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CORPORATE INFORMATION

Investment Advisor	Dawood Capital Management Limited 1500-A Saima Trade Towers, I. I. Chundrigar Road Karachi 74000		
UAN	:	111-DAWOOD (111-329-663)	
PABX	:	(92-21) 3227-1874-88	
Fax	:	(92-21) 3227-1912	
E-Mail	:	dcm@firstdawood.com	
Website	:	www.firstdawood.com/dcm	
Board of Directors	Mr. Feroze Sayeed-Ud-Deane Miss Tara Uzra Dawood Mr. Masood A.S. Wahedna Mr. Nazimuddin Feroz AVM (Retd.) Zulfiquar Ahmed Shah Syed Shabhat Hussain Mr. Gul Nawaz	Chairman Chief Executive Officer Director Director Director Director Director	(Nominee of BRRGM) (Nominee of BoK) (Nominee of BRRGM) (Nominee of FDIB) (Nominee of NIT)
Chief Financial Officer	Mr. Muhammad Saleem Munshi		
Company Secretary	Mr. Tahir Mehmood		
Audit Committee	AVM (Retd.) Zulfiquar Ahmed Shah Mr. Masood A.S. Wahedna Mr. Gul Nawaz	Chairman Member Member	
Auditor	BDO Ebrahim & Co. Chartered Accountants		
Tax Advisors	Mazher Associates Block A1-E-3, Faiza Avenue, 11C-1 North Karachi.		
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, 6-cl-10 Beaumont Road, Karachi.		
Bankers	Dawood Islamic Bank Limited Habib Metropolitan Bank Limited Silkbank Limited		
Registrar	F. D. Registrar Services (SMC Pvt.) Ltd. 1700-A Saima Trade Towers I. I. Chundrigar Road Karachi 74000		
Rating	PACRA: 2-Star		
AMC Rating	PACRA: AM4+		



Vision Statement

To be a leading, progressive and profitable mutual fund with a diverse, high yield, low risk portfolio.



Mission Statement

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



REPORT OF THE DIRECTORS' OF THE INVESTMENT ADVISOR

The Board of Directors of **Dawood Capital Management Ltd.** ("DCM" or the "Company") the Management Company of **First Dawood Mutual Fund** ("FD MF"/"the Fund"), are pleased to present the Sixth Annual Report of the Fund along with the Audited Financial Statements, and Auditors' Report to the certificate holders for the year ended June 30, 2010.

This Report presents the financial, operating performance and progressive dynamic outlook of the fund under the challenging business enjoyment.

Fund Performance

As at June 30, 2010, net assets were Rs. 484.68 million as compared to Rs. 520.98 million as at June 30, 2009. Total operating income for the year was Rs. 57.22 million as opposed to loss of Rs. 76.82 million for the same period last year. Unrealized loss on revaluation of investments reduced to Rs. 74.38 million from 122.10 million last year. Total expenses were 19.15 million as compared to Rs. 20.95 million last year.

The net loss for the financial year 2009-10 was Rs. 36.31 million as compared to Rs. 219.87 million, showed a positive trend of 83.49% from the same period last year. The loss is mainly derived from Equity and debt Prices decline. During the year the fund incurred capital gain of Rs.10.14 million, while unrealized loss on revaluation of investments was Rs. 74.37 million. Major component of unrealized loss was non-performing of debt securities of Rs. 46.60 million.

The Net Asset Value was Rs. 8.35 as at June 30, 2010.

Loss per Certificate

As at June 30, 2010, Loss Per Certificate was Rs. 0.63 as compared to Rs. 3.79 as at June 30, 2009.

Investing Activities/Strategy

The investment strategy devised for the Fund seeks to provide investors with balanced exposure to equity securities, debt securities and short-term placements. The Fund's strategy aims to not only preserve investors' capital but also to maximize the value of their investments while providing a stable stream of income.

The portfolio management team selects investments using various analytical disciplines such as top-down fundamental research and quantitative screens in the light of the country's macro indicators. In particular, the team seeks to include in its portfolios fundamentally strong sectors and companies, while dynamically rebalancing portfolios to benefit from predicted macro trends. Investments are diversified across a mix of sectors and investors are offered an optimized risk/return profile.

Credit Rating

The Pakistan Credit Rating Agency Limited (PACRA) assigned a "Two Star" rating to your Fund.



Economic & Market Outlook

During the period under review the economy of Pakistan has stabilized. The Pakistan rupee parity and interest rates have been range bound. GDP has recorded a growth of 4.1%. Current account deficit has reduced. Export and remittances have recorded good growth and imports have decline. However, energy shortage has been the biggest negative issue and is likely to affect future growth in GDP and other economic indicators. The government has not been able to resolve the issue of circular debt among the energy sector companies. Despite these constrains profitability in various sectors of the economy has improve. Agricultural, Energy, Textile, Spinning, Sugar, Fertilizers, Automobile and retail have been the good performers.

During the Year under review, the stock market has recorded an appreciation of 35.74%. KSE 100 index closed at 9,722 at end of the period under review with low of 7,162 points and high of 10,677 points. The KSE market capitalization increased to Rs. 2,728 billion from Rs. 2,125 billion at the beginning of the year.

The cut in the interest rate was observed once in November 2009 by 50bps to 12.5%. This act of central bank was in the consequence of declining CPI in the country thus resulted in overall decline in the interest rates till march 2010. In the following months due to the inflationary pressure and rising twin deficit central bank again raised the interest rate to 50bps in its July 2010 monetary policy.

Stock Market Review

Stock Markets during the FY10 showed a considerable recovery and KSE-100 Index posted a healthy return of 35.74% as compared to the decline of 41.72% last year. Investor's confidence has improved particularly due to the foreign investors who were attracted by cheap valuation in the market.

Foreign portfolio investment increased to US\$ 569 million in FY10. Foreign participation was mainly determined by attractive and cheap valuation of the market as compared to the regional markets. On the other side mainly due skewed towards index heavy weight. OGDC the largest oil and gas Exploration Company and MCB largest private sector bank contributed 52% of the index gain (OGDC 45% & MCB 7.0%).

Debt Market Review

Debt market remained under pressure throughout the FY10. Downgrading and downward valuation of major debt scripts at MUFAP coupled with defaults of major investee companies led towards negative market sentiments. Also the pressure selling of debt scripts by mutual funds to meet liquidity requirements joined the party. These issues hampered the secondary market led towards the shaky investors' confidence on the mutual fund industry.

New Developments

Bond Automated Trading system (BATS) was introduced and trading was started at KSE BATS from November 2009, major participant are still of the opinion that still strong regulatory framework is required for the success of this system.



Compliance with the Best Practices of the Code of Corporate Governance

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

- The Financial statements of the Fund, prepared by the management company of the fund present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- The Management Company has maintained proper books of accounts of the Fund.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, Provision of Non-Banking Finance Companies (Establishments & Regulations Rules requirements of Trust Deed and Directives of the Securities and Exchange Commission of Pakistan, have been followed in preparation of the financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as an on-going concern.
- 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.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.
- There are no statutory payment on account of taxes, duties, levies and charges outstanding.
- There has been no departure from the best practices of transfer pricing.

Trading in certificates of the fund

During the year, no trading in the certificate of the fund was carried out by the Directors, CEO, CFO, Company Secretary and their spouses of minor children.

Changes in Directors

During the year election of directors has been conducted in Extraordinary General Meeting dated March 22, 2010 and reappointment of CEO has been made with no variations in terms and conditions.

Currently, the Company has Seven Directors on its Board.

Board of Directors Meetings

During the year 2009-10 five (5) meetings of the Board of Directors of the management company were held, the requisite details are as under:



S. No	Name	Designation	Entitlement to Attend Meeting	Leave of Absences
1.	Mr. Feroze Sayeed-ud-Deane	Chairman	5	1
2.	Ms. Tara Uzra Dawood	Chief Executive	5	2
3.	Mr. AVM (Retd.) Zulfiqar Shah	Director	5	-
4.	Mr. Iftikhar Hussain	Director	5	1
5.	Syed Shabahat Hussain	Director	2	-
6.	Mr. Nazimuddin Feroz	Director	5	3

Audit Committee

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

Mr. AVM (Retd.) Zulfiqar Ahmed Shah	Chairman
Mr. Gul Nawaz	Member
Mr. Masood A. Wahedna	Member

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

Auditors

The present auditor, M/s BDO Ebrahim & Co., Chartered Accountant are due for retirement and being eligible, offer themselves for re-appointment. As required under the Code of Corporate Governance the Audit Committee of Management Company has recommended the appointment of M/s BDO Ebrahim & Co., Chartered Accountant as auditors for the year ending June 30, 2011.

Events Occurring After the Balance Sheet Date

As per the directive of SECP dated July 7, 2010 and in the light of Legal Opinion the Management of DCM has decided to incorporate the reversal of impairment and suspense income aggregating Rs. 18.89 Million of Kohat Cement Company Limited w.e.f. 28th June, 2010 the date when MUFAP reclassified Kohat Cement Company Limited as Performing. This resulted reduction of loss from Rs. 55.20 Million to Rs. 36.31 Million for the year ended June 30, 2010.

Due to the above treatment the NAV of 28th June, 2010 and onward will be revised accordingly.

Risk Management

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



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

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

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

- Board's Audit Committee
- Investment Committee

Statement of Ethics and Business Practices.

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

Information Technology

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

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

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

The Fund is also constantly upgrading its website www.firstdawood.com/dcm, which provides corporate product information.

Pattern of Certificate Holders as on June 30, 2010

The pattern of certificate holders as on June 30, 2010 along with disclosure as required under the Code of Corporate Governance is annexed.



Key Financial Highlights

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

Acknowledgement

The Directors wish to express their gratitude to the Securities & Exchange Commission of Pakistan and other regulatory bodies for their valuable support, assistance and guidance during these times of recovery. The Board also thanks the employees of the Asset Management Company and CDC for their dedication and hard work and the unit holders for their confidence in the Management.

For and on behalf of the Board,

Karachi

Date: October 04, 2010

Feroze Sayeed-ud-Deane
Chairman



REPORT OF THE FUND MANAGER FOR THE YEAR ENDED 30 JUNE 2010

Fund Objective

First Dawood Mutual Fund's (FDMF) objective is to provide investors the opportunity to earn income and long term capital growth through balanced investments in equity, fixed income and money markets.

The funds has invested in long tem equities for profit maximization and for risk minimization, a portion is invested in bank deposits, short term money market instruments.

Fund Performance

As at June 30, 2010, net assets were Rs. 484.68 million as compared to Rs. 520.98 million as at June 30, 2009. Total operating income for the year was Rs. 57.22 million as opposed to loss of Rs. 76.82 million for the same period last year. Unrealized loss on revaluation of investments reduced to Rs. 74.38 million from 122.10 million last year. Total expenses were 19.15 million as compared to Rs. 20.95 million last year.

The net loss for the financial year 2009-10 was Rs. 36.31 million as compared to Rs. 219.87 million, showed a positive trend of 83.49% from the same period last year. The loss is mainly derived from Equity and debt Prices decline. During the year the fund incurred capital gain of Rs.10.14 million, while unrealized loss on revaluation of investments was Rs. 74.37 million. Major component of unrealized loss was non-performing of debt securities of Rs. 46.60 million. The Net Asset Value was Rs. 8.35 as at June 30, 2010.

At the close of FY2010 FDMF posted a negative return of 6.91% as opposed to 24.07% increase in its hybrid benchmark (50% KSE-100 Index and 50% Average 6 Months KIBOR). The major reasons of this underperformance are downward revaluation of debt securities, provisions on defaulted scripts and illiquid capital markets.

FDMF is a balanced fund which has a balanced exposure of equity and debt in capital markets. Fund shown a tremendous growth in the first quarter of the FY10 but remained under pressure afterwards due to stock market slow down, debt market crisis, monetary policy uncertainty and NRO issues.

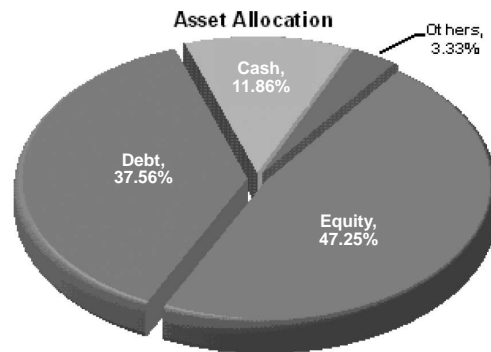
On the debt side, due to illiquid market conditions and inability of the debt issuers, fund took provisions on non-performing scripts during Jan-Mar 2010. However, at the close of the year, one of the defaulted scripts, Kohat Cement Company Limited Sukuk, paid its due obligation and qualified as a performing script. FDMF reversed the provision on KCCL Sukuk which resulted in the increase in Net Assets at the closing of the fiscal year with reduced losses.

Investing Activities/Strategy

The investment strategy devised for the Fund seeks to provide investors with balanced exposure to equity securities, debt securities and short-term placements. The Fund's strategy aims to not only preserve investors' capital but also to maximize the value of their investments while providing a stable stream of income.

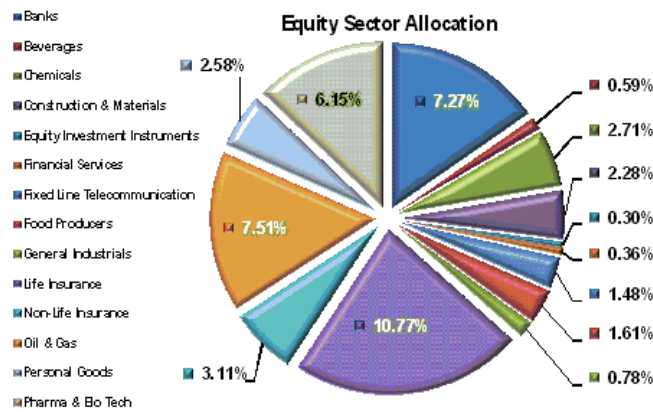
The portfolio management team selects investments using various analytical disciplines such as top-down fundamental research and quantitative screens in the light of country's macro indicators. In particular, the team seeks to include in its portfolios fundamentally strong sectors and companies, while dynamically rebalancing portfolios to benefit from predicted macro trends. Investments are diversified across a mix of sectors and investors are offered an optimized risk/ return profile.

Break-up of total assets of the Fund as at June 30, 2010 is follows:

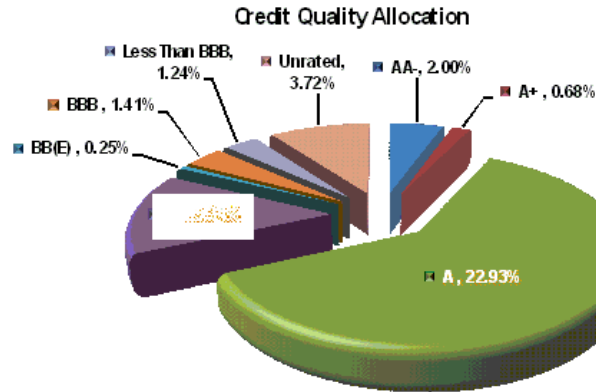


Sector wise distribution of the Fund

On June 30, 2010, the Fund has made equity investments of Rs. 230.26 million mostly in strong dividend payout and blue chip scripts representing 47.51% of the total assets. Major emphasis in building the portfolio was to accumulate those scripts which are under-priced and have huge growth potentials. Major sector-wise weightages of the portfolio are:



The Fund has debt investments of Rs. 183.07 million which is 37.56% of the total assets. Due to illiquid market conditions and defaults of the issuers, Fund took provisions on the non performing scripts which decreased its net assets. Coupled with the non-availability of the active secondary markets for the scripts, fund maintained the holdings in these scripts with a view of recovering in long run.



Major Strategies and Policies Employed During the Year 2009-10

On the basis of our objectives of long term value investing, the Fund mostly adopted criteria to take new exposures in sectors/stocks that offered positive fundamentals and technical signals and reduced exposure from those sectors/stocks where fundamentals and technical became negative. Sector wise details of major strategies and policies employed are as under:

- * *Oil & Gas:* Exposure in the OGDC, POL and PPL were completely offloaded as OGDC become overvalued. Fund also realized the profit in POL and PPL. Within this sector, OGDC (25% weight of sector in the KSE-100) was the star performer rising 80.18%. Exposure in Shell and NRL were further enhanced.
- * *Chemicals:* Exposure in Engro and FFC were reduced realizing profits and adding ICI to the portfolio.
- * *Food Producers:* Average sector exposure was 4.69% comprising mainly Nestle. Stock price increased over 25% in April 2010 led to increased exposure. The Fund realized capital gains of Rs. 4.5 million in Nestle during the fourth quarter, resulted in reduction of exposure of Nestle to 0.50% at the close of the year. As at June 30, 2010, overall sector exposure remained at 1.61%.

Economic & Market Outlook

During the period under review the economy of Pakistan has stabilized. The Pakistan rupee parity and interest rates have been range bound. GDP has recorded a growth of 4.1%. Current account deficit has reduced. Export and remittances have recorded good growth and imports have declined. However, Water and Power shortages have been the biggest negative issues and are likely to affect our future growth in GDP and other economic indicators. The government has not been able to resolve the issue of circular debt among the energy sector companies. Despite these constraints profitability in various sectors of the economy has improved. Agricultural, Energy, Textile, Spinning, Sugar, Fertilizers, Automobile and retail have been the good performers.

During the Year under review, the stock market has recorded an appreciation of 35.74%. KSE 100 index closed at 9,722 at end of the period under review with low of 7,162 points and high of 10,677 points. The KSE market capitalization increased to Rs. 2,728 billion from Rs. 2,125 billion at the beginning of the year.



Stock Market Review

Stock Markets during the FY10 showed a considerable recovery and KSE-100 Index posted a healthy return of 35.74% as compared to the decline of 41.72% last year. Investor's confidence has improved as compared to FY09 because of stability in economic indicators. This was particularly due to the foreign investors who were attracted by cheap valuation in the market. The passing year had also witnessed few new subscriptions in chemical, textile and fertilizer sectors.

Foreign portfolio investment increased to US\$ 569 million in FY10. Foreign participation was mainly determined by attractive valuation of the market as compared to the regional markets. On the other side mainly due skewed towards index heavy weight. Out of the major sectors listed on KSE, Oil & Gas, chemical sector (particularly fertilizers stock) and auto stocks outperformed the market while cement, refineries and insurance sector were underperformed. OGDC the largest Oil and Gas Exploration Company and MCB largest private sector bank contributed 52% of the index gain (OGDC 45% & MCB 7.0%).

Average daily market volume during the year was 161 million shares (Rs. 6.97 billion) as compared to 105.6 million (Rs. 4.43billion) last year which showed an improvement of 52% on a YoY basis.

After the announcement of the Capital Gain Tax, investors took the cautious approach initially due to the lack of clarity in the modalities of CGT and volumes slowed down in the market. However, towards the end of the year, volumes improved in expectation of the introduction of leveraged product in the market.

Monetary Sector

The SBP took a cut in interest rate by 50bps to 12.50% in November 2009 after peaking in November 2008. SBP took this step in the consequence of declining CPI in the country thus resulted in overall decline in the interest rates till March 2010. Due to inflationary pressure in the following months coupled with rising twin deficits, SBP again raised the interest rate by 50bps in its July 2010 monetary policy.

In light of the increased government borrowings from SBP and increasing twin deficits, a further cut in the upcoming policies is not expected. T-Bill rates are expected to remain on the higher side with the government continuously relying on T-bills to meet its budget deficit.

Fiscal Sector

The total tax collection for the period was approximately 1328 billion against the targeted figure of 1380 billion. Pakistan is currently witnessing a huge public debt with increasing public sector expenditure for infrastructure development and mainly due to the war on terror. The government has planned to recover this fiscal deficit by induction of VAT and CGT from FY2011.

Pakistan's fiscal deficit which was 5.8% of the GDP in FY2010 and government's greater reliance on central bank's borrowing remained the major concerns for international donor agencies including IMF and World Bank.

Inflation

CPI Inflation has recorded a 12.3% YoY with food inflation of 12.5% and non-food inflation at 12%. This inflationary pressure seems to continue due to prevailing Political, Law and Order and economic conditions of the country. Also the flood disasters coupled with war against terror across the country will contribute in majority towards this factor.



Debt Market Review

Debt market remained under pressure throughout the FY10. Downgrading and downward valuation of major debt scripts at MUFAP coupled with defaults of major investee companies led towards negative market sentiments. Also the pressure selling of debt scripts by mutual funds to meet liquidity requirements joined the party. These issues hampered the secondary market led towards the shaky investors' confidence on the mutual funds industry.

New Developments

Bond Automated Trading system (BATS) was introduced and trading was started at KSE BATS from November 2009, major participants are still of the opinion that still strong regulatory framework is required for the success of this system.

Factors Which Effect the Market

The bearish trend was witnessed during the first quarter of the year however adverse political and law and order conditions, uncertainty about discount rate and latency in IMF Tranche deteriorated the confidence and investors side lined from the market. But again situation calm down and volumes increased in the second half and KSE-100 Index crossed the psychological barrier of 10,000 points. However, volumes shrunk in June due to levy of CGT but regained its momentum at the close of the year in expectation of the leveraged product in the market.

Inflow & Outflow from Foreign Portfolio Investment

Foreign portfolio investment increased to US\$ 569 million in FY10 opposed to a huge outflow of US\$ 445 million a year ago. Foreign participation was mainly determined by attractive valuation of the market as compared to the regional markets and also by the inclusion of Pakistan in MSCI Frontier Market Index. On the other side mainly due to tilted towards index heavy weight OGDC.

Floods Devastations

Historic floods in the Indus River resulting from monsoon rains have caused widespread damage to the economy. The scale of the devastation caused by the floods is staggering. Nearly 20mn people have been displaced, making this one of the worst natural disasters in history. Nearly 1.25mn houses have been completely destroyed, leaving most of the affected households without shelter.

We now expect a significant slowdown in GDP growth in FY11 (ends June 2011) and lower our growth forecast to 2.5%; this would follow growth of 4.1% in FY10. We also now expect FY11 inflation to jump sharply to 15%, depending on the extent of the damage and the measures taken by the government to reconstruct and rebuild the affected areas.

Challenges Ahead:

Now it is the biggest challenge for the government and private sector to rebuild the entire infrastructure from scratch. The rebuilding and resettlement requires huge funds which will be fulfilled through foreign aid and more loans. It will increase the tax burdens on the rest causing inflation to rise sharply.

Future Outlook

The year is started unfortunately on a disastrous note of historic flood devastations across the country. We now expect a significant slowdown in GDP growth in FY11 (ends June 2011). We also now expect FY11 inflation to jump sharply to 15%, depending on the extent of the damage and the measures taken by the government to reconstruct and rebuild the affected areas.



TRUSTEE REPORT TO THE CERTIFICATE HOLDERS

FIRST DAWOOD MUTUAL FUND

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

The First Dawood Mutual Fund (the Fund), a closed-end scheme was established under a trust deed dated December 08, 2004, executed between Dawood Capital Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

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

- (i) Limitations imposed on the investment powers of the management company under the constitutive documents of the Fund; and
- (ii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi: October 29, 2010



**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2010.**

This Statement is being presented to comply with the Code of Corporate Governance (the "Code") contained in Regulation No.35 of listing regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

Dawood Capital Management Limited (the Company), the management company of **First Dawood Mutual Fund** (the Fund) has applied with the principles contained in the Code in the following manner:

- 1) The Company encourages representation of non-executive directors on its Board of Directors. The Board has one executive director.
- 2) The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
- 3) All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- 4) A casual vacancy occurred in the Board was filled up by the directors in accordance with prescribed requirements.
- 5) The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Company.
- 6) The Board of Directors has adopted a vision / mission statement and all the overall corporate strategy of the Company and has also formulated significant policies as mentioned in the Code. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- 7) All the powers of the Board have been duly exercised and decisions on material transactions, including determination of remuneration and terms and conditions of Chief Executive Officer have been taken by the Board.
- 8) The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter during the year. Written notices of the meetings of the Board of Directors, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- 9) The Company arranged an orientation course for its directors during the year to apprise them of their roles and responsibilities.
- 10) No new appointment of CFO, Company Secretary or Head of Internal Audit has been made during the year.
- 11) The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- 12) The financial statements of the Fund were duly endorsed by the CEO and CFO before approval of the Board.



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- 13) The directors, CEO and Executives do not hold any interest in the shares of the Company other than those disclosed in the pattern of shareholding.
 - 14) The Company has complied with all the corporate and financial reporting requirements of the Code with respect to the Company.
 - 15) The Board has formed an Audit Committee. It comprises 3 members, where all the members are Non-Executive Directors including the chairman of the committee.
 - 16) The meetings of the Audit Committee (AC) were held at least once every quarter prior to approval of interim and annual results of the Company and as required by the Code. The terms of reference of the (AC) have been formed and advised to the AC for compliance.
 - 17) The Board has outsourced its Internal Audit function to M/s. Riaz Ahmed & Company, Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and their representatives are involved in the internal audit function on a full time basis.
 - 18) The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
 - 19) The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
 - 20) The related party transactions and pricing methods have been placed before the audit committee and approved by the board of directors with necessary justification for terms and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions.
 - 21) We confirm that all other material principles contained in the Code have been complied with.

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

**Karachi
Date: October 04, 2010**

**Tara Uzra Dawood
Chief Executive Officer**



IBDO

BDO Ebrahim & Co.
Chartered Accountants

2nd Floor, Block-C, Lakson Square Building No.1
Sarwar Shaheed Road, Karachi-74200, Pakistan.
Telephone : 35683030, 35683189, 35683498, 35683703
Telefax : 35684239
Email : info@bdoebrhim.com.pk
Website : http://www.bdoebrahim.com.pk

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Dawood Capital Management Limited, the Investment Advisor of First Dawood Mutual Fund to comply with the Listing Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited where the Fund is listed.

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

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-regulation (xiii) of Listing Regulation 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide Circular KSE/-269 dated January 19, 2009 requires the company to place before the board of directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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

KARACHI

DATED: October 04, 2010

CHARTERED ACCOUNTANT
Engagement Partner: Zulfikar Ali Causer



BDO Ebrahim & Co.
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT TO THE CERTIFICATE HOLDERS

We have audited the accompanying financial statements of First Dawood Mutual Fund ("the Fund"), which comprise of the statement of assets and liabilities as at June 30, 2010 and the income statement, statement of comprehensive income, distribution statement, cash flow statement and statement of movement in equity and reserves for the year then ended, and summary of significant accounting policies and other explanatory notes.

Investment Advisor's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

Other Matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, NBFC Rules and NBFC Regulations.

KARACHI
DATED: October 04, 2010

CHARTERED ACCOUNTANTS
Engagement Partner: Zulfikar Ali Causer



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

	Note	2010 Rupees	2009 Rupees
ASSETS			
Bank Balances	4	57,810,740	25,610,274
Investments	5	413,327,403	473,075,953
Advances, Deposits and Other Receivables	6	16,215,429	26,413,094
Total Assets		487,353,572	525,099,321
LIABILITIES			
Remuneration Payable to Investment Advisor	7	768,377	1,288,756
Remuneration Payable to Trustee	8	67,902	73,423
Annual Fee Payable to SECP	9	444,927	532,692
Preliminary Expenses Payable to Investment Advisor	10	-	1,000,000
Creditors, Accrued and Other Liabilities	11	1,110,927	877,036
Dividend Payable	12	282,450	343,014
Total Liabilities		2,674,583	4,114,921
Net Assets		484,678,989	520,984,400
Certificate Holders' Equity			
Issued, Subscribed and Paid-Up Capital	13	580,750,000	580,750,000
Unappropriated Losses		(96,071,011)	(59,765,600)
Contingencies and Commitments	14	-	-
		484,678,989	520,984,400
Number of Certificates		58,075,000	58,075,000
Net Asset Value Per Certificate (Face Value per Certificate Rs.10/-)		8.35	8.97

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

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

Chief Executive Officer

Director

Director



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

	Note	2010 Rupees	2009 Rupees
INCOME			
Capital Gain/(Loss) on Sale of Investment		10,144,199	(127,934,501)
Profit on Term Finance Certificates/Sukuks		32,095,559	30,857,073
Income from Placements		-	6,447,287
Dividend Income		11,923,878	11,167,279
Profit on Bank Balances		3,052,166	2,646,330
		57,215,802	(76,816,532)
Unrealized Loss on Revaluation of Investments at Fair Value through Profit or Loss	15	(74,374,487)	(122,098,024)
		(17,158,685)	(198,914,556)
EXPENSES			
Remuneration of Investment Advisor		13,613,215	17,388,885
Remuneration of Trustee		890,357	938,633
Annual Fee of SECP		444,927	532,692
Brokerage and Settlement Charges		3,198,329	1,415,254
Auditors' Remuneration	16	202,000	199,000
Fee and Subscription		696,467	394,390
Bank Charges		25,447	9,572
Printing Charges		75,984	74,900
		19,146,726	20,953,326
Net Loss for the Year		(36,305,411)	(219,867,882)
Loss Per Certificate	17	(0.63)	(3.79)

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

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

Chief Executive Officer

Director

Director



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2010**

	2010	2009
	Rupees	Rupees
Loss for the year	(36,305,411)	(219,867,882)
Other Comprehensive Income	-	-
Total Comprehensive Loss for the Year	<u><u>(36,305,411)</u></u>	<u><u>(219,867,882)</u></u>

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

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

Chief Executive Officer

Director

Director



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

	2010 Rupees	2009 Rupees
Unappropriated (Loss)/Income Brought Forward [includes unrealised loss on investments of Rs. 120,568,102 (2009: Rs. 695,122)]	(59,765,600)	171,717,282
Comprehensive Loss for the Year	(36,305,411)	(219,867,882)
Cash Dividend Distribution at the rate of Rs. Nil (2009: Rs. 0.20 Per Certificate declared on 25 September 2008).	-	(11,615,000)
Unappropriated Loss Carried Forward [includes unrealised loss on investments of Rs. 172,654,094 (2009: Rs.120,568,102)]	<u>(96,071,011)</u>	<u>(59,765,600)</u>

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

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

Chief Executive Officer

Director

Director



**STATEMENT OF MOVEMENT IN EQUITY AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2010**

	2010	2009
	Rupees	Rupees
Net Asset Value Per Certificate at the Beginning of the Year	8.97	12.75
Capital Gain/(Loss) on Sale of Securities	0.18	(2.20)
Profit on Term Finance Certificates/Sukuks	0.55	0.53
Income from Placements	-	0.11
Dividend Income	0.21	0.19
Profit on Bank Balances	0.05	0.05
Other Net Operating Expenses	(0.33)	(0.36)
	<u>9.63</u>	<u>11.07</u>
Unrealized Loss on Revaluation of Investments Classified as Financial Assets at Fair Value through Profit or Loss	(1.28)	(2.10)
Net Asset Value Per Certificate at the End of the Year	<u><u>8.35</u></u>	<u><u>8.97</u></u>

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

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

Chief Executive Officer

Director

Director



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

	2010	2009
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss for the Year	(36,305,411)	(219,867,882)
Adjustments:		
Profit on Term Finance Certificates/Sukuks	(32,095,559)	(30,857,073)
Income on Placements	-	(6,447,287)
Dividend Income	(11,923,878)	(11,167,279)
Profit on Bank Balances	(3,052,166)	(2,646,330)
Adjustments for Non-Cash Items		
Unrealized Loss on Revaluation of Investments classified as Financial Assets at Fair Value through Profit or Loss	<u>74,374,487</u>	<u>122,098,024</u>
Loss before Working Capital Changes	(9,002,527)	(148,887,827)
Increase/(Decrease) in Assets		
Investments	(14,625,937)	88,843,082
Placements	-	25,000,000
Other Receivables	<u>8,852,286</u>	<u>(3,137,677)</u>
	(5,773,651)	110,705,405
(Decrease)/Increase in Liabilities		
Remuneration of Investment Advisor	(520,379)	(540,897)
Remuneration of Trustee	(5,521)	(14,303)
Annual Fee of SECP	(87,765)	(271,163)
Preliminary Expenses Payable	(1,000,000)	(1,000,000)
Creditors, Accrued and Other Liabilities	<u>233,891</u>	<u>(154,387)</u>
	(1,379,774)	(1,980,750)
Cash used in Operations	(16,155,952)	(40,163,172)
Dividend Paid	(60,564)	(12,108,882)
Profit Received on Term Finance Certificates/Sukuks	33,533,527	23,607,952
Income Received on Placements	-	6,454,871
Dividend Income Received	11,825,441	10,984,061
Profit Received on Bank Balances	<u>3,058,014</u>	<u>1,540,928</u>
Net Cash Inflow/(Outflow) from Operating Activities	32,200,466	(9,684,242)
Net Increase/(Decrease) in Cash and Cash Equivalents	32,200,466	(9,684,242)
Cash and Cash Equivalents at Beginning of the Year	<u>25,610,274</u>	<u>35,294,516</u>
Cash and Cash Equivalents at End of the Year	<u>57,810,740</u>	<u>25,610,274</u>

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

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

Chief Executive Officer

Director

Director



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

1. LEGAL STATUS AND NATURE OF BUSINESS

First Dawood Mutual Fund (FDMF) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). Formation of FDMF as closed end fund was authorized by Securities and Exchange Commission of Pakistan (SECP) on 28 January 2005. It has been established under Trust Deed, dated 08 December 2004, between Dawood Capital Management Limited as the Investment Advisor, a listed Company incorporated under the Companies Ordinance, 1984 with registered office at 1500-A, Saima Trade Towers, I.I.Chundrigar Road, Karachi, Pakistan and Central Depository Company of Pakistan Limited, as the Trustee, a public limited company incorporated under the Companies Ordinance, 1984 duly approved by SECP. FDMF is listed on Karachi Stock Exchange. The certificates of FDMF were offered for public subscription from March 21, 2005 to March 22, 2005. FDMF started investing activities from February 25, 2005.

The policy of the fund (FDMF) is to invest in a mix of traded securities covering debt, equity, money market transactions (such as financing arrangements under Continuous Funding System and inter-bank placements, etc.).

Title to the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as a trustee of the Fund.

Asset Manager Rating (AMR) of 'AM 4+' has been assigned to the Management Company and 2 Star rating has been assigned to the Fund by Pakistan Credit Rating Agency Limited.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with the requirements of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulation), NBFC Rules, the Trust Deed, the Companies Ordinance, 1984, directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Trust Deed, the NBFC Rules, the Regulations, the Ordinance or directives issued by SECP differ with the requirements of these standards, the requirements of the Trust Deed, the requirements of the Regulations, the NBFC Rules and the said directives take precedence.



2.2 Change in Accounting Policy

IAS 1 (Revised), 'Presentation of financial statements' becomes applicable for the current financial year for the first time. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity.

All "non-owner changes in equity" are required to be shown separately in performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The Fund has preferred to present two statements; a profit and loss account and a statement of comprehensive income. These financial statements have been prepared under revised disclosure requirements.

Initial Application of a Standard or and Interpretation

The following standards, amendments and interpretations become effective during the current year.

Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by- transaction basis. The application of this standard did not have an effect on the Fund's financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard did not have an effect on the Fund's financial statements.

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after July 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Fund's operations.



Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment did not have an effect on the Fund's financial statements.

IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a Fund distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity.

When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Fund does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Fund's financial statements.

The other new standards, amendments and interpretations that are mandatory for accounting period beginning on or after July 1, 2009 are considered not to be relevant or to have any significant effect on Fund's financial reporting and operations.

Standards, Interpretations and Amendments not yet Effective:

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the date specified below. These standards are either not relevant to the Fund's operations or are not expected to have significant impact of the Fund's financial statements other than increase in disclosures in certain cases:

Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Fund's financial statements.



IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Fund's financial statements.

IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 1 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the Fund's financial statements.

Improvements to IFRSs 2008 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after 1 July 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale if criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on the Fund's financial statements.

In addition to the above, amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project. Such improvements are generally effective for accounting periods beginning on or after January 1, 2010. The Fund's management expects that such improvements to the standards will not have any material impact on the Fund's financial statements.

2.3 Basis of Measurement

These financial statements have been prepared under the historical cost convention, except that certain financial assets have been valued at fair value in accordance with the valuation basis specified in the relevant International Accounting Standards (IAS) applicable to these assets and the requirements of NBFC Rules & Regulations.

2.4 Functional and Presentation Currency

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



2.5 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amount recognised in the financial statements are given in note 22 to these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments

All investments are initially recognized at fair value, being the cost of the consideration given including transaction costs associated with the investment, except in case of financial assets at fair value through profit or loss, in which case the transaction costs are charged off to the profit and loss account.

All purchases and sales of securities that requires delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognized at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

The Investment Advisor determines appropriate classification of the Fund's investments in accordance with the requirements of IAS 39: 'Financial Instruments: Recognition and Measurement', at the time of purchases.

The Fund classifies its investments in the following categories:

Financial Assets at Fair value through Profit or Loss

This category has two sub-categories, namely; financial instruments held for trading, and those designated at fair value through profit or loss at inception.



- Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading.
- Investments designated at fair value through profit or loss upon initial recognition include those that are not held for trading purposes and which may be sold.

After initial recognition, the above investments, are remeasured at fair value determined with reference to the rates prevailing in the relevant stock exchanges, where applicable. Gains or losses on investments on remeasurement of these investments are recognized in Income Statement.

Available for Sale

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in prices, are classified as 'Available for Sale'. Subsequent to initial measurement, 'Available for Sale' investments are remeasured to fair value. Net gains and losses arising on changes in fair values of these investments are taken to equity.

3.2 Derivatives

Derivative instruments held by the Fund generally comprise of futures contracts in the capital market. Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value which is the quoted price. Derivatives with positive market values (unrealized gains) are included in assets and derivatives with negative market values (unrealized losses) are included in liabilities in the statement of assets and liabilities. The resultant gains and losses are included in the income statement.

Derivative financial instruments entered into by the Fund do not meet the hedging criteria as defined by International Accounting Standard - 39: Recognition and Measurement of Financial Instruments (IAS - 39), consequently all derivatives are classified as held for trading and hedge accounting is not used by the Fund.

3.3 Securities under Repurchase/Resale Agreements

Transaction of purchase under resale (reverse-repo) of marketable and government securities, including the securities purchased under the continuous funding system, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognized in the statement of assets and liabilities. Amounts paid under these agreements are recognized as receivable in respect of reverse repurchase transactions/against continuous funding system. The difference between purchase and resale price is treated as income from reverse repurchase transactions/continuous funding system and accrued over the life of the agreement.

All reverse repo/continuous funding system transactions are accounted for on the settlement date.



3.4 Taxation

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 its certificate holders.

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 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 the capital gains, whether realized or unrealized, to its certificate holders every year. Accordingly, no tax liability or deferred tax has been recognized in these financial statements.

3.5 Revenue Recognition

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

Unrealized capital gain/(losses) arising on the revaluation of securities classified as financial assets at fair value through profit or loss are included in the income statement in the year in which they arise.

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

Income on continuous funding system transactions, term finance certificates and bank deposits are recognized using effective yield method on a time proportionate basis.

3.6 Expenses

All expenses including investment advisor fee and trustee fee are recognized in the income statement on an accrual basis.

3.7 Impairment

The carrying amount of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the Income Statement.

3.8 Provisions

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



3.9 Financial Instruments

All the financial assets and liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at fair value and are subsequently remeasured at fair value or amortized costs as the case may be. The Fund derecognizes the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments. Any gain or loss on derecognition of financial assets and financial liabilities is taken to income directly.

3.10 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 amount and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.11 Cash and cash Equivalents

Cash and cash equivalents comprise of bank balances including term deposits.

3.12 Other Assets

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

3.13 Earnings per Certificate

Earnings per certificate is calculated by dividing the profit after tax for the year by the weighted average number of certificates outstanding during the year.

3.14 Dividend Distributions and Appropriations

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

	Note	2010 Rupees	2009 Rupees
4. BANK BALANCES			
Profit and Loss Sharing Account	4.1	57,785,902	25,577,136
Current Accounts		<u>24,838</u>	<u>33,138</u>
		<u>57,810,740</u>	<u>25,610,274</u>
4.1	This carries markup at rates ranging from 4.75% to 10.75% per annum (2009: 5% to 10% per annum).		

5. INVESTMENTS

Financial Assets at Fair Value Through Profit or Loss

Held For Trading

Listed Marketable Securities	5.1	230,259,713	219,179,081
Term Finance Certificates/Sukuks	5.2	183,067,690	253,896,872
		<u>413,327,403</u>	<u>473,075,953</u>



5.1 Listed Marketable Securities

All shares / certificates have a nominal value of Rs 10 each, unless otherwise stated.

Quoted Sector & Scrips	Number of Scrips					As at June 30, 2010			Percentage in Relation to		
	Opening Balance	Purchased During the Year	Bonus/Right	Sold During the Year	Closing Balance	Cost	Market Value	Appreciation/ (Diminution)	Net Assets of the Fund (with Market Value of Investment)	Paid-Up Capital of Investee Company (with Face Value of Investment)	Total Market Value (Carrying Value of Investment)
----- Rupees -----											
OIL AND GAS											
Attock Refinery Limited	-	419,280	-	419,280	-	-	-	-	-	-	-
Boscor Pakistan Limited	314,500	330,599	-	645,099	-	-	-	-	-	-	-
Byco Petroleum Pak Limited	-	1,358,300	-	460,000	898,300	11,251,239	8,965,034	(2,286,205)	1.85	0.23	3.89
Mari Gas Company Limited	-	80,007	-	70,007	10,000	1,396,027	1,293,800	(102,227)	0.27	0.01	0.56
National Refinery Limited	25,800	68,115	-	29,114	64,801	14,135,925	11,848,863	(2,287,062)	2.44	0.08	5.15
Oil and Gas Development Company Limited	9,000	1,313,357	-	1,322,357	-	-	-	-	-	-	-
Pakistan Oilfields Limited	41,600	945,360	-	986,960	-	-	-	-	-	-	-
Pakistan Petroleum Limited	-	777,450	800	778,250	-	-	-	-	-	-	-
Pakistan Refinery Limited	-	1,000	-	1,000	-	-	-	-	-	-	-
Pakistan State Oil Company Limited	-	320,688	-	320,688	-	-	-	-	-	-	-
Shell Pakistan Limited	28,343	110,120	-	76,244	62,219	17,204,436	14,286,105	(2,918,331)	2.95	0.04	6.20
CHEMICALS											
Engro Corporation	64,380	1,317,856	4,750	1,386,986	-	-	-	-	-	-	-
Engro Polymer & Chemicals limited	60,000	440,000	-	240,000	260,000	4,796,842	2,610,400	(2,186,442)	0.54	0.04	1.13
Engro Polymer & Chemicals limited - Right	-	64,625	-	64,625	-	-	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	270,000	-	165,000	105,000	3,323,406	2,734,200	(589,206)	0.56	0.01	1.19
Fauji Fertilizer Company Limited	92,250	441,317	-	499,255	34,312	3,820,779	3,536,538	(284,241)	0.73	0.01	1.54
ICI Pakistan Limited	-	206,972	-	177,972	29,000	4,627,111	3,438,240	(1,188,871)	0.71	0.02	1.49
Lotte Pakistan PTA Limited	449,500	160,000	-	609,500	-	-	-	-	-	-	-
Sitara Peroxide Limited	-	89,987	-	-	89,987	1,453,887	799,085	(654,802)	0.16	0.44	0.35
FORESTRY AND PAPER											
Century Paper & Board Mills Limited	94,110	-	-	94,110	-	-	-	-	-	-	-
CONSTRUCTION AND MATERIALS											
D.G.Khan Cement Limited	-	1,160,418	-	1,050,418	110,000	3,323,018	2,598,200	(724,818)	0.54	0.03	1.13
D.G.Khan Cement Limited-Right	-	500	-	500	-	-	-	-	-	-	-
Fauji Cement Company Limited	805,950	587,893	-	112,893	1,280,950	14,865,942	5,828,323	(9,037,619)	1.20	0.18	2.53
Lucky Cement Company Limited	-	873,683	-	831,183	42,500	3,070,433	2,640,950	(429,483)	0.54	0.01	1.15
GENERAL											
Ecopack Limited	1,432,635	10,000	-	40,298	1,402,337	46,743,102	3,351,585	(43,391,517)	0.69	6.10	1.46
Packages Limited	-	7,000	-	7,000	-	-	-	-	-	-	-
Thal Limited	-	10,800	-	6,418	4,382	437,330	416,027	(21,303)	0.09	0.02	0.18
Tri-Pack Films Limited	-	9,774	-	9,774	-	-	-	-	-	-	-
AUTOMOBILE AND PARTS											
Indus Motor Company Limited	-	280	-	280	-	-	-	-	-	-	-
Pak Suzuki Motor Company Limited	-	1,050	-	1,050	-	-	-	-	-	-	-
BEVERAGES											
Muree Brewery Company Limited	31,057	-	3,105	-	34,162	1,708,361	2,855,943	1,147,582	0.59	0.24	1.24
FOOD PRODUCERS											
Clover Pakistan Limited	17,071	-	-	14,571	2,500	138,602	108,875	(29,727)	0.02	0.03	0.05
J.D.W. Sugar Mills Limited	109,103	7,500	-	50,315	66,288	2,852,210	4,209,951	1,357,741	0.87	0.15	1.83
Nestle Pakistan Limited	11,700	2,917	-	13,251	1,366	2,200,248	2,301,710	101,462	0.47	0.00	1.00
Shakar Ganj Mills Limited-(R.C.Pref) 8.50%	400,000	-	-	-	400,000	4,080,000	1,204,000	(2,876,000)	0.25	1.16	0.52
Tandianwala Sugar Mills Limited	162,000	7,500	-	169,500	-	-	-	-	-	-	-



PERSONAL GOODS											
Azgard Nine Limited	-	1,112,389	-	1,112,389	-	-	-	-	-	-	
Azgard Nine Limited (Pref) 8.95%	1,013,863	-	-	506,931	506,932	5,017,866	4,967,934	(49,932)	1.02	0.77	2.16
Colgate Palmolive Limited	3,901	10	570	4,481	-	-	-	-	-	-	-
Nishat Mills Limited	-	1,039,598	-	864,641	174,957	9,658,756	7,544,146	(2,114,610)	1.56	0.05	3.28
Nishat Mills Limited - Right	-	388,581	-	388,581	-	-	-	-	-	-	-
PHARMA AND BIO TECH											
GlaxoSmithKline Pakistan Limited	259,557	4,000	-	4,000	259,557	28,035,648	21,060,455	(6,975,193)	4.35	0.15	9.15
Otsuka Pakistan Limited	257,000	1	-	-	257,001	10,861,566	8,725,184	(2,136,382)	1.80	2.57	3.79
FIXED LINE TELECOMMUNICATION											
Calmate Telpis Telecom Limited	213,221	-	-	-	213,221	12,095,484	-	(12,095,484)	-	-	-
Pakistan Telecommunication Co. Ltd.	251,900	2,184,065	-	2,034,320	401,645	8,642,766	7,149,281	(1,493,485)	1.48	0.01	3.10
ELECTRICITY											
Hub Power Company Limited	-	25,000	-	25,000	-	-	-	-	-	-	-
GAS WATER AND MULTIUTILITIES											
Sui Northern Gas Pipelines Limited	-	50,022	-	50,022	-	-	-	-	-	-	-
BANKS											
Allied Bank Limited	-	105,650	-	105,650	-	-	-	-	-	-	-
Arif Habib Bank Limited	190,000	127,500	-	7,000	310,500	3,993,802	1,114,695	(2,879,107)	0.23	0.06	0.48
Askari Bank Limited	70,075	158,050	-	176,625	51,500	1,047,946	783,830	(264,116)	0.16	0.01	0.34
Bank Al Habib Limited	136,980	18,000	30,496	27,500	157,976	4,855,675	4,976,244	120,569	1.03	0.02	2.16
Bank Al-Falah Limited	-	900,000	-	530,000	370,000	4,567,052	3,500,200	(1,066,852)	0.72	0.03	1.52
Bank of Punjab Limited	-	752,006	-	532,006	220,000	3,809,957	2,217,600	(1,592,357)	0.46	0.04	0.96
Habib Bank Limited	-	161,402	2,565	126,225	37,742	4,199,953	3,670,410	(529,543)	0.76	0.00	1.59
Habib Metropolitan Bank Limited	416,655	22,500	69,465	5,001	503,619	10,306,934	12,036,494	1,729,560	2.48	0.06	5.23
JS Bank Limited	168,000	44,420	-	4,420	208,000	1,603,084	584,480	(1,018,604)	0.12	0.03	0.25
MCB Bank Limited	-	203,470	-	203,470	-	-	-	-	-	-	-
National Bank Of Pakistan	82,000	1,522,475	-	1,550,975	53,500	3,576,603	3,429,350	(147,253)	0.71	0.00	1.49
United Bank Limited	-	781,175	-	726,876	54,299	3,220,164	2,943,549	(276,615)	0.61	0.00	1.28
NON LIFE INSURANCE											
Adamjee Insurance Company Limited	-	1,057,090	3,118	988,410	71,798	7,393,559	5,735,224	(1,658,335)	1.18	0.06	2.49
Askari General Insurance Company Limited	106,770	-	-	-	106,770	1,854,784	1,019,654	(835,130)	0.21	0.52	0.44
Atlas Insurance Limited	36,362	-	3,636	-	39,998	2,790,311	1,110,344	(1,679,967)	0.23	0.11	0.48
International General Insurance Limited	12,340	2,000	-	14,340	-	-	-	-	-	-	-
Pakistan Reinsurance Company Limited	61,477	718,197	-	358,897	420,777	13,964,295	7,203,702	(6,760,593)	1.49	0.14	3.13
LIFE INSURANCE											
American Life Insurance Company Limited	1,498,538	1,799	-	-	1,500,337	28,218,717	24,530,508	(3,688,209)	5.06	3.00	10.65
Beema Pakistan Company Limited	35,500	-	-	-	35,500	73,825	-	(73,825)	-	-	-
New Jubilee Life Insurance Company Limited	705,000	9,000	-	4,065	709,935	20,930,744	27,687,465	6,756,721	5.71	1.13	12.02
FINANCIAL SERVICES											
Arif Habib Securities Limited	-	1,280,911	-	1,280,911	-	-	-	-	-	-	-
Dawood Equities Limited	691,000	7,000	-	-	698,000	14,789,070	1,326,200	(13,462,870)	0.27	2.79	0.58
Jahangir Siddiqui & Company Limited	-	1,770,391	-	1,735,391	35,000	645,542	442,400	(203,142)	0.09	0.00	0.19
EQUITY INVESTMENT INSTRUMENTS											
B.R.R. Guardian Modaraba	1,141,500	-	-	-	1,141,500	8,727,510	1,472,535	(7,254,975)	0.30	1.46	0.64
SOFTWARE AND COMPUTER SERVICES											
Netsol Technologies Limited	-	136,450	-	136,450	-	-	-	-	-	-	-
					356,310,511 230,259,713 (126,050,798)						



5.2 Term Finance Certificates/Sukuks

Name of Investee	Note	Profit Mark-up Rate %	Number of Certificate				As at June 30, 2010			Market Value as Percentage of Net Assets	
			As at July 01, 2009	Purchases During the Year	Sales During the Year	Redemptions During the Year	As at June 30, 2010	Carrying Value	Market Value		Application (Diminution)
			----- Rupees -----								
Grays Leasing Limited		K+2.50%	900	-	-	-	900	650,000	1,218,750	568,750	0.25
Escorts Investments Bank Limited		K+2.50%	1,000	-	-	-	1,000	3,304,291	3,302,489	(1,802)	0.68
Telecard Limited		K+3.75%	3,715	-	-	-	3,715	7,253,943	6,885,862	(368,081)	1.42
Pace Pakistan Limited		K+1.50%	2,000	-	-	-	2,000	8,292,680	9,726,543	1,433,863	2.01
Trust Investment Bank Limited		K+1.85%	5,000	-	-	-	5,000	20,728,278	19,734,509	(993,769)	4.07
Trakker Private Limited		K+3.50%	50	-	-	-	50	1,842,375	1,859,282	16,907	0.38
New Allied Electronics Industries Limited	5.2.1	K+2.75%	3,417	-	-	-	3,417	8,067,917	-	-	0.00
Optimus Limited		K+2.10%	5,000	-	-	-	5,000	23,864,172	24,017,271	153,099	4.96
Avani Hotels Limited		K+3.50%	507	-	-	-	507	2,174,512	2,191,842	17,330	0.45
Kohat Cement (Sukuk)		K+1.80%	5,000	-	-	-	5,000	18,112,500	18,112,500	-	3.74
Invest Capital Investment Bank Ltd. - (Sukuk)		K+1.90%	5,000	-	-	-	5,000	20,049,694	20,677,690	627,996	4.27
B.R.R Guardian Modaraba (Sukuk)		K+1.30%	5,000	-	-	-	5,000	23,967,750	21,858,625	(2,109,125)	4.51
Amtex Limited (Sukuk)		K+1.30%	6,000	-	-	-	6,000	21,754,240	23,605,625	1,851,385	4.87
Maple Leaf Cement Limited	5.2.2	K+1.70%	12,110	-	-	-	12,110	54,475,381	6,052,427	(48,422,954)	1.25
Shahmurad Sugar Mills Limited		K+2.25%	30	-	-	-	30	23,201,170	23,824,275	623,105	4.92
								237,738,903	183,067,690	(46,603,296)	

5.2.1 Investment in New Allied Electronics Industries Limited TFCs amounting to Rs. 8,067,917 has been fully provided as per Annexure II of Circular No. 1 of 2009 issued by SECP as these TFCs are classified by MUFAP as non-performing debt securities.

5.2.2 The Fund has total investment in Maple Leaf Sukuk of Rs. 54,475,381. As of the balance sheet date, these Sukuk are classified by MUFAP as non-performing debt securities. The Fund has provided provision at the rate of 90% of value of investment based on decision of Investment Committee of the Fund on a prudence basis.



	Note	2010 Rupees	2009 Rupees
6. ADVANCES, DEPOSITS AND OTHER RECEIVABLES			
Considered Good			
Advance Tax		100,178	99,863
Security Deposits		3,550,000	3,550,000
Dividend Income		1,052,880	954,443
Profit on TFC's/Sukuks		10,066,829	11,504,797
Profit on Bank Balances		1,204,697	1,210,545
National Clearing Company of Pakistan Ltd.		240,845	8,593,446
Receivable from related party	6.1	-	500,000
		<u>16,215,429</u>	<u>26,413,094</u>

6.1 This represents an amount receivable from Dawood Money Market Fund managed by Dawood Capital Management Limited.

7. REMUNERATION PAYABLE TO INVESTMENT ADVISOR

The Investment Advisor is entitled to remuneration for services rendered to the Fund under the provisions of NBFC Rules for the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund, and two percent per annum of the average annual net assets thereafter.

8. REMUNERATION PAYABLE TO TRUSTEE

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

9. ANNUAL FEE PAYABLE TO SECP

This represents the annual fee payable to SECP in accordance with Rule 62 of NBFC Rules at the rate of 0.085 % (2009 : 0.085 %) of the average annual net assets value of the Fund.

10. PRELIMINARY EXPENSES PAYABLE TO INVESTMENT ADVISOR

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operation of the Fund. These costs have been fully amortized during the period ended 30 June 2005.

The preliminary expenses and floatation costs have been reimbursed by the Fund to the Investment Advisor in equal amounts paid annually over a period of five years.



	Note	2010 Rupees	2009 Rupees
Opening Balance		1,000,000	2,000,000
Paid During the Year		(1,000,000)	(1,000,000)
Closing Balance		-	1,000,000

11. CREDITORS, ACCRUED AND OTHER LIABILITIES

Payable to Broker Against Purchase of Shares		5,000	5,000
Audit Fee		207,000	155,000
Income Tax Payable		21,400	23,622
Commission Payable to Broker		299,322	229,145
Other Payables		578,205	464,269
		<u>1,110,927</u>	<u>877,036</u>

12. DIVIDEND PAYABLE

Dividend Payable to Certificate Holders	12.1	<u>282,450</u>	<u>343,014</u>
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12.1 This includes Rs.257,457 in respect of dividend payable declared in the year 2007.

13. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Fully Paid Ordinary Certificates of Rs. 10/- each

2010 (Number of Certificates)	2009 (Number of Certificates)		2010 Rupees	2009 Rupees
50,000,000	50,000,000	Issued for Fully Paid in Cash	500,000,000	500,000,000
8,075,000	8,075,000	Issued as Fully Paid Bonus Certificates	80,750,000	80,750,000
<u>58,075,000</u>	<u>58,075,000</u>		<u>580,750,000</u>	<u>580,750,000</u>

14. CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

There were no contingencies as at the balance sheet date.

14.2 Commitments

There were no capital commitments as at the balance sheet date.



	2010	2009
	Rupees	Rupees
15. UNREALIZED LOSS ON REVALUATION OF INVESTMENTS CLASSIFIED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Unrealized Loss on Listed Securities	(27,771,191)	(99,808,168)
Unrealized Loss on Revaluation of Term Finance Certificates/Sukuks	(46,603,296)	(22,289,856)
	<u>(74,374,487)</u>	<u>(122,098,024)</u>
16. AUDITORS REMUNERATION		
Annual Audit Fee	120,000	120,000
Half-Year Review	42,000	42,000
Other Certification and Services	40,000	37,000
	<u>202,000</u>	<u>199,000</u>
17. EARNINGS PER CERTIFICATE		
Loss for the Year	(36,305,411)	(219,867,882)
Weighted Average Certificates Outstanding During the Year	58,075,000	58,075,000
Loss Per Certificate - Basic and Diluted	<u>(0.63)</u>	<u>(3.79)</u>

18. TRANSACTIONS WITH CONNECTED PERSONS/RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include Investment Advisor, associated companies and key management personnel and their family members.

Transactions with related parties are executed substantially on the same terms, including mark up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e. under the comparable uncontrolled price method).

Remuneration of investment advisor and trustees are determined in accordance with the respective agreement and deed.

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



	2010	2009
	Rupees	Rupees
Investment Advisor		
Balances at the Beginning of the Year	2,288,756	3,829,653
Remuneration for the Year	13,613,215	17,388,885
Reimbursement of Formation & Floatation Cost During the Year	(1,000,000)	(1,000,000)
Remuneration Paid During the Year	(14,133,594)	(17,929,782)
Balances at the End of the Year	<u>768,377</u>	<u>2,288,756</u>
Trustee		
Balances at the Beginning of the Year	73,423	87,726
Remuneration for the Year	890,357	938,634
Remuneration Paid During the Year	(895,878)	(952,937)
Balances at the End of the Year	<u>67,902</u>	<u>73,423</u>
Associated Companies		
Balance at the Beginning of the Year	-	25,000,000
Placements During the Year	-	32,000,000
Maturities/Settlement of Placements During the Year	-	(57,000,000)
Balance at the End of the Year	<u>-</u>	<u>-</u>

The transactions with related parties disclosed above does not include transactions carried out by the Fund relating to Continuous Funding System Transactions where the related party had acted in the capacity of a broker or intermediary and the ultimate counter party of the Fund.

19. FINANCIAL RISK MANAGEMENT POLICIES

The Fund's activities expose it to the following financial risks. The management of these risks is carried out by Compliance and Risk Management Department headed by the Head of Compliance and Risk Management (HOC & RM) who is responsible for identifying, evaluating or measuring significant risks inherent in the organization as well establishing controls in coordination with the relevant department to mitigate such risks. The department also monitors concentration of exposure to market risk.

19.1 Price Risk

Price risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market prices. This risk arises from the investments held by the Fund for which prices are uncertain in future. The Management Company manages its price risk by monitoring exposure on marketable securities by following the internal guidelines of the Investment Committee and NBFC regulations laid down by the SECP.



The majority of the Fund's equity investments are publicly traded on stock exchange. The Fund's policy requires that the overall market position is monitored on a daily basis by the Fund's Investment Committee and is reviewed periodically by the Management Company. Compliance with the Fund's investment policies are reported to the Management Company on regular basis.

The Management Company manages price risk through diversification and continued monitoring of its investment portfolio.

As at June 30, 2010, the fair value of equity securities exposed to price risk were as follow :-

	2010	2009
	Rupees	Rupees
Held for Trading	<u>230,259,713</u>	<u>219,179,081</u>

The following table illustrates the sensitivity of the profit for the period and the unit holders' fund to an increase or decrease of 5% in the fair values of the Fund's equity securities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Fund's equity securities at each statement of assets and liabilities date, with all other variables held constant.

Held for Trading	<u>11,512,986</u>	<u>10,958,954</u>
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Risk Management/Mitigation

The Fund monitors the interest rate environment on a regular basis and alters the portfolio mix of fixed and floating rate securities.

The Fund's policy requires the Fund's management to manage this risk by measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and calculating the average duration of the portfolio of fixed interest securities.

The average effective duration of the Fund's portfolio is a measure of the sensitivity of the fair value of the Fund's fixed interest securities to changes in market interest rates.

The Fund's policy refrains from holding interest bearing instruments that induce the average effective duration of the fixed interest portfolio to pass the benchmark of the average duration.

FAIR VALUE OF FINANCIAL INVESTMENTS

The Fund's accounting policy on fair value measurements of the investments is detailed in note 3.1 to these financial statements.



The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at June 30, 2010, all the investments were categorised in Level 1.

19.2 Yield/Interest Rate Risk

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve. Markup rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market interest rates.

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

The Management Company has diversified their investments and invested in fixed interest rate investments to minimize exposure to interest rate risk.

The interest rate profile of the Fund is as follows: -

Floating Interest Rate	Fixed Interest Rate	Non Interest Bearing	Total
Rupees			

As at June 30, 2010

Term Finance Certificates	68,936,548	-	-	68,936,548
Sukuk Bonds	114,131,142	-	-	114,131,142
Advance, Deposits and Other Receivables	-	-	16,215,429	16,215,429
Cash at Bank	57,772,661	-	24,838	57,797,499

As at June 30, 2009

Term Finance Certificates	77,070,317	1,594,255	-	78,664,572
Sukuk Bonds	175,232,300	-	-	175,232,300
Advance, Deposits and Other Receivables	-	-	26,413,094	26,413,094
Cash at Bank	25,577,136	-	33,138	25,610,274



If the interest rate would have been higher or lower by 50 basis points and all the other variables remain constant, the Fund's profit would have been higher/(lower) by Rs.1,204,202 for the year ended June 30, 2010. This is attributable to the Funds exposure to interest rates on its floating rate securities.

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

19.3 Credit Risk

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

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

In summary, compared to the amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk as at June 30, 2010 is as follows: -

	June 30, 2010		June 30, 2009	
	Statement Assets and Liabilities	Maximum Exposure	Statement of Assets and Liabilities	Maximum Exposure
	Rupees			
Investments	413,327,403	230,259,713	473,075,953	219,179,081
Advance, Deposits and Other Receivables	16,215,429	6,148,600	26,413,094	2,484,716
Cash and bank balances	57,810,740	57,810,740	25,610,274	25,610,274
	<u>487,353,572</u>	<u>294,219,053</u>	<u>525,099,321</u>	<u>247,274,071</u>

Following financial assets are secured by collateral or other credit enhancements:

	2010 Rupees	2009 Rupees
Term Finance Certificates	68,936,548	78,664,572
Sukuk Bonds	114,131,142	175,232,300
	<u>183,067,690</u>	<u>253,896,872</u>



19.4 Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments associated with financial instruments. The Fund is not materially exposed to the liquidity risk as all obligations / commitments of the Fund are short term in nature and restricted to the extent of available liquidity and all assets of the Fund are readily disposable in the market. A range of tools are used for the management of liquidity. These comprise key balance sheet ratios and day to day monitoring of future cash flows.

The following are the contractual maturities of financial liabilities:

	Not Later than 1 Month	Between 1 and 3 Months	Between 1 Months to 1 Year	Total
Rupees				
As at June 30, 2010				
Remuneration Payable to				
Investment Advisor	768,377	-	-	768,377
Remuneration Payable to				
Trustee	67,902	-	-	67,902
Annual Fee Payable to				
Securities and Exchange				
Commission of Pakistan	-	444,927	-	444,927
Creditors, Accrued and Other				
Liabilities	-	-	1,110,927	1,110,927
Dividend Payable	-	-	282,450	282,450
As at June 30, 2009				
Remuneration Payable to				
Investment Advisor	1,288,756	-	-	1,288,756
Remuneration Payable to Trustee	73,423	-	-	73,423
Annual Fee Payable to				
Securities and Exchange				
Commission of Pakistan	-	532,692	-	532,692
Preliminary Expenses Payable to				
Investment Advisor	-	-	1,000,000	1,000,000
Creditors, Accrued and Other				
Liabilities	-	-	877,036	877,036
Dividend Payable	-	-	343,014	343,014



19.5 Market Rate of Return (MROR) Sensitivity Position

The Fund's market rate of return sensitivity related to financial assets and financial liabilities based on contractual repricing or maturity dates, which ever is earlier is as follows:

2010					
Effective rate (%) per annum	Exposed to MROR risk			Not exposed to MROR risk	Total
	Upto three months	More than three months and upto one year	More than one year		
Financial Assets					
Bank Balances	5 - 10.75	57,810,740	-	-	57,810,740
Investments	9.5 - 19.4	-	-	183,067,690	230,259,713
Advances, Deposits and Other Receivables	-	-	-	-	16,215,429
		57,810,740	-	183,067,690	246,475,142
					487,353,572
Financial Liabilities					
Remuneration Payable to Investment Advisor	-	-	-	(768,377)	(768,377)
Remuneration Payable to Trustee	-	-	-	(67,902)	(67,902)
Annual Fee Payable to SECP	-	-	-	(444,927)	(444,927)
Preliminary Expenses Payable to the Investment Advisor	-	-	-	-	-
Creditors, Accrued and Other Liabilities	-	-	-	(1,110,927)	(1,110,927)
Dividend payable	-	-	-	(282,450)	(282,450)
				(2,674,583)	(2,674,583)
On-Balance Sheet Gap		57,810,740	-	183,067,690	243,800,559
					484,678,989
2009					
Effective rate (%) per annum	Exposed to MROR risk			Not exposed to MROR risk	Total
	Upto three months	More than three months and upto one year	More than one year		
Financial Assets					
Bank Balances	5 - 10	25,610,274	-	-	25,610,274
Investments	9.5 - 19.4	-	-	253,896,872	219,179,081
Advances, Deposits and Other Receivables	-	-	-	-	26,413,094
		25,610,274	-	253,896,872	245,592,175
					525,099,321
Financial Liabilities					
Remuneration Payable to Investment Advisor	-	-	-	(1,288,756)	(1,288,756)
Remuneration Payable to Trustee	-	-	-	(73,423)	(73,423)
Annual Fee Payable to SECP	-	-	-	(532,692)	(532,692)
Preliminary Expenses Payable to the Investment Advisor	-	-	-	(1,000,000)	(1,000,000)
Creditors, Accrued and Other Liabilities	-	-	-	(877,036)	(877,036)
Dividend Payable	-	-	-	(343,014)	(343,014)
				(4,114,921)	(4,114,921)
On-Balance Sheet Gap		25,610,274	-	253,896,872	241,477,254
					520,984,400



19.6 Market Rate of Return (MROR) Risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Investment Advisor manages investments portfolio in a manner to reduce the risk of loss in market value of investments as a result of changes in market interest rates. In case the Investment Advisor expects economic uncertainty, the portfolio will be restructured so as to comprise of short-term debt securities and money market instruments.

20. PATTERN OF CERTIFICATE HOLDINGS

Category	No. of Certificate Holders	Certificates Held	% of Total
Individuals	726	17,529,647	30%
Associated Companies	1	7,607,825	13%
Financial Institutions	9	14,612,583	25%
Insurance Companies	2	185,900	0%
Joint Stock Companies	17	6,192,111	11%
Leasing Companies	2	1,305,243	2%
Investment Companies	1	100,500	0%
Modarabas	4	1,807,441	3%
Corporative Societies	1	21,500	0%
Others	7	8,712,250	15%
	770	58,075,000	100%

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

The fair value of investments categorised as financial assets at fair value through profit or loss is based on the closing market prices ruling at the day-end. The Investment Advisor is of the view that the fair market value of most of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short-term in nature.

22. ACCOUNTING ESTIMATES AND JUDGMENTS

22.1 Investments Stated at Fair Value Through Profit or Loss

The Investment Advisor has determined fair value of certain investments by using quotations from active market. 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, cannot be determined with precision.



22.2 Other Assets

Judgment is also involved in assessing the realisability of asset balances.

23. PERFORMANCE TABLE	2010	2009	2008	2007	2006	From 28
						January 2005 to 30 June 2005
Net Asset Value (Rupees in '000,000)	485	521	752	775	618	505
Net (Loss)/Income (Rupees in '000,000)	(36)	(220)	36	157	113	5
Net Asset Value Per Certificate	8.35	8.97	12.96	13.34	12.24	10.10
Loss/Earning Per Certificate (Rupees)	(0.63)	(3.79)	0.61	2.70	1.95	0.10
Dividend/Bonus Distribution (%)	Nil	Nil	2.00	10.00	15.00	1.00

24. LIST OF TOP TEN BROKERS IN ORDER OF PERCENTAGE OF COMMISSION

Name of Brokers	Percentage of Commission
Dawood Equities Limited	17.02%
Shehzad Chamadia Securities (Pvt.) Limited	13.69%
Live Securities (Pvt.) Limited	12.65%
Habib Metropolitan Financial Services Limited	12.33%
Adam Securities (Pvt.) Limited	7.78%
Atlas Capital Markets (Pvt.) Limited	7.70%
Foundation Securities (Pvt.) Limited	7.40%
Elixir Securities Pakistan (Pvt.) Limited	6.14%
Pearl Securities (Pvt.) Limited	4.72%
Jan Mohd. A Latif Nini & Sons (Pvt.) Limited	3.99%

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

Name of Member	Qualification	Experience
Mr. Muhammad Saleem Munshi	MBA - Finance	29 Years
Mr. Muhammad Ahmed	B . Com	18 Years
Mr. Khalid Mehmood *	MBA and MA Economics & Finance	08 Years
Mr. Muhammad Aamir Siddiqui	CA Part Qualified & B.Com	07 Years
Mr. Mustansir Shabbar **	MCS and MPA	07 Years

* Left on January 31, 2010

** Appointed on February 25, 2010



Mr. Muhammad Saleem Munshi - Chief Financial Officer

Mr. Muhammad Saleem Munshi is Master in Business Administration (Finance). He is one of the founder member of first perpetual Modaraba of Pakistan i.e. B.R.R. Guardian Modaraba (BRRGM) and has been associated with the Modaraba from 1983 till 2008 which covers 25 years experience. He specializes in Islamic mode of financing i.e. Ijara, Musharaka, Morabaha and other related transactions. His core responsibilities include Financial Management & Reporting, Taxation, Finalization of Accounts and Budgeting etc.

Mr. Muhammad Ahmed - Fund Manager Equity

Mr. Muhammad Ahmed has over 18 years of experience with the financial markets. He is responsible for managing the equity portfolio. His expertise includes hedging / arbitrage of shares, communications with various brokers, coordination with treasury department for pledging and releasing of shares, managing settlement and payment of shares of NCSS, T+2, T+1 and future counters, assessing and analyzing of the annual reports of companies.

Mr. Muhammad Aamir Siddiqui - Head of Compliance & Risk Management

Mr. Muhammad Aamir Siddiqui is C.A.-Finalist from Institute of Chartered Accountants of Pakistan. He has also completed his Bachelors of Commerce from Balochistan University. He has completed four years as audit trainee with M.Yousuf Adil Saleem and Co., Chartered Accountants, member firm of Deloitte Touché Tohmatsu in the Audit & Assurance department. His areas of expertise include Corporate Affairs, Non-Banking Financial Companies and Notified Entities, Code of Corporate Governance, Risk Management of Debt and Equity Portfolios.

Mr. Mustansir Shabbar (Head of Customer Services)

Mr. Mustansir is Master of Computer Science and Master of Public Administration (Finance) from Karachi University and associated with FDG for over 7 years. He has expertise in customer services and working as a key member for every DCM Funds since inception.

26. PARTICULARS OF FUND MANAGER

Name of Fund Manager	Qualification	Names of Other Funds Managed
Mr. Muhammad Ahmad	B . Com	Dawood Money Market Fund Dawood Islamic Fund
Mr. Khalid Mehmood *	"MBA & MA Economics & Finance"	Dawood Money Market Fund Dawood Islamic Fund

* Left On January 31, 2010



27. FUNDS RATING

The Management Company has been rated at AM4+ by PACRA through letter dated January 15, 2010.

The Fund has been rated at 2 Star by PACRA through letter dated May 3, 2010.

**28. ATTENDANCE OF MEETING OF BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY**

Name of Director	Held	Attended	Leave Granted
Mr. Feroze Sayeed-ud-Deane	5	4	1
Miss Tara Uzra Dawood	5	3	2
Mr. AVM (Retired) Zulfiqar Ahmed Shah	5	5	0
Syed Shabhat Hussain*	2	2	0
Mr. Nazimuddin Feroz	5	2	3
Mr. Iftikhar Hussain	5	4	1

* Appointed during the year

29. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements have been authorised for issue on October 4, 2010 by the Board of Directors of the Investment Advisor.

30. GENERAL

Figures have been rounded off to nearest rupee.

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

Chief Executive Officer

Director

Director



PATTERN OF SHAREHOLDING AS ON 30-JUNE-2010			
No. of Certificate Holders	Certificate Holding		Total Certificate Held
	From	To	
108	1	100	3,962
52	101	500	19,206
160	501	1,000	111,246
182	1,001	5,000	515,092
78	5,001	10,000	637,291
28	10,001	15,000	353,301
21	-15,001	20,000	390,047
22	20,001	25,000	514,302
9	25,001	30,000	256,147
2	30,001	35,000	62,573
6	35,001	40,000	233,701
13	40,001	45,000	553,861
8	45,001	50,000	391,380
2	50,001	55,000	107,999
6	55,001	60,000	348,725
1	60,001	65,000	60,025
2	65,001	70,000	139,750
4	70,001	75,000	298,000
3	75,001	80,000	228,125
3	80,001	85,000	251,103
2	85,001	90,000	178,508
1	90,001	95,000	90,900
1	95,001	100,000	100,000
4	100,001	105,000	405,771
1	105,001	110,000	109,000
1	110,001	115,000	112,500
2	115,001	120,000	232,300
3	120,001	125,000	372,018
1	125,001	130,000	126,000
2	135,001	140,000	275,500
3	145,001	150,000	445,588
1	155,001	160,000	155,825
1	185,001	190,000	188,500
2	200,001	205,000	403,140
1	205,001	210,000	210,000
1	215,001	220,000	220,000
1	220,001	225,000	223,192
1	240,001	245,000	244,419
1	270,001	275,000	273,800
1	285,001	290,000	287,999
1	395,001	400,000	399,003
1	490,001	495,000	490,774
1	570,001	575,000	571,249
1	575,001	580,000	577,800



PATTERN OF SHAREHOLDING AS ON 30-JUNE-2010			
No. of Certificate Holders	Certificate Holding		Total Certificate Held
	From	To	
4	580,001	- 585,000	2,323,000
1	660,001	- 665,000	661,500
1	755,001	- 760,000	760,000
1	810,001	- 815,000	814,469
1	835,001	- 840,000	836,200
1	895,001	- 900,000	900,000
1	940,001	- 945,000	942,363
1	1,040,001	- 1,045,000	1,040,750
1	1,045,001	- 1,050,000	1,046,281
1	1,100,001	- 1,105,000	1,104,170
2	1,115,001	- 1,120,000	1,118,650
1	1,160,001	- 1,165,000	2,323,000
1	1,185,001	- 1,190,000	1,185,100
1	1,545,001	- 1,550,000	1,546,075
1	2,222,001	- 2,227,000	2,224,000
1	2,880,001	- 2,885,000	2,884,250
1	3,350,001	- 3,355,000	3,350,050
1	3,480,001	- 3,485,000	3,484,500
1	4,490,001	- 4,495,000	4,491,136
1	5,260,001	- 5,265,000	5,262,059
1	7,605,001	- 7,610,000	7,607,825
770			58,075,000

CATEGORIES OF CERTIFICATE HOLDERS AS AT JUNE 30, 2010

Category	Number of Certificate Holders	Number of Certificate Held	Percentage
Individuals	726	17,529,647	30.18
Associated Companies	1	7,607,825	13.10
Financial Institutions	9	14,612,583	25.16
Insurance Companies	2	185,900	0.32
Joint Stock Companies	17	6,192,111	10.66
Listing Companies	2	1,305,243	2.25
Investment Companies	1	100,500	0.17
Modarabas	4	1,807,441	3.11
Others	7	8,712,250	15.00
Corporate Societies	1	21,500	0.04
Total	770	58,075,000	100.00



PATTERN OF CERTIFICATE HOLDING AS AT JUNE 30, 2010

S. No.	Certificateholders	Numbers	Certificates Held	Percentage %
1	Associated Companies	3	10,957,856	18.87
	B.R.R. Guardian Modaraba		1,046,281	1.80
	Dawood Capital Management Limited		8,792,925	15.14
	First Dawood Investment Bank Limited		1,118,650	1.93
2	Directors, CEO and their Spouses and Minor Children	2	69,690	0.12
	Tara Uzra Dawood		11,615	0.02
	Mr. Feroze Sayeed ud Deane		58,075	0.10
3	Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds	45	27,844,086	47.95
4	Certificate Holders holding ten percent or more in the Company			
	Dawood Capital Management Limited.		8,792,925	15.14