامین کا استعمال کرتے ہوئے سرمایہ کاری کا انتخاب کرتی ہے جیسے کہ ٹاپ ڈاؤن کی بنیاد پر بنیادی تحقیق اور مقدار کی سکرین۔ خاص طور پر، ٹیم اپنے محکموں کو بنیادی طور پر مضبوط شعبوں اور کمپنیوں میں شامل کرنے کی کوشش کرتی ہے، جبکہ متحرک طور پر پورٹ فولیو متوقع سیکرہا رجحانات سے فائدہ مند ہیں۔ سرمایہ کاری شعبوں میں اختلاف ہیں اور سرمایہ کاروں کو ایک بہتر خطرہ/ریٹرن پروفاٹل پیش کی جاتی ہے۔

فنڈ کی کارکردگی

30 جون 2018 کو خالص اثاثے 106.15 ملین روپے تھے جو 30 جون 2017 کو 103.03 ملین روپے تھے۔ گزشتہ سال کی اسی مدت میں 13.73 ملین روپے کی آمدنی کے مقابلے میں اس سال 7.09 ملین روپے کا کل آپریٹنگ نقصان ہوا۔ سال کے دوران کل اخراجات 4.72 ملین روپے ہوئے جو گزشتہ سال میں 2.97 ملین روپے تھے۔ گزشتہ سال 9.49 ملین روپے آمدنی کے مقابلے میں اس سال 2018 کے لئے تقسیم سے قبل خالص نقصان 11.82 ملین روپے ہوا۔ 30 جون 2018 کو فی یونٹ خالص اثاثے کی قدر 117.07 روپے تھی۔

ڈیویڈنڈ

بورڈ آف ڈائریکٹرز نے 30 جون 2018 کو ختم ہونے والے سال کے لئے یونٹ ہولڈرز کو 0.3834 روپے فی یونٹ نقد منافع منقسمہ کا اعلان کیا ہے جو ہر ایک سو (100) روپے کی مساوی ویلیو فی یونٹ کا 0.38 فیصد بنتا ہے۔

سیلز اینڈ ریڈمپشن یونٹ

197,437 یونٹس مالیت 33.53 ملین روپے موجودہ سال میں جاری کئے گئے (2017: 232,140 یونٹس مالیت 29.23 ملین روپے) اور 67,549 یونٹس مالیت 18.40 ملین روپے موجودہ سال میں واپس وصول کئے گئے (2017: 159,184 یونٹس مالیت 21.15 ملین روپے)۔ 30 جون 2018 کو ہٹا یا یونٹس کی تعداد 906,713 مالیت 106.15 ملین روپے تھی۔



کریڈٹ ریٹنگ

پاکستان کریڈٹ ریٹنگ ایجنسی لمیٹڈ (PACRA) نے کمپنی کو "AM3" کی ایسٹ نیچر ریٹنگ تفویض کی ہے اور یہ کہ فنڈ 3 ستارہ ہے۔

منسلک افراد / متعلقہ پارٹیوں کے ساتھ لین دین

فنڈ اور اس سے متعلقہ افراد کے درمیان لین دین جیسا کہ مالی گوشواروں میں انکشاف کیا گیا، قابل رسائی بنیاد پر کیا جاتا ہے۔

30 جون 2018 کو پونٹ ہولڈنگ کا نمونہ

30 جون 2018 کو پونٹ ہولڈرز کا نمونہ مالی گوشواروں سے منسلک کر دیا گیا ہے۔

اہم مالیاتی جھلکیاں

کلیدی مالیاتی جھلکیوں کا خلاصہ ان مالیاتی گوشواروں کے ساتھ منسلک کر دیا گیا ہے۔

اظہار تشکر

مینیجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز قابل قدر معاونت، مدد اور رہنمائی پر سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور پاکستان اسٹاک ایکسچینج لمیٹڈ کی انتظامیہ کے شکر گزار ہیں۔ ڈائریکٹرز عزم، لگن اور محنت پر کمپنی کے ملازمین اور انتظامیہ کا اور کمپنی میں اعتماد پر شیئر ہولڈرز کا بھی شکریہ ادا کرتے ہیں۔

شفقت سلطانہ

تارہ عمر راد اوڈ

کراچی: September 17, 2018



REPORT OF THE FUND MANAGER FOR THE YEAR ENDED 30 JUNE 2018

Description of Collective Investment Scheme Category and Type:
Income Scheme/Open end

Fund Objective

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

Explanation as to whether the Collective Investment Scheme Achieved Its Stated Objective

The Collective Investment Scheme achieved its stated objective.

Fund Performance

As at June 30, 2018, net assets were Rs. 334.72 million as compared to Rs. 247.74 million as at June 30, 2017. Total operating income for the year was Rs. 47.01 million as compared to Rs. 34.76 million for the same period last year. Total expenses during the year were Rs. 11.90 million as compared to Rs. 1.86 million last year. Element of income was Rs. 22.17 million as compared to Rs. 2.09 last year. The net profit before distribution for the financial year 2018 was Rs.35.11 million, as compared to Rs. 34.99 million last year. The Net Asset Value per unit was Rs. 88.31 as at June 30, 2018.

Fund Return

Fund Bench Mark Avg 6 Months KIBOR

	YTD Return	YTD Bench Mark
FY 2017	16.32%	6.03%
FY 2018	11.89%	6.22%

Asset Allocation	
TFC / Sukuk	18.05%
Government Securities	29.17%
TDR	8.78%
Bank Balances	43.50%
Others	0.50%

Asset Quality 2018	
AA+	29.17%
AA	8.79%
AA-	38.72%
A+	22.82%
Unrated	0.50%



Changes in Total NAV And NAV Per Unit Since the Last Review Period

Net Assets Value			NAV per unit		
June 30, 2017	June 30, 2018	Change in %	June 30, 2017	June 30, 2018	Change in %
247,737,327	334,724,296	35.11%	78.93	88.31	11.77%

INVESTMENT 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.

DIVIDEND

The Board of Directors has announced cash dividend to unit holders of Rs. 8.5273 per unit for the year ended June 30, 2018 which comes out to be 8.53% of the par value per unit of Rs. 100.

PATTERN OF UNIT HOLDING

Number Of Certificateholders	Certificate Holding			Number Of Certificates
	From		To	
222	0.0001	-	9,999.9999	123,268.1359
11	10,000	-	49,999.9999	251,706.4370
2	50,000	-	99,999.9999	147,767.0994
8	100,000	-	499,999.9999	2,162,504.9200
2	5,000,000		999,999.9999	1,105,145.2388
245				3,790,391.8311

ECONOMIC REVIEW:

Pakistan's economic performance in FY18 continued to post an improvement compared to the year before with real GDP growth accelerating to 5.79% compared to 5.37% in the year before. FY18's GDP growth rate was the highest in the past 10 years. Key factors behind the higher GDP growth rate were increase in growth rate of agricultural sector, which posted 3.81% growth vs 2.07% growth, the growth in production of three important crops namely rice, sugarcane and cotton is estimated at 8.7 per cent, 7.4 per cent, and 11.8 per cent respectively.

Meanwhile, industrial growth came in at 5.80% and service sector posted 6.43% growth. CPI inflation comes out to be 3.9%. The increase in CPI inflation is being majorly attributed due to the base effect kicking because of contained food prices and budgetary measures adopted last year (FED on cigarettes). Pakistan's fiscal deficit as % of GDP reduced to 4.3% from previous year's 5.8%. During second of FY18 State Bank of Pakistan increased Discount Rate twice, first in January'18 and then in May'18 by 25 bps and 50 bps respectively to 7%. The reasons were (i) the multiplier-effect of a strong fiscal expansion during second half of FY18 is likely to offset the



contractionary impact of monetary tightening in the recent months on domestic demand; (ii) higher international oil prices have continued to inflate the import bill; (iii) rising inflation projections and the ensuing fall in real interest rates; and (iv) a notable reduction in PKR and US interest rate differential.

MONEY MARKET REVIEW:

The SBP held twenty six Treasury bill auctions during FY18. The cumulative participation witnessed were PKR 21,100bn against the pre-announced auction target of PKR 16,925bn while the SBP accepted an amount of PKR 16,052bn during the period under review. That being said, acceptance in 3 months tenor represented 92.11% of the total accepted amount while the 6 months and 12 months were 7.64% and 0.26% respectively. Further during this period SBP conducted twelve Pakistan Investment Bond (PIB) auctions and raised PKR 94.9bn the last cut-off yields were 7.5%, 8.48% and 8.70 % for 3, 5 and 10 years respectively. State bank of Pakistan also revised coupons rates and increased it by 25bps for 3 and 5 year tenor for Jul'18 auction while keeping the rates constant for 10 and 20 years.

Towards the end of second half of FY18 SBP introduced Floating Rate Bonds (FRB) based on spread over 6 months weighted average cut-off T.Bills and conducted two auctions. The cumulative participation witnessed were PKR 296.13bn against the auction target of PKR 100bn while the SBP accepted an amount of PKR 34.65bn with spread over 50 bps on 6mT.Bills.

The SBP did not conduct any GOP Ijarah Sukuk auction during the period under review.

FUTURE OUTLOOK:

Pakistan's economy received multiple jolts during fiscal year 2018 and almost all economic indicators worsened. The economy is faced with new and bigger challenges in fiscal year 2019. The economy took off with Gross Domestic Product (GDP) being declared at a decade high level of 5.3% in fiscal 2017. It achieved a 13-year high growth of around 5.8% in FY18. However, now it is estimated to recede to 4.7-4.8% in FY19. Economic fundamentals have deteriorated over the previous year and are set to mess up the economy down the road. The water crisis may further hamper economic growth in fiscal year 2019. As per international organizations, Pakistan is likely to face a major water crisis by 2025. The crisis may slow down agriculture growth this fiscal year. Its share in the economy stands at around one-fifth.

Given the bleak economic scenario, where the country's foreign currency reserves have dropped to a critical level of less than two months import cover at \$9.66 billion on June 22, 2018; it is an obvious scenario that Pakistan will enter into the International Monetary Fund's (IMF) program sometime late first quarter or early second quarter 2018. We expect more currency devaluation in FY19 and hike in key interest rate by December 2018.

OTHER DISCLOSURE UNDER NBFC REGULATIONS 2008

The Fund Manager hereby makes the following disclosures as required under NBFC Regulations 2008;

The Management Company or any of its delegates did not receive any soft commission (goods & services) from any of its brokers/dealers by virtue of transactions conducted by the Fund.

There was no unit split undertaken during the year.

Investments are subject to market risk that may materially affect any interests of unit holders.



Details of Pattern of Holdings (Units)
As at June 30, 2018

S. No.	Category	No of Unit Holders	Investment Amount	% of Total
1	Directors	3	54,464,747	16%
2	Associated Companies	4	109,267,501	33%
3	Individuals	223	125,831,284	38%
4	Insurance	1	2,624,639	1%
5	Others	14	42,536,125	13%
	TOTAL	245	334,724,296	100.00



**DETAILS OF PATTERN OF HOLDINGS (UNITS)
AS AT JUNE 30, 2018**

S. No.	Category	No of Unit Holders	Unit Held	Amount	% of Total
1	Directors				
	Ms. Tara Uzra Dawood, CEO	1	603,892	53,328,884	15.93
	Ms. Shafqat Sultana	1	12,850	1,134,747	0.34
	Ms. Charmaine Hidayatullah	1	13	1,116	0.00
2	Associated Companies				
	786 Investment Limited	2	348,387	30,765,592	9.19
	BRR Investment (Pvt) Ltd	1	387,701	34,237,336	10.23
	First Dawood Investment Bank Ltd and Others				
	Employees Contributory Provident Fund	1	501,249	44,264,573	13.22
3	Individuals	223	1,424,904	125,831,284	37.59
4	Insurance Companies	1	29,721	2,624,639	0.78
5	Bank/DFIs	-	-	-	-
6	Modaraba / Mutual Funds	-	-	-	-
7	Others	14	481,675	42,536,125	12.71
		245	3,790,392	334,724,296	100.00



MCB FINANCIAL SERVICES LIMITED

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 786 Investments Limited (formerly: 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. 786 Investments Limited (formerly: 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 2018 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

Khawaja Anwar Hussain
Chief Executive Officer
MCB Financial Services Limited

Karachi: September 6, 2018

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
DAWOOD INCOME FUND**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Dawood Income Fund ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2018, and the income statement, statement of comprehensive income, statement of movements in unit holders' fund and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 June 2018, and of its financial performance, its cash flows and transactions for the year then ended in accordance with the approved accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) together with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the key audit matters:

S. No.	Key audit matters	How the matter was addressed in our audit
1)	Existence and valuation of investments: Investment portfolio of the Fund makes up 47.22% of total assets and 48.20% of the net assets of the Fund. Investment portfolio of the Fund comprises of listed and unlisted debt securities classified at fair value through profit or loss (held-for-trading) and	Our procedures over the existence and valuation of the Fund's investment portfolio included, but were not limited to: i) walked through the valuation processes and understood the systems and controls implemented;

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available-for-sale investments. For further information, refer to the following:

- Summary of significant accounting policies, financial instruments note 3.1 to the financial statements.
- Investments note 5 to the financial statements.

We have identified the existence, ownership and valuation of the Fund's investments as a key audit matter as the investment is a significant driver of the net assets value of the Fund and of its total return.

- ii) evaluated the Fund's investment valuation policies with reference to the requirements of the applicable accounting and reporting standards;
- iii) agreed holding of all investments from the Account Balance Report of Central Depository Company of Pakistan Limited and Investor Portfolio Securities (IPS) account of the Fund with its banker.
- iv) agreed the valuation of all debt securities from the rates published by Mutual Fund Association of Pakistan (MUFAP); and
- v) evaluated the adequacy of provision held against non-performing debt securities.

2) **Amendments in Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations, 2008):**

The Securities and Exchange Commission of Pakistan (SECP) through its SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in the NBFC Regulations, 2008.

The SRO includes a definition and explanation relating to "element of income" and also stipulates that the accounting income available for distribution as appearing in the "Income Statement" excludes income already paid on units redeemed during the year. Accordingly, the net amount appearing on the "Income Statement" after deducting the income already paid on units redeemed is to be considered as the distributable amount.

The said SRO also deleted 'Distribution Statement' and requires additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in statement of movement in unit holders' fund instead of income statement. For further information, refer to note 3.4 to the financial statements.

Our procedures included, but were not limited to:

- i) Developed understanding of the amendments in the NBFC Regulations, 2008;
- ii) Ensured that changes in accounting policy resulted from amendments in the NBFC Regulations, 2008 are adopted and reported as per the requirements of applicable accounting and reporting standards;
- iii) Recalculated the amount available for distribution taking into account the amount already distributed at the time of redemption;
- iv) Ensured the accuracy of management report for allocation of distributable amount between 'distribution out of income' and 'refund of capital'; and
- v) Ensured that amount of element of income is appropriately disclosed in the income

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These amendments in the NBFC Regulations, 2008 are considered key audit matter because there is a risk that impact of such amendments is not adequately reflected in the financial statements.

statement and statement of movement in unit holders' fund pursuant to amendments.

Other Matter

The financial statements of the Fund for the preceding year ended 30 June 2017 were audited by another firm of chartered accountants who, vide their report dated 18 September 2017, expressed unmodified opinion on those financial statements with emphasis of matter paragraphs concerning the (i) suspension of the operations of the Fund from 22 March 2013 to 22 January 2015 and resultant non-compliance with various regulatory requirements by the 786 Investments Limited (Management Company); and (ii) pending approval of the license of the Management Company from SECP to undertake asset management services and investment advisory services.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Management Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Fund and our auditors' report thereon.

Our opinion on the financial statements of the Fund does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund for our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors of the Management Company for the Financial Statements

Management Company is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of the NBFC Regulations, 2008 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.

In preparing the financial statements, Management Company is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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Board of directors of the Management Company are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with board of directors of the Management Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide board of directors of the Management Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with board of directors of the Management Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditors' report is Liaqat Ali Panwar.

Riaz Ahmad & Co.
RIAZ AHMAD & COMPANY
Chartered Accountants

Karachi

Date: 17 SEP 2018



**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2018**

	Note	2018 Rupees	2017 Rupees
Assets			
Bank Balances	4	178,611,620	228,144,962
Investments	5	161,342,284	21,757,250
Income and Profit Receivable	6	1,598,839	1,420,888
Deposits		100,000	100,000
Advance Income Tax		-	6,899,826
Total Assets		341,652,743	258,322,926
Liabilities			
Payable to 786 Investments Limited - Management Company	7	744,035	1,181,111
Payable to MCB Financial Services Limited - Trustee	8	56,015	66,738
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	9	243,087	167,162
Accrued Expenses and Other Liabilities	10	5,515,348	8,217,270
Dividend Payable		-	640,351
Unclaimed Dividend		369,962	312,967
Total Liabilities		6,928,447	10,585,599
Net Assets		334,724,296	247,737,327
Unit Holders' Fund (As Per Statement Attached)		334,724,296	247,737,327
Number of Units			
Number of Units in Issue	11	3,790,392	3,138,834
Rupees			
Net Assets Value per Unit		88.31	78.93
Contingencies and Commitments	12		

The annexed notes 1 to 22 form an integral part of these financial statements.

For 786 Investments Limited.
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director



**INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2018**

	Note	2018 Rupees	2017 Rupees
Income			
Net Capital (Loss)/Gain on Sale of Investment		(58,132)	5,246,531
Income from Saving Accounts		12,567,681	7,729,008
Income from Sukuk Certificates		2,908,731	1,687,634
Income from Term Deposit Receipts (TDR)		17,507	-
Income from Certificates of Investments (COI)		132,791	1,404,785
Income from Government Securities		4,507,732	1,942,857
Other Income		178,754	-
Reversal of Impairment in the Value of Investments			
Classified as Available for Sale		<u>26,755,156</u>	<u>16,755,156</u>
Total Income		47,010,220	34,765,971
Expenses			
Remuneration of 786 Investments Limited - Management Company	7.1	4,748,750	2,592,281
Sindh Sales Tax on Remuneration to Management Company	7.2	617,337	336,997
Accounting and Operational Charges	7.3	132,000	222,930
Remuneration to MCB Financial Services Limited - Trustee	8.1	600,000	600,000
Sindh Sales Tax on Trustee Fee	8.2	78,000	78,000
Annual Fee to Securities and Exchange Commission of Pakistan	9	243,087	167,198
Auditors' Remuneration	13	547,520	539,836
Fees and Subscription		140,500	50,000
Securities Transaction Cost		63,078	45,873
Financial Charges		8,788	2,260
Legal and Professional Charges		40,469	204,884
Reversal of Provision for Workers' Welfare Fund - Federal		-	(4,568,951)
Provision for Sindh Workers' Welfare Fund (SWWF)	10.2	716,544	1,521,238
Withholding Taxes		3,828,444	-
Printing and Related Charges		135,000	64,565
Total Expenses		<u>11,899,517</u>	<u>1,857,111</u>
Net Income from Operating Activities		35,110,703	32,908,860
Net Element of Income and Capital Gains Included in Prices of Units Issued Less Those in Units Redeemed	3.4	-	2,089,273
Net Income for the Year Before Taxation		<u>35,110,703</u>	<u>34,998,133</u>
Taxation	15	-	-
Net Income for the Year After Taxation		<u>35,110,703</u>	<u>34,998,133</u>
Allocation of Net Income for the Year:			
Income Already Paid on Units Redeemed		(10,043,991)	
Accounting Income Available for Distribution:			
- Relating to Capital Loss		(58,132)	
- Excluding Capital Loss		25,124,844	
		<u>25,066,712</u>	
Earnings per Unit	14		

The annexed notes 1 to 22 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018**

	2018	2017
	Rupees	
Net Income for the Year After Taxation	35,110,703	34,998,133
Other Comprehensive Income		
Items that are or May be Reclassified Subsequently to Income Statement		
Net Unrealised Appreciation in Fair Value of Investments Classified as Available for Sale	410,934	257,250
Total Comprehensive Income for the Year	<u>35,521,637</u>	<u>35,255,383</u>

The annexed notes 1 to 22 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	30 June 2018				30 June 2017			
	Capital Value	Undistributed Loss	Unrealised Gain on Investment	Total	Capital Value	Undistributed Loss	Unrealised Gain on Investment	Total
	----- (Rupees) -----				----- (Rupees) -----			
Net Assets at the Beginning of the Year	373,888,482	(126,408,405)	257,250	247,737,327	290,518,032	(134,534,544)	-	155,983,488
Issue of 3,255,583 Units (2017: 2,711,299 Units)								
- Capital Value (At Net Asset Value per Unit at the Beginning of the Period	256,952,083	-	-	256,952,083				
- Element of Income	22,166,026	-	-	22,166,026				
Total Proceed on Issuance of Units	279,118,109	-	-	279,118,109	206,868,587	15,452,302	-	222,320,889
Redemption of 2,604,025 Units (2017: 1,625,347 Units)								
- Capital Value (At Net Asset Value per Unit at the Beginning of the Period	(205,526,861)	-	-	(205,526,861)				
- Amount Paid Out of Element of Income Relating To 'Net Income for the Period after Taxation'	-	(10,043,991)	-	(10,043,991)				
- Refund/Adjustment on Units as Element of Income	(12,081,925)	-	-	(12,081,925)				
Total Payment on Redemption of Units	(217,608,786)	(10,043,991)	-	(227,652,777)	(123,498,137)	(13,363,029)	-	(136,861,166)
Element of Income/(Loss) and Capital Gains/(Losses) Included in Prices of Units Issued Less Those in Units Redeemed - Net						(2,089,273)		(2,089,273)
Total Comprehensive Income for the Year	-	35,110,703	410,934	35,521,637	-	34,998,133	257,250	35,255,383
Distribution During the Year								
Final Distribution at the Rate of Rupee. 9.44 Per Unit for the Year Ended 30 June 2017	-	-	-	-	-	(26,871,994)	-	(26,871,994)
	-	35,110,703	410,934	35,521,637	-	8,126,139	257,250	8,383,389
Net Assets at End of the Year	435,397,805	(101,341,693)	668,184	334,724,296	373,888,482	(126,408,405)	257,250	247,737,327
Undistributed Loss Brought Forward								
- Realised		(126,408,405)				(134,534,544)		
- Unrealised		-				-		
		(126,408,405)				(134,534,544)		
Accounting Income Available for Distribution								
- Relating To Capital Gains		(58,132)				-		
- Excluding Capital Gains		25,124,844				-		
		25,066,712				-		
Net Income for the Year After Taxation (for Prior Years Either Income/(Loss) and Where There is Loss Situation in Current Year)						34,998,133		
Distribution During the Year						(26,871,994)		
Undistributed Loss Carried Forward		(101,341,693)				(126,408,405)		
Undistributed Loss Carried Forward								
- Realised		(101,341,693)				(126,408,405)		
- Unrealised		-				-		
		(101,341,693)				(126,408,405)		
Net Assets Value per Unit at Beginning of the Year				78.93				75.98
Net Assets Value per Unit at End of the Year				88.31				78.93

The annexed notes 1 to 22 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2018**

	2018	2017
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the Year Before Taxation	35,110,703	34,998,133
Adjustments for Non-Cash Charges and Other Items:		
Reversal of Impairment in the Value of Investments Classified as Available for Sale	(26,755,156)	-
Reversal of Provision for Workers' Welfare Fund - Federal Provision for Sindh Workers' Welfare Fund	716,544	(4,568,951) 1,521,238
Net Element of Income/(Loss) and Capital Gains/(Losses) Included In Prices of Units Issued Less Those in Units Redeemed	-	(2,089,273)
Withholding Taxes	3,828,444	-
	12,900,535	29,861,147
Increase in Assets		
Investments	(112,441,003)	(16,500,000)
Advance Tax	3,349,360	-
Income and Profit Receivable	(155,892)	(546,089)
	(109,247,535)	(17,046,089)
(Decrease)/Increase in Liabilities		
Payable to 786 Investments Limited - Management Company	(437,076)	134,925
Payable to MCB Financial Services Limited - Trustee	(10,723)	1,339
Payable to Securities and Exchange Commission Of Pakistan - Annual Fee	75,925	(68,223)
Accrued Expenses and Other Liabilities	(3,418,466)	(511,793)
	(3,790,340)	(443,752)
Taxes Paid/Withheld by Counterparties	(277,978)	(5,350,774)
Net Cash (Used In)/Generated From Operating Activities	(100,415,318)	7,020,532
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend Paid	(583,356)	(14,219,574)
Receipts from Issuance of Units	279,118,109	182,650,000
Payments on Redemption of Units	(227,652,777)	(136,861,166)
Net Cash Generated From Financing Activities	50,881,976	31,569,260
Net (Decrease)/Increase in Cash and Cash Equivalents During the Year	(49,533,342)	38,589,792
Cash and Cash Equivalents at Beginning of the Year	228,144,962	189,555,170
Cash and Cash Equivalents at End of the Year	178,611,620	228,144,962

The annexed notes 1 to 22 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Dawood Income Fund ('the Fund') was established under the Non-Banking Finance Companies (Establishment and Regulations) Rules 2003 (the NBFC Rules). The Fund was established under a Trust Deed executed on 8 April 2003 between 786 Investments Limited (formerly Dawood Capital Management Limited) 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. On 20 January 2017, the Management Company has changed its name to 786 Investments Limited after completing regulatory formalities. During the current year, the registered office of the Management Company was changed and now is situated at G3, Ground floor, BRR Tower, Hassan Ali Street, I.I Chundrigar Road, Karachi, Pakistan.
- 1.2 Titles to the assets of the Fund are held in the name of MCBFSL as the Trustee of the Fund (except for term finance certificate of New Allied Industries Limited as mentioned in note 5.2.1, which is a non-performing term finance certificate hence being unable to be transferred until final settlement which is held in the name of BAHL being the previous trustee of the Fund).
- 1.3 The Fund is an open-ended mutual fund and is listed on the Pakistan Stock Exchange Limited (PSX). Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 The Fund is categorized as "income scheme" in accordance with Circular No. 7 of 2009 issued by the SECP. 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.
- 1.5 The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of 'AM3' to the Management Company and has assigned stability rating "AA-(f)" to the Fund.
- 1.6 In continuation of onsite inspection carried out last year, SECP conducted offsite examination of the Management Company and Funds under its management during the current year. Based on the inspection and examination SECP highlighted various non-compliances with NBFC Rules and NBFC Regulations in its letters to the Management Company dated 12 April 2018 and 18 July 2018. These non-compliances mainly pertain to financial management systems, compliance and risk management system, updating of policies and procedures, fund management and internal controls and procedures. The Management Company vide its letters to SECP dated 4 May 2018 and 31 July 2018 ensured that most of the non-compliances have been complied whereas for rest of the non-compliances, the Management Company is fully committed to ensure compliance with such rules and regulations in due course.
- 1.7 PSX vide its letter number no. PSX/N C-848-2945 dated 27 June 2018 considered Management Company request for shifting name of the Management Company from Defaulters' Segment to Normal Counter and resumption of trading in shares of the Management Company on fulfillment of full and final payment against outstanding dues and other conditions.

The Management Company paid the dues of PSX on 28 June 2018 and fulfilled other conditions subsequently on 23 July 2018. On fulfillment of the conditions, PSX through its notice dated 30 August 2018 announced the shifting of name of the Management Company to Normal Counter and resumption of trading in shares of the Management Company from 03 September 2018.
- 1.8 The Management Company applied for renewal of its license to undertake Asset Management Services and Investment Advisory Services which was approved by the SECP on 19 October 2017 and accordingly issued license no. AMCW/13/786IL/AMS/08/2017 and AMCW/14/786IL/IA/06/2017 to carry out Asset Management Services and Investment Advisory Services respectively.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards as applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017 along with part VIIIA of the repealed Companies Ordinance, 1984; and
- Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules), Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and requirements of the Trust Deed.

Where provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and requirements of the Trust Deed differ from the requirements of IFRS, the provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and requirements of the Trust Deed have been followed.



2.2 Amendments to the Approved Accounting Standards and Interpretations that are Effective for the Year Ended 30 June 2018

There are certain amendments to the approved accounting standards that are mandatory for the Fund's annual accounting period beginning on 1 July 2017. However, these do not have any significant impact on the Fund's operations and, therefore, have not been detailed in these financial statements.

2.3 New accounting standards, amendments to existing standards, IFRS Interpretations and forthcoming changes that are not yet effective.

The following standards, amendments and interpretations with respect to approved accounting standards would be effective from the date mentioned below against the respective standards, amendments and interpretations.

a) IFRS 15 Revenue from Contracts with Customers - Effective Date: 1 July 2018

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2018), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. The Fund has yet to assess the full impact of this standard on its financial statements.

b) IFRS 9 Financial Instruments - Effective Date: 1 July 2018

IFRS 9 'Financial Instruments' was issued on 24 July 2017. This standard is adopted locally by the Securities and Exchange Commission of Pakistan and is effective from accounting periods beginning on or after 1 July 2018. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

Key requirements of IFRS 9 are as follows;

Classification and Measurement of Financial Assets

- All recognized financial asset that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value.
- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.
- Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at fair value through Other Comprehensive Income.
- All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.
- In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Classification and Measurement of Financial Liabilities

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires as follows;

- The amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.
- Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Impairment of Financial Assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

SECP through its SCD/AMCW/RS/MUFAP/2017-148 dated 21 November 2017 have deferred the applicability of above provision requirements in relation to debt securities for mutual funds.



Impact Assessment

Based on the analysis of Fund's financial assets and liabilities as at 30 June 2018 and also considering facts and circumstances that exists at that date, the Management Company have assessed the impact of IFRS 9 on the financial statements as follows:

IFRS 9 contains three principal classification categories for financial assets; measured at amortized cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit and Loss account (FVTPL). The standard eliminates the existing IAS 39: Financial Instruments: Recognition and Measurement of Financial assets and Financial liabilities (IAS 39) categories of held-to-maturity, loans and receivables and available-for-sale.

The Fund does not expect the new guidance to affect the classification and measurement of its financial assets except for investments in government securities classified as at fair value through profit or loss which are to be measured at fair value through other comprehensive income upon application of IFRS 9 with value changes to be recognised in other comprehensive income instead of profit or loss. The change in fair value attributed to these financial assets amounting to Rupees 0.022 million during the current year would be recognised in other comprehensive income under IFRS 9. Further, there will be no impact on the Fund's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Fund does not have any such liabilities.

c) IFRIC 23 Uncertainty over Income Tax Treatment - Effective Date: 1 January 2019

The interpretation clarifies the accounting for income tax when there is uncertainty over income tax treatment under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The amendments are not expected to have material impact on the Funds financial statements.

d) IAS 12 Income Taxes - effective date: 1 January 2019

This amendment as part of the annual improvement 2015-2017 cycle, clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity. The amendments are not likely to have material impact on the Funds financial statements.

2.4 Basis of Measurement

These financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

2.5 Functional and Presentation Currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and figures are rounded off to nearest rupee.

2.6 Critical Accounting Estimates And Judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about assumption and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year as well as critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

Investments Stated at Fair Value

The Management Company has determined fair value term finance certificates, sukuk certificates and government securities by using quotations from Mutual Funds Association of Pakistan (MUFAP). Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

Other Assets

Judgment is also involved in assessing the realization of the assets' balances.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except stated in note 3.4.

3.1 Financial Instruments

The Fund classifies its financial instruments in the following categories:



a) Financial Instruments as 'at Fair Value through Profit or Loss'

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative. Financial instruments as 'at fair value through profit or loss' are measured at fair value and changes therein are recognised in the Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) 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 the 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 stock exchange) and government securities, which are carried out at fair value in accordance with the requirements of the NBFC Regulations and directives issued by SECP.

c) Loans and Receivables

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

d) Available-for-Sale

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

e) Financial Liabilities

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

f) Regular Way Contracts

Regular purchases and sale of financial assets are recognized on the trade dates - the date on which the Fund commits to purchase or sell the asset.

Recognition

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

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative product.

Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. The changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in other comprehensive income until derecognised or impaired, when the accumulated adjustments recognised in other comprehensive income are transferred to Income Statement.

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

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

Fair Value Measurement Principles

The fair value of financial instrument is determined as follows:

Basis of Valuation of Debt Securities

The fair value of debt securities (other than government securities) is based on the value determined and announced by MUFAP in accordance with criteria laid down in Circular No.1 of 2009 and Circular No.33 of 2012 issued by the SECP. In the determination of the rates, MUFAP takes into account the holding pattern of these securities and categorists them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.



Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performing. Further the reversal of provisions is also made in accordance with the said circulars and subsequent clarifications.

Basis of Valuation of Government Securities

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the MUFAP page.

Impairment

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of asset and that loss events had an impact on the future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. In case of an investment in an equity security, a significant or prolonged decline in fair value below its cost is objective evidence of impairment. Impairment losses are recognised in the Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in the Income Statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

If, an event occurring after the impairment was recognised causes the amount of impairment to decrease then the decrease in impairment loss is reversed through the Income Statement except for reversal of equity investment classified as 'available for sale'.

Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the criteria laid down by the SECP in Circular No. 1 of 2009, Circular No. 33 of 2012, Circular No. 35 of 2012 and subsequent clarifications thereon. As allowed by SECP, management may also make provision over and above the minimum provision requirement prescribed in the aforesaid circulars. Further the reversal of provisions is also made in accordance with the said circulars and subsequent clarifications.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non-performing investments in compliance with applicable Circular issued by the SECP.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

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

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or winding up of the Fund or the counterparties.

3.2 Unit Holders' Fund

Unit holders' fund representing the units issued by the Fund, is carried at the net asset value representing the investors' right to a residual interest in the Fund assets.

3.3 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 day. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

Units redeemed are recorded at the redemption price, applicable on units for which the distributors receive redemption applications during business hours on that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.4 Element of Income/(Loss) and Capital Gains/(Losses) Included in Prices of Units Issued Less those in Units Redeemed

The Fund has followed the requirements of SRO 756 (I) 2017 dated 3 August 2017 read with NBFC regulations, 2008 in the preparation of these financial statements as follows:



- element of income has been determined as the difference between net assets value on the issuance or redemption date, as the case maybe, of units and the net asset value at the beginning of the accounting period;
- presented distributable income in statement of movement In unitholders' fund ; and
- presented allocation of net income available for distribution relating to capital gains and excluding capital gains in statement of movement In unitholders' fund.

3.4.1 The Securities and Exchange Commission of Pakistan through its SRO 756(I)/2017 dated 3 August 2017 has made certain amendments in the NBFC Regulations. The notification includes a definition and explanation relating to "element of income" and excludes the element of income from the expression "accounting income" as described in Regulation 63 (amount distributable to unit holders) of the NBFC Regulations. As per the notification, element of income represents the difference between net assets value per unit on the issuance or redemption date, as the case may be, of units and the net assets value per unit at the beginning of the relevant accounting period. Further, the revised regulations also specify that element of income is a transaction of capital nature and the receipt and payment of element of income shall be taken to unit holders' fund. However, to maintain the same ex-dividend net asset value of all units outstanding on the accounting date, net element of income contributed on issue of units lying in unit holders fund will be refunded on units in the same proportion as dividend bears to accounting income available for distribution. Furthermore, the revised regulations also require certain additional disclosures with respect to 'Income Statement' and 'Statement of Movement in Unit Holders' Fund', whereas disclosure with respect to 'Distribution Statement' has been deleted in the revised regulations.

Previously, an equalisation account called the 'element of income/(loss) and capital gains/(losses) included in prices of units issued less those in units redeemed' was created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption. The net element of income/(loss) and capital gains/(losses) relating to units issued and redeemed during the accounting period which pertained to unrealised appreciation/(diminution) held in the Unit Holder's Fund was recorded in a separate account and any amount remaining in this reserve account at the end of the accounting period (whether gain or loss) was included in the amount available for distribution to the unitholders. The remaining portion of the net element of income/(loss) and capital gains/(losses) relating to units issued and redeemed during an accounting period was recognised in the Income Statement.

As required by IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors', a change in accounting policy requires retrospective application as if that policy had always been applied. However, the Management Company has applied the above changes in accounting policy, including the additional disclosures requirements in the 'Income Statement' and 'Statement of Movement in Unit Holders' Fund', prospectively from 1 July 2017, based on the clarification issued by the SECP. Accordingly, corresponding figures have not been restated. The 'Distribution Statement' for the comparative period has not been presented as it has been deleted as a result of the amendments made in the NBFC Regulations the aforementioned SRO issued by the SECP.

Had the element of income been recognised as per the previous accounting policy, the income of the Fund would have been higher by Rupees 0.040 million. However, the change in accounting policy does not have any impact on the 'Cash flow Statement', the 'net assets attributable to the unit holders' and 'net asset value per unit' as shown in the 'Statement of Assets and Liabilities' and 'Statement of Movement in Unit Holders' Fund'. The change has resulted in inclusion of certain additional disclosures/new presentation requirements in the 'Income Statement' and 'Statement of Movement in Unit Holders' Fund which have been incorporated in these statements.

3.5 Provisions

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

3.6 Net Assets Value per Unit

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

3.7 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains whether realized or unrealized is distributed amongst the unit holders of collective investment scheme.

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilized tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year, as reduced by capital gains whether realised or unrealised is distributed to its unit holders every year.



3.8 Income Recognition

- a) Gains/(losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- b) Income on sukuk and term finance certificates, term deposit receipts and government securities is recognised on a time proportionate basis using effective yield method, except for the securities which are classified as non-performing asset under Circular No. 33 of 2012 issued by the SECP for which the profits are recorded on cash basis.
- c) Unrealised gains/(losses) arising on valuation of investments classified as 'fair value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- d) Unrealised gains/(losses) arising on valuation of investments classified as 'available for sale' are included in the Income Statement in the period in which they arise.
- e) Profit on saving accounts with banks is recognised on time proportion basis using effective interest rate method.

3.9 Expenses

All expenses including Management fee, Trustee fee and Securities Exchange Commission of Pakistan fee are recognised in the Income Statement on accrual basis.

3.10 Cash and Cash Equivalents

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.11 Other Assets

Other assets are stated at cost less impairment losses, if any.

3.12 Dividend Distributions and Appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

4 BANK BALANCES	Note	2018 Rupees	2017 Rupees
Savings Accounts	4.1	148,611,620	228,144,962
Term Deposit Receipts	4.2	30,000,000	-
		<u>178,611,620</u>	<u>228,144,962</u>

4.1 Profit rates on savings accounts range from 2.61% to 7% (30 June 2017: 3.5% to 6%) per annum.

4.2 This represent Term Deposit Receipts (TDRs) placed with JS Bank having maturity upto 3 months or less with yield rate 7.10%.

5 INVESTMENTS

Available for Sale

Listed Term Finance and Sukuk certificates	5.1	-	-
Unlisted Term Finance and Sukuk certificates	5.2	61,668,184	5,257,250
		<u>61,668,184</u>	<u>5,257,250</u>

At Fair Value through Profit or Loss

- Held for Trading

Government Securities	5.3	99,674,100	-
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Loans and Receivables

Certificates of Investment (COI)	5.4	-	16,500,000
		<u>161,342,284</u>	<u>21,757,250</u>



5.1 Listed Term Finance and Sukuks Certificates - Available-for-Sale

Certificates have a face value of Rupees. 5,000 each unless stated otherwise.

Investee Entities	Note	Number of Certificates			Balance as at 30 June 2018			Market Value as a Percentage of Net Assets	Market Value as a Percentage of Total Investments	
		As at 1 July 2017	Purchased during the Year	Settled during the Year	As at 30 June 2018	Cost/Carrying Value	Market Value			Appreciation/(Diminution)
		Units.....			Rupees.....					
Financial Services										
Invest Capital Investment Bank Limited	5.1.1	4,000	-	4,000	-	-	-	-	-	
Construction and Material										
Dewan Cement Company Limited*	5.1.2	30,000	-	-	30,000	96,342,147	-	-	-	
30 June 2018						96,342,147	-	-		
Investee Entities	Note	Number of Certificates			Balance as at 30 June 2017			Market Value as a Percentage of Net Assets	Market Value as a Percentage of Total Investments	
		As at 1 July 2016	Purchased during the year	Settled during the year	As at 30 June 2017	Cost/Carrying Value	Market Value			Appreciation/(Diminution)
		Units.....			Rupees.....					
Financial Services										
Invest Capital Investment Bank Limited		4,000	-	-	4,000	20,000,000	-	-	-	
Trust Investment Bank Limited		10,000	-	10,000	-	-	-	-	-	
Real Estate Investment and Services										
Pace Pakistan Limited		2,800	-	2,800	-	-	-	-	-	
Construction and Material										
Dewan Cement Company Limited*		30,000	-	-	30,000	113,097,303	-	-	-	
30 June 2017						133,097,303	-	-		

*These TFCs certificates are non performing and are fully provided (note: 5.1.2), therefore these are not subject to mark to market.

5.1.1 Invest Capital Investment Bank Limited (ICIBL) defaulted on its payment of principal and mark up 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. This security was fully provided in accordance with the provisioning circulars of SECP and the Board's approved provisioning policy. During the current period on 10 October 2017, the Management Company entered into a settlement agreement with ICIBL where it has agreed to pay only to the extent of Rupees 10 million against the total outstanding dues previously provided. Accordingly, remaining irrecoverable receivables are written off and agreed amount Rupees 10 million has been received during the current period.

5.1.2 Dewan Cement Company Limited defaulted on its payments 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. The Fund has entered into a compromise agreement with Dewan Cement Limited on 09 May 2016 whereby the remaining debt will be paid in thirty one equal quarterly installments in arrears. The Fund has recognised reversal amounting to Rupees. 16.755 million on receipt basis. The Fund has suspended mark-up there against.

5.2 Unlisted Term Finance and Sukuks Certificates - Available-for-Sale

Certificates have a face value of Rupees 5,000 each unless stated otherwise.



Note	Number of Certificates				Balance as at 30 June 2018			Market Value as a Percentage of Net Assets	Market Value as a Percentage of Total Investments
	As at 1 July 2017	Purchased during the year	Disposed/ Matured during the year	As at 30 June 2018	Cost/Carrying Value	Market Value	Appreciation /(Diminution)		
Units.....			 Rupees				
Unlisted Term Finance Certificates									
Cable and Electric Goods									
New Allied Industries Limited***	5.2.1	11,523	-	-	11,523	25,433,190	-	-	-
Unlisted Sukuks									
Cable and Electric Goods									
TPL Corporation Limited *	5.2.2	5	-	-	5	5,257,250	5,162,500	(94,750)	1.54%
Real Estate and Development									
Eden Housing Limited***									
Eden Housing Limited***	5.2.3	2,933	-	-	2,933	2,887,171	-	-	-
Commercial Bank									
Dubai Islamic Bank Limited*									
Dubai Islamic Bank Limited*	5.2.4	-	26	-	26	26,000,000	26,486,304	486,304	7.91%
Fertilizers									
Dawood Hercules Corporation Limited **									
Dawood Hercules Corporation Limited **	5.2.5	-	300	-	300	30,000,000	30,019,380	19,380	8.97%
30 June 2018						89,577,611	61,668,184	410,934	

Note	Number of Certificates				Balance as at 30 June 2017			Market Value as a Percentage of Net Assets	Market Value as a Percentage of Total Investments
	As at 1 July 2016	Purchased during the Period	Disposed/ Matured/ Settled during the Period	As at 30 June 2017	Cost/Carrying Value	Market Value	Appreciation /(Diminution)		
Units.....			 Rupees				
Unlisted Term Finance Certificates									
Cable and Electric Goods									
New Allied Industries Limited		11,523	-	-	11,523	25,433,190	-	-	-
Unlisted Sukuks									
Cable and Electric Goods									
TPL Corporation Limited *		5	-	-	5	5,000,000	5,257,250	257,250	2.12%
Real Estate and Development									
Eden Housing Limited									
Eden Housing Limited		2,933	-	-	2,933	2,887,171	-	-	-
30 June 2017						33,320,361	5,257,250	257,250	

*Each having face value of Rupees. 1,000,000 per certificate

**Each having face value of Rupees. 100,000 per certificate

***These TFCs certificates are non performing and are fully provided (note: 5.2.1 and 5.2.3), therefore these are not subject to mark to market.

- 5.2.1 New Allied Electronics Industries Limited defaulted on its payment of principal and mark-up 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. This security has been fully provided in accordance with the provisioning circulars of SECP and the Board's approved provisioning policy. As mentioned in note 1.2, these TFCs are held in CDC Investor account of the previous Trustee and will only be transferred upon final settlement.
- 5.2.2 These sukuk certificates carry profit equal to 1 year KIBOR plus 3% receivable quarterly in arrears and will mature in April 2021. The principal amount is redeemable in four six monthly installments of Rupees 0.25 million per certificate each commencing from October 2019. These sukuk certificates are secured by hypothecation charge over the hypothecated assets of Rupees 625 million and pledge of shares of TPL Properties Limited in favour of the Trustee of the issuer for the benefit of the certificate holders.
- 5.2.3 Eden Housing defaulted on its payment of principal and mark-up 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. This security has been provided in accordance with the provisioning circulars of SECP and the Board's approved provisioning policy.
- 5.2.4 These Sukuk certificates carry profit equal to 6 months KIBOR plus 0.50% receivable half-yearly in arrears and will mature in July 2027.
- 5.2.5 These sukuk certificates carry profit equal to 3 month KIBOR plus 1% receivable quarterly in arrears and will mature in February 2023. The instrument is structured to redeem 60% of the Issue Amount during the first 4 years and remaining 40% in last two (2) equal semi-annual installments of 20% each. The instrument is secured against pledge of shares of Engro Corporation Limited, inclusive of 50% margin, in a designated CDC account. In the event of any sale and repurchase of security, the Trustee will have a lien over subsequent cash, which is to be deposited in a specified bank account and further, Floating or Hypothecation charge on all present and future assets of the Company inclusive of 25% margin Security.



5.3 Government Securities - 'At Fair Value through Profit and Loss'- Held for Trading

Issue Date	Note	Tenor	Face Value			As at 30 June 2018	Market Value As at 30 June 2018	Market Value as a Percentage of Net Assets	Market Value as a Percentage Total Investments
			As at 1 July 2017	Purchased during the Year	Sold/Matured during the Year				
.....Rupees									
17-Aug-17		3 Months	-	100,000,000	100,000,000	-	-	-	
26-Apr-18		3 Months	-	100,000,000	100,000,000	-	-	-	
26-Apr-18		3 Months	-	100,000,000	100,000,000	-	-	-	
26-Apr-18	5.3.1	3 Months	-	100,000,000	-	100,000,000	99,674,100	30%	
Total as at 30 June 2018			-	400,000,000	300,000,000	100,000,000	99,674,100		

Issue Date	Tenor	Face Value			As at 30 June 2017	Market Value As at 30 June 2017	Market Value as a Percentage of Net Assets	Market Value as a Percentage Total Investments
		As at 1 July 2016	Purchased during the Year	Sold/Matured during the Year				
.....Rupees								
13-Apr-17	3 months	-	200,000,000	200,000,000	-	-	-	-
Total as at 30 June 2017			-	200,000,000	200,000,000	-	-	-

5.3.1 This represents T-Bill purchased for a total amount of Rupees 98.582 million through a commercial bank and is due to mature by 19 July 2018.

5.4 Loans and Receivables

Description	Type	Note	Balance as at 30 June 2018				Carrying Value as at 30 June 2018	Percentage of Net Assets	Percentage of Total Investment
			As at 1 July 2017	Purchased during the Year	Matured during the Year	As at 30 June 2018			
.....Rupees									
Orix Leasing Limited	COI		16,500,000	-	16,500,000	-	-	-	
			16,500,000	-	16,500,000	-	-	-	

Description	Balance as at 30 June 2017				Carrying Value as at 30 June 2017	Percentage of Net Assets	Percentage of Total Investment
	As at 1 July 2016	Purchased during the Period	Matured during the Period	As at 30 June 2017			
.....Rupees							
Orix Leasing Limited	-	33,000,000	16,500,000	16,500,000	16,500,000	6.66%	75.84%
First Habib Modaraba	-	16,500,000	16,500,000	-	-	-	-
	-	49,500,000	33,000,000	16,500,000	16,500,000		

5.5 Movement in Provision against Debt Securities

Note	30 June 2018		
	Listed Debt Securities	Unlisted Debt Securities	Total
.....Rupees			
Opening balance	133,097,303	28,320,361	161,417,664
Less: Reversal of provision			
- Written off against carrying amount on sale of investment	(20,000,000)	-	(20,000,000)
- Reversal against carrying value matured	(16,755,156)	-	(16,755,156)
	(36,755,156)	-	(36,755,156)
Closing Balance	96,342,147	28,320,361	124,662,508

5.6 Details of Non-Compliant Investment with the Investment Criteria as Specified by the Securities and Exchange Commission of Pakistan.

In accordance with Clause (v) of the investment criteria laid down for "income scheme" in Circular no. 7 of 2009 issued by SECP, the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at 30 June 2018, the Fund is non-compliant with the above mentioned requirement in respect of the following investments. The securities were in compliance of the Circular (i.e. investment grade) at the time of purchase and were subsequently downgraded to non investment grade by Mutual Fund Association of Pakistan (MUFAP) on default by respective issuer in repayment of coupon due on respective dates. The Fund holds 100% provision against such investment as enumerated below:

Type of Investment	Value before Provision	Provision Made	Value after Provision	Percentage of Net Asset	Percentage of Gross Asset
.....Rupees					
Dewan Cement Limited	96,342,147	96,342,147	-	-	-
New Allied Electronics Industries Limited	25,433,190	25,433,190	-	-	-
Eden Housing Limited	2,887,171	2,887,171	-	-	-
	124,662,508	124,662,508			



5.7 Unrealised Appreciation in Fair Value of Investments Classified as 'Available for Sale'	2018	2017
	Rupees	Rupees
Fair Value of Investments	61,668,184	5,257,250
Cost of Investment	(61,000,000)	(5,000,000)
	668,184	257,250
Net Unrealised Appreciation in the Fair Value of Investments at the Beginning of the Period	(257,250)	-
	410,934	257,250
6 INCOME AND PROFIT RECEIVABLE		
Saving Accounts	472,352	939,700
Term Finance and Sukuks Certificates	1,108,980	102,592
Certificate of Deposits	17,507	378,596
	1,598,839	1,420,888
7 PAYABLE TO 786 INVESTMENTS LIMITED - MANAGEMENT COMPANY		
On Account of:		
Remuneration Payable	7.1 523,496	824,893
Sindh Sales tax Payable	7.2 88,539	133,462
Accounting and Operations Charges	7.3 132,000	222,756
	744,035	1,181,111
7.1 Under NBFC Regulation 61, Management Company is entitled to receive a remuneration at the rate not exceeding 1.5% of the average annual net assets value of the Fund. Management Company has charged its remuneration at the rate of 1.5% per annum of the average annual net assets of the Fund. The fee is payable to Management Company on monthly basis in arrears.		
7.2 The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 13% (30 June 2017: 13%) on the remuneration of the Management Company through Sindh Sales Tax on Services Act, 2011.		
7.3 In accordance with the provisions of the NBFC Regulations as amended vide SRO 1160(1)/ 2015 dated 25 November 2015, the Management Company of the Fund is entitled to reimbursement of fees and expenses in relation to registrar services, accounting, operation and valuation services related to the Fund upto a maximum of 0.1% of the average annual net assets of the scheme or actual whichever is less. However, in order to keep Total Expense Ratio (TER) within prescribed limit of 2% as disclosed in note 16, the Management Company has charged accounting and operation charges to the extent of Rupees 132,000.		
8 PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE		
Trustee Remuneration Payable	8.1 49,573	60,135
Sindh Sales Tax Payable on Trustee Remuneration	8.2 6,442	6,603
	56,015	66,738
8.1 In accordance with the provision of the Trust Deed, the remuneration is paid to the Trustee on monthly basis in arrears.		
The following tariff structure relating to Trustee fee is applicable based on net assets of the Fund:		
Amount of funds under management (Average Net Assets Value)	Tariff per Annum	
Up to Rupees 1 billion	0.15% on the average daily net assets or Rupees 0.6 million whichever is higher	
Over Rupees 1 billion	0.09% on amount exceeding Rupees 1billion	
8.2 A notification (SRB-3-4/TP/01/2015/86554 dated June 13, 2015) was issued by Sindh Revenue Board (SRB), which introduced amendments in Sindh Sales Tax on Services Act, 2011. As a result of these amendments, the Fund recognised sales tax on trustee fee at the rate of 13% (30 June 2017: 13%).		



9 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

This represents annual fee payable to SECP in accordance with the regulation 62 of the NBFC Regulations whereby the Fund is required to pay SECP an amount equal to 0.075% of the average daily net assets.

10 ACCRUED EXPENSES AND OTHER LIABILITIES

		2018 Rupees	2017 Rupees
Federal Excise Duty on Remuneration	10.1	1,797,106	1,797,106
Provision for Sindh Workers' Welfare Fund	10.2	2,237,782	1,521,238
Accrued Expenses		659,473	561,801
Other Liabilities		695,103	557,425
Zakat Payable and Withholding Tax	10.3	125,884	3,779,700
		5,515,348	8,217,270

- 10.1** The Finance Act, 2013 enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) with effect from 13 June 2013. As the asset management services rendered by the Management Company of the Fund were already subject to provincial sales tax levied by Sindh Revenue Board, which is being charged to the Fund, the Management Company was of the view that further levy of FED was not justified. On 4 September 2013, a Constitutional Petition was filed in the Honourable Sindh High Court (SHC) jointly by various asset management companies, together with their representative Collective Investment Schemes through their trustees, challenging the levy of FED.

The SHC while disposing the Constitutional Petition relating to levy of FED on mutual funds has declared the said provisions to be ultra vires and as a result no FED is payable with effect from 1 July 2011 (i.e. the date on which Sindh Sales Tax on Services Act, 2011 came into force). In response to this, the Deputy Commissioner Inland Revenue has filed a Civil Petition for leave to appeal in the Supreme Court of Pakistan. Thereafter, during the pendency of the present civil petition, the Supreme Court has suspended the operation of the impugned judgement of the SHC. The matter is still pending adjudication. With effect from 1 July 2016, FED on services provided or rendered on non-banking financial institutions dealing in services which are subject to provincial sales tax has been withdrawn by the Finance Act, 2016.

In view of the above, the Fund has discontinued making further provision in respect of FED on remuneration of Management Company with effect from 1 July 2016. However, as a matter of abundant caution the provision made for FED for the period from 13 June 2013 till 30 June 2016 aggregating to Rupees 1.797 million (2017: Rupees 1.797 million) is being retained in the financial statements of the Fund as the matter is pending before the Supreme Court of Pakistan. Had the said provision of FED not been recorded in the financial statements of the Fund, the net assets value of the Fund as at 30 June 2018 would have been higher by Rupee 0.47 per unit (2017: Rupee 0.57 per unit).

- 10.2** In January 2016 the Sindh Revenue Board (SRB) had written to few mutual funds to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after 31 December 2013. MUFAP reviewed the issue and based on an opinion dated August 2016 decided that SWWF is not applicable on mutual funds as they are not financial institutions as required by SWWF Act, 2014. MUFAP wrote to SRB that mutual funds are not establishments and are pass through vehicles hence, they do not have any worker and no SWWF is payable by them. SRB responded back that as mutual funds are included in definition of financial institutions in the Financial Institutions (Recovery of Finance) Ordinance, 2001, therefore SWWF is applicable on mutual funds. MUFAP has taken up this matter before the Sindh Finance Ministry to exclude mutual funds from SWWF.

MUFAP has also taken a legal opinion that SWWF, if applicable, can only be applied from the date of enactment of SWWF Act, 2014, i.e. 21 May 2015. Accordingly, on 12 January 2017, MUFAP as an abundant caution, has decided to provide for SWWF with effect from 21 May 2015, while the efforts to exclude mutual funds from SWWF continue. The Management Company has recognised SWWF charge for the period from 21 May 2015 to 30 June 2018, amounting to Rupees 2.238 million (30 June 2017: Rupees 1.521 million). Had the SWWF not been provided, the NAV per unit of the Fund would have been higher by Rupee 0.59 (30 June 2017: Rupee 0.49).

- 10.3** This represents tax and zakat deducted at source from dividend payable and re-invested on units issued to the unitholders of the Fund following the distribution of income.

11 NUMBER OF UNITS IN ISSUE

	2018 Numbers	2017 Numbers
Total Outstanding as of July 01	3,138,834	2,052,882
Issued during the Year	3,255,583	2,711,299
Redemption during the Year	(2,604,025)	(1,625,347)
Total Outstanding as of June 30	3,790,392	3,138,834

12 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments as at 30 June 2018 (30 June 2017: Nil)



13 AUDITORS' REMUNERATION

	2018 Rupees	2017 Rupees
Annual Audit Fee	245,000	245,000
Half Yearly Review	90,000	90,000
Review of Code of Corporate Governance	-	50,000
Certification Fee	25,000	25,000
Out of Pocket Expenses	146,963	95,036
	506,963	505,036
Sales tax	40,557	34,800
	547,520	539,836

14 EARNINGS PER UNIT

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

15 TAXATION

15.1 The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Provided that for the purpose of determining distribution of at least 90 percent of accounting income, the income distributed through bonus units shall not be dividend. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulation, 2008, the Fund is required to distribute 90% of the net accounting income other than capital gains to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance 2001.

15.2 The Management Company has filed return of income of the Fund for the years ended 30 June 2013, 2014 and 2015 claiming exemption from taxation on income under clause 99 of Part 1 to the Second Schedule of the Income Tax Ordinance, 2001 (the Ordinance). The Additional Commissioner Inland Revenue (CIR) initially raised notices and then ordered to pay tax for the above referred years by making certain addition to income of the Fund and claiming that exemption under clause 99 is available to only those collective investment schemes, which distribute not less than 90% of its accounting income of that year amongst unit holders on year to year basis. The Management Company of the Fund filed an appeal to Commissioner Inland Revenue (Appeals) (CIR Appeals) claiming that the additions made to the income by the Commissioner were erroneous and the Fund has distributed more than 90% of its income for each of the three years after finalization of financial statements of the Fund after removal of suspension of the operations of the Fund.

The CIR Appeals decided the appeal in favour of Management Company and remanded back the case to CIR on the grounds that income tax officer has passed impugned orders in haste without objective appreciation of relevant provisions of law and drew adverse inference on irrelevant assertions and claim of exemption has nothing to do with timely or late filing of the return of income and directed CIR to re-examine the case after giving appellant opportunity of being heard.

On 2 March 2017, 30 May 2017 and 15 February 2017 amended tax orders under section 124(1) of the Income Tax Ordinance, 2001, for the tax years 2013, 2014 and 2015 respectively were issued by the Commissioner Inland Revenue raising Nil tax demand in respect of said years. However, the orders further stated that separate proceedings will be conducted for late filing of return and levying of penalty for respective tax years under Section 182 of the Income Tax Ordinance, 2001. No such proceedings have been initiated by the taxation authorities and hence, no provision has been recorded with respect to late filing of income tax returns for respective tax years by the Fund as the management will contest any such proceeding which will be initiated by the taxation authorities.

16 TOTAL EXPENSE RATIO

Securities and Exchange Commission of Pakistan (SECP) vide directive no. SCD/PRDD/Direction/18/2016 dated 20 July 2016 required that Collective Investment Scheme (CIS) to disclose Total Expense Ratio (TER) in the periodic financial statements of the Fund. TER of the Fund for the year ended 30 June 2018 is 3.68% which includes 1.69% representing government levy and SECP fee. The ratio is within the maximum limit of 2% prescribed under the NBFC Regulation 2008 for a collective investment scheme categorised as Income fund.

17 TRANSACTIONS WITH CONNECTED PERSONS/OTHER RELATED PARTIES

Related parties/connected persons of the Fund include 786 Investments Limited, being Management Company, other collective investment schemes managed by the Management Company, MCB Financial Services Limited, being the Trustee of the Fund, Directors and Officers of the Management Company, other associated undertakings and unit holders holding more than 10 % units in the Fund or any of their connected person.

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.

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

Details of transactions with related parties and balances with them at the year end are as follows:



	2018 Rupees	2017 Rupees
17.1 Details of the Transactions with Connected Persons/Related Parties are as Follows:		
786 Investments Limited - Management Company		
Remuneration (Including Indirect Taxes)	<u>5,366,087</u>	<u>2,929,278</u>
Accounting and Operation Charges	<u>132,000</u>	<u>222,930</u>
Issue of 86,590 Units (2017: 53,393 Units)	<u>7,500,000</u>	<u>4,120,060</u>
MCB Financial Services Limited - Trustee		
Remuneration (Including Indirect Taxes)	<u>678,000</u>	<u>678,000</u>
BRR Investment Limited - Connected Person Due to Holding more than 10%		
Issue of 245,001 Units (2017: 454,772 Units)	<u>21,000,000</u>	<u>36,906,202</u>
Redemption of 160,385 Units (2017: 38,135 Units)	<u>14,000,000</u>	<u>3,280,000</u>
First Dawood Investment Bank Limited - Employees Contributory Provident Fund - Connected Person Due to Holding more than 10%		
Issue of 160,383 Units (2017: 60,033 Units)	<u>14,000,000</u>	<u>4,633,210</u>
First Dawood Investment Bank Limited - Connected Person Due to Holding more than 10%		
Issue of 826,684 Units (2017: Nil Units)	<u>72,000,000</u>	<u>-</u>
Redemption of 826,684 Units (2017: Nil Units)	<u>72,988,578</u>	<u>-</u>
Florence Villiers - Connected Person Due to Holding more than 10%		
Issue of Nil Units (2017: 287,089 Units)	<u>-</u>	<u>24,608,137</u>
Redemption of 263,072 Units (2017: 38,135 Units)	<u>22,515,594</u>	<u>-</u>
Directors and Executives of the Management Company		
Issue of 84,377 Units (2017: 334,366 Units)	<u>7,295,000</u>	<u>27,484,506</u>
Redemption of 12,850 Units (2017: 12,339 Units)	<u>1,129,938</u>	<u>1,061,027</u>
Other Connected Persons/Related Parties		
Issue of 127,734 Units (2017: 555 Units)	<u>11,000,000</u>	<u>42,844</u>
17.2 Amounts Outstanding as at Period End are as Follows:		
786 Investments Limited - Management Company		
Remuneration Payable (Including indirect taxes)	<u>744,035</u>	<u>1,181,111</u>
Units Held 348,387 (June 2017: 260,994)	<u>30,765,592</u>	<u>20,599,305</u>



	2018 Rupees	2017 Rupees
MCB Financial Services Limited - Trustee		
Remuneration Payable (Including Indirect Taxes)	<u>56,015</u>	<u>66,738</u>
BRR Investment Limited - Connected Person Due to Holding more than 10%		
Units Held 501,249 Units (June 2017: 416,637)	<u>44,264,574</u>	<u>32,883,712</u>
First Dawood Investment Bank Limited - Employees Contributory Provident Fund - Connected Person Due to Holding more than 10%		
Units Held 387,701 (June 2017: 228,437)	<u>34,237,336</u>	<u>18,029,729</u>
Directors and Executives of the Management Company		
Units Held 625,872 (June 2017: 717,872)	<u>55,269,897</u>	<u>56,659,106</u>
Other Connected Persons/Related Parties		
Units Held 294,192 Units (June 2017: 2,371 Units)	<u>25,979,669</u>	<u>187,130</u>

18 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as market risk (currency risk, other price risk, interest rate risk), credit risk and liquidity risk.

The Fund primarily invests in fixed income securities, government securities and money market instruments so as to increase overall return of the investor.

The Fund's activities expose it to a variety of financial risks which are:

18.1 Market Risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market prices, such as interest rates, equity prices and foreign exchange rates. The objective of market risk management is to manage market risk exposure within acceptable parameters, while optimising the return.

The Management Company manages market risk by monitoring exposure on marketable securities by following the restrictions specified in applicable regulations and directives, if any issued by the Securities and Exchange Commission of Pakistan (SECP).

Market risk comprises of three types of risk: currency risk, other price risk and interest rate risk.

(i) Currency Risk

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, at present, is not exposed to currency risk as all transactions are carried out in Pak Rupees. Moreover, no transactions were carried out in any foreign currency during the year.

Sensitivity analysis of functional currency at reporting date is not required due to nil foreign currency nominated financial assets and liabilities at the reporting date.

(ii) Other Price Risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. As at 30 June 2018, the Fund does not hold investment exposed to other price risk, accordingly there will be no impact on the net assets of the Fund. Further, the Fund is expecting minimal price fluctuation on its investment in debt securities (i.e. government securities) for change in factors other than those arising from interest rate on currency risk.



(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds fixed as well as floating rate debt securities that exposes the Fund to cash flow and fair value interest rate risk due to fluctuation in prevailing levels of market interest rate.

As at 30 June 2018, the investment in debt securities exposed to interest rate risk is detailed in note 5.2 to these financial statements.

Sensitivity Analysis

Cash Flow Interest Rate Risk

The Fund's interest rate risk arises from the balance in saving accounts and investment in debt securities. At 30 June 2018, if there had been increase/decrease of 100 basis points in interest rates, with all other variables held constant, net assets of the Fund for the year then ended would have been higher/lower by Rupees 2.403 million (30 June 2017: Rupees 2.334 million) mainly as a result of finance income.

The composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2018 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

Fair Value Interest Rate Risk

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

Yield/interest rate sensitivity position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet financial instruments is based on the settlement date.

	30 June 2018					Total
	Effective Yield/Interest Rate	Exposed to Yield/Interest Rate Risk			Not Exposed to Yield/Interest Rate Risk	
		Upto Three Months	More than Three Months and Upto One Year	More than One Year		
.....Rupees.....						
On-Balance Sheet Financial Instruments						
Financial Assets						
Bank Balances	2.61% to 7%	178,611,620	-	-	-	178,611,620
Investment-'at Fair Value through - Held for Trading	Kibor+3%,6 month	99,674,100	-	-	-	99,674,100
- Available for Sale'	Kibor+0.5% and 3	30,019,380	26,486,304	5,162,500	-	61,668,184
Income and Profit Receivable	months Kibor +1%	-	-	-	1,598,839	1,598,839
Deposits		-	-	-	100,000	100,000
		308,305,100	26,486,304	5,162,500	1,698,839	341,652,743
Financial Liabilities						
Payable to 786 Investments Ltd.- Management Company		-	-	-	744,035	744,035
Payable to Central Depository Company of Pakistan Limited (CDC)-Trustee		-	-	-	56,015	56,015
Accrued Expenses and Other Liabilities		-	-	-	1,354,576	1,354,576
Unclaimed Dividend		-	-	-	369,962	369,962
		-	-	-	2,524,588	2,524,588
On-Balance Sheet Gap		308,305,100	26,486,304	5,162,500	(825,749)	339,128,155
Off-Balance Sheet Financial Instruments						
Off-Balance Sheet Gap		-	-	-	-	-
Total Interest Rate Sensitivity Gap		308,305,100	26,486,304	5,162,500		
Cumulative Interest Rate Sensitivity Gap		308,305,100	334,791,404	339,953,904		



30 June 2017

Effective Yield/Interest Rate	Exposed to Yield/Interest Rate Risk			Not Exposed to Yield/Interest Rate Risk	Total
	upto Three Months	More than Three Months and Upto One Year	More than One Year		
.....Rupees.....					
On-Balance Sheet Financial Instruments					
Financial Assets					
Bank Balances	3.5% to 6%	228,144,962	-	-	228,144,962
Investment-At Fair Value Through	Kibor+3%	-	-	-	-
- Available for Sale		-	5,257,250	-	5,257,250
- Loan and Receivables	6.25%	16,500,000	-	-	16,500,000
Income and Profit Receivable		-	-	1,420,888	1,420,888
Deposits		-	-	100,000	100,000
		244,644,962	-	5,257,250	251,423,100
Financial Liabilities					
Payable to 786 Investments Ltd.- Management Company		-	-	1,181,111	1,181,111
Payable to Central Depository Company of Pakistan Limited (CDC)-Trustee		-	-	66,738	66,738
Accrued Expenses and Other Liabilities		-	-	1,119,226	1,119,226
Dividend Payable		-	-	640,351	640,351
Unclaimed Dividend		-	-	312,967	312,967
		-	-	3,320,393	3,320,393
On-Balance Sheet Gap		244,644,962	-	5,257,250	248,102,707
Off-Balance Sheet Financial Instruments					
Off-Balance Sheet Gap		-	-	-	-
Total Interest Rate Sensitivity Gap		244,644,962	-	5,257,250	
Cumulative Interest Rate Sensitivity Gap		244,644,962	244,644,962	249,902,212	

18.2 Credit Risk

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

Credit risk arises from deposits with banks and financial institutions, credit exposure arising as a result of investment debt securities, profit receivables on debt securities, profit receivable on saving account.

The maximum exposure to credit risk as at 30 June 2018 along with comparative is tabulated below

Financial Assets	2018	2017
	Rupees	Rupees
Bank Balances	178,611,620	228,144,962
Investments	161,342,284	21,757,250
Profit Accrued and Other Receivable	1,598,839	1,420,888
Deposits	100,000	100,000
	341,652,743	251,423,100

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

Due to the Fund's long standing business relationships with these counterparties and after giving due consideration on their strong financial standing, the fund does not expect non-performance by these counter parties on their obligations to the fund except for note 5.6

Credit Rating wise analysis of balance with bank of the Fund are tabulated below:

Banks	Short Term	Rating		2018	2017
		Long Term	Agency	Rupees	Rupees
Bank Alfalah Limited	A1+	AA+	PACRA	5,016	6,873
Js Bank Limited	A1+	AA-	PACRA	102,281,616	228,137,970
Albarka Bank Pakistan Limited	A1	A	PACRA	10,800	119
Bank Islami Pakistan Limited	A1+	AA+	PACRA	46,314,188	-
				148,611,620	228,144,962



Credit Rating wise analysis of investment in debt securities of the Fund are tabulated below:

	Grade	Rating Agency	2018 Rupees	2017 Rupees
TPL Corporation Limited	A+	PACRA	5,162,500	5,257,250
Dubai Islamic Bank	A+	JCR-VIS	26,486,304	-
Dawood Hercules Corporation Limited	AA	PACRA	30,019,380	-
			61,668,184	5,257,250

Fund has made investment in SUKUK and TFCs certificates of TPL Trakker Limited Dubai Islamic and Dawood Hercules having good credit standing. Currently the instruments are rated A+, A+ and AA hence, Management does not anticipate impairment there against. The Fund had also invested in certain instruments which are subsequently classified as non-performing by MUFAP as disclosed in Note 5.1 and 5.2 to these financial statements. The Fund holds 100% provision against its exposure as more detailed in that note.

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating. Where the investment is considered doubtful/becomes non-performing as per the criteria specified in applicable Circular for non performing exposure issued by SECP, a provision is recognized as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. The management does not take into account the collateral value while considering investment for impairment testing. Hence the collateral held is assumed to have zero financial effect in mitigating credit risk. The management regards the credit worthiness of the borrower more important than the value of collateral and would be used as force majeure in extremely difficult situation where recovery appears to be unlikely from customary measures like restructuring or negotiation.

There are certain deposits which are placed with Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transactions and settlement of listed securities. It is expected that all securities deposited with CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties.

The Fund receives a monthly rating update, against which investments are reviewed. The Fund, however, also invests in unrated instruments based on internal ratings assigned by the Fund manager using an approach that is consistent with the approach used by the rating agencies. Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties. For debt instrument settlement, Delivery versus Payment (DvP) mechanism applied by Trustee of the Fund minimize the credit risk. In accordance with the risk management policy of the Fund, the investment manager monitors the credit position on a daily basis which is reviewed by the Board of Directors of the Management Company on a quarterly basis.

Concentration of Credit Risk

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

None of the financial assets and financial liabilities are offset in the Statement of Assets and Liabilities except where the settlement is done through central clearing system.

Settlement Risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions in securities is considered to be minimal due to the short settlement period and also the Fund uses brokers with high creditworthiness. Further, the transactions in equity securities are settled or paid for only upon delivery using central clearing system of National Clearing Company of Pakistan Limited.

Past Due and Impaired Assets

Detail is provided in notes 5.6 in these financial statements.

18.3 Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Fund. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by SECP. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represents the continuous obligation of the Fund for redemption by its holders.

In accordance with the risk management policy of the Fund, the Fund manager monitors the liquidity position on a daily basis, which is reviewed by the Board Directors of the Management Company on a quarterly basis.



Management of Liquidity Risk

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

In accordance with regulation 58(1)(k) of the NBFC Regulation 2008, the Fund has the ability to borrow funds for meeting the redemption requests, with the approval of the Trustee, for a period not exceeding three months to the extend of fifteen per cent of the net assets which amount to Rupees 50.509 million as on 30 June 2018 (30 June 2017: Rupees 37.161 million). However, no such borrowing has been obtained during the year.

Further, the Fund is also allowed, in accordance with regulation 57(10) of the NBFC Regulations, 2008, to defer redemption request to next dealing day, had such requests exceeded ten percent of the total number of units in issue. However, no such defer redemption request has been exercised by the Fund during the year.

The table below analyses the Fund's financial liabilities other than redemption of units obligation into relevant maturity groupings based on the remaining period at the year end to the contractual maturity date.

30 June 2018			
Up to Three Months	More than Three Months and Up to One Year	More than One Year	Total
----- (Rupees) -----			
Payable to Management Company	744,035	-	744,035
Payable to Trustee	56,015	-	56,015
Accrued Expenses and Other Liabilities	1,354,576	-	1,354,576
Unclaimed Dividend	369,962	-	369,962
Total Liabilities	2,524,588	-	2,524,588

30 June 2017			
Up to Three Months	More than three months and up to one year	More than one year	Total
----- (Rupees) -----			
Payable to Management Company	1,181,111	-	1,181,111
Payable to Trustee	66,738	-	66,738
Accrued Expenses and Other Liabilities	1,119,226	-	1,119,226
Dividend Payable	640,351	-	640,351
Unclaimed Dividend	312,967	-	312,967
Total Liabilities	3,320,393	-	3,320,393

The table above shows the undiscounted cash flows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity or settlement.

18.4 Unit Holders' Fund Risk Management

The unitholders' fund is represented by redeemable units. These units are entitled to distribution and payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown in the Statement of Movement in Unitholders' Fund.

The Fund has no restrictions on the subscription and redemption of units.

The Fund's objective when managing unitholders fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unitholders and to maintain a strong base of assets under management.

The Fund meets the requirement of sub-regulation 54(3a) of NBFC Regulation 2008, which requires that the minimum size of an open End Scheme shall be one hundred million rupees at all time during the life of the scheme.

In accordance with the risk management policies as disclosed in these financial statements, the Fund endeavours to invest the subscriptions received in appropriate investments with maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.



The Fund routinely redeems and issues the redeemable units at the amount equal to the proportionate share of net assets of the Fund at the time of issuance and redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying amount of net assets attributable to holders of redeemable units approximates their fair value.

Reconciliation of Recurring Fair Value Measurements Categorized Within Level 2 of the Fair Value Hierarchy

	2018 Rupees	2017 Rupees
Unlisted Term Finance and Sukuks Certificates		
Opening Balance	5,257,250	5,000,000
Purchased during the Year	56,000,000	-
Net Unrealised Appreciation Recognised in Other		
Comprehensive Income During the Year	410,934	257,250
	61,668,184	5,257,250

20 SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers, attendance at the meetings of the Board of Directors of the Management Company and members of the Investment Committee are as follows:

20.1 Pattern of Unit Holding

	As at 30 June 2018			As at 30 June 2017		
	Number of Unit Holders	Investment Amount Rupees	Percentage Investment	Number of Unit Holders	Investment Amount Rupees	Percentage Investment
Individuals	223	125,831,284	38%	209	103,076,009	42%
Associated Companies, Undertakings and Related Parties	4	109,267,501	33%	9	84,650,660	34%
Insurance Companies	1	2,624,639	1%	1	2,345,795	1%
Directors	3	54,464,747	16%	3	43,708,321	18%
Others	14	42,536,125	13%	14	13,956,542	6%
	245	334,724,296	100%	236	247,737,327	100%

20.2 During the year, the Fund has paid brokerage of Rupees 8,498 to JS Global Capital Limited (30 June 2016: Rupees 4,257).

20.3 Attendance at Meetings of Board of Directors

During the year, four board meetings were held on 18 September 2017, 30 October 2017, 22 February 2018 and 16 April 2018.

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	18 September 2017	30 October 2017	22 February 2018	16 April 2018
Ms. Shafqat Sultana	Present	Present	Present	Present
Ms. Tara Uzra Dawood	Present	Present	Present	Present
Ms. Charmaine Hidayatullah *	Present	Present	Absent	Present
Mr. Mohammed Izqar Khan *	Absent	Absent	Absent	Absent
Mr. Ansar Hussain*	Absent	Resign	Resign	Resign
Mr. Tahir Mehmood	Present	Present	Present	Present
Mr. Syed Farhan Abbas	Present	Present	Present	Present

* Leave of absence has been granted to absentees of meetings held during the year.

20.4 Particulars of Investment Committee and Fund Manager

Details of members of the Investment Committee of the Fund are as follows:

Name of Member	Designation	Qualification	Experience
Ms. Tara Uzra Dawood	Chief Executive Officer	Doctorate of Juridical Science	14 years
Mr. Tauqir Shamsad*	Chief Operating Officer/Fund Manager	M COM & MBA	25 years
Mr. Talal Ismail Pasha**	Chief Financial Officer & Company Secretary	ACMA, MBA	14 years
Mr. Muhammad Abbas	AVP Finance	MBA Finance	18 years
Mr. Shaheryar Ali ***	Risk Officer	BS Actuarial Science	1 year



* Mr. Tauqir Shamshad was appointed as Chief Operating Officer & Fund Manager on 8 December 2017. He is also a Fund Manager of First Dawood Mutual Fund and Dawood Islamic Fund.

** Mr. Talal Ismail Pasha was appointed as Chief Financial Officer & Company Secretary on 22 January 2018, after resignation of last Chief Financial Officer on 03 November 2017.

*** Mr. Shaheryar Ali was appointed as Risk Officer on 01 March 2018.

20.5 NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on 4 July 2018 has approved a final distribution of Rupees 8.5273 per unit for the year ended 30 June 2018. The aggregate cash distribution is Rupees 23,064,607 in addition to refund of capital/element of income by issuing 115,965.94 additional units at zero price. The financial statements of the Fund for the year ended 30 June 2018 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending 30 June 2019.

21 DATE OF AUTHORISATION FOR ISSUE

These financial statements have been approved and authorized for the issue in the meeting by the Board of Directors of the Management Company held on _____.

22 GENERAL

22.1 No significant reclassification or re-arrangement of the corresponding figures has been made in these financial statements except for the following;

The Fund reclassified provision For Federal Excise Duty on management fee included in ' Payable to 786 Investments Limited" to accrued expenses and other liabilities. Further unclaimed dividend has been shown on the face of the statement of assets and liabilities, previously this was part of dividend payable. These have also been made in the prior year's statement of assets and liabilities for better presentation and disclosure. Details are as follows:

	30 June 2017		
	As Previously Reported	Impact	As Stated
Rupees.....		
Effects on Statement of Assets and Liabilities			
Liabilities			
Payable to 786 Investments Limited - Management Company	<u>2,978,217</u>	<u>(1,797,106)</u>	<u>1,181,111</u>
Accrued Expenses and Other Liabilities	<u>6,420,164</u>	<u>1,797,106</u>	<u>8,217,270</u>
Dividend Payable	<u>953,318</u>	<u>(312,967)</u>	<u>640,351</u>
Unclaimed Dividend	<u>-</u>	<u>312,967</u>	<u>369,962</u>

There are no effects in the Income Statement and Statement of Comprehensive Income and Cash Flow Statement for the aforementioned reclassification.

22.2 Figures have been rounded off to the nearest Rupee, unless otherwise stated.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



PERFORMANCE TABLE / KEY FINANCIAL DATA

	Year					
	2018	2017	2016	2015	2014	2013
Net assets (Rs in million)	334.72	247.74	155.98	428.17	402.38	378.95
Net Asset Value per units (Rs.)	88.31	78.93	75.98	82.29	77.33	72.83
Offer price per unit	89.19	79.72	76.74	83.11	78.10	73.55
Redemption price per unit	88.31	78.93	75.98	82.29	77.33	72.83
Number of units	3,790,392	3,138,834	2,052,882	5,203,406	5,203,406	5,203,406
Net Profit / (loss) for the year (Rs in million)	35.11	35.00	38.20	27.50	22.77	3.70
<i>Income Distribution (Rs in million)</i>						
Final	-	26.87	31.97	24.77	20.50	3.33
Interim	-	-	-	-	-	-
<i>Average annual return (%)</i>						
	11.89%	16.32%	32.68%	6.41%	6.18%	1.43%



PROXY ISSUED BY THE FUND

The proxy voting policy of Fund, duly approved by Board of Directors of the Management Company, is available on the website of 786 Investments Limited i.e. <http://www.786investments.com> A detailed information regarding actual proxies voted by the Management Company in respect of the fund is also available without charge, upon request, to all unit holders.

The details of summarized proxies voted are as follows:

Resolutions	For	Against	Abstain
Number (%ages)	NIL	NIL	NIL

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



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