

2006

# Annual Report



F I R S T   D A W O O D   M U T U A L   F U N D



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## **CONTENTS**

<b>Corporate Information</b>	<b>2</b>
<b>Vision Statement</b>	<b>3</b>
<b>Mission Statement</b>	<b>4</b>
<b>Report of the Directors of the Management Company</b>	<b>5</b>
<b>Report of the Trustee</b>	<b>10</b>
<b>Statement of Compliance with The Code of Corporate Governance for the Year Ended June 30, 2006</b>	<b>11</b>
<b>Review Report to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance</b>	<b>13</b>
<b>Auditors' Report to the Certificate Holders</b>	<b>14</b>
<b>Financial Statements:</b>	
<b>Statement of Assets and Liabilities</b>	<b>15</b>
<b>Income Statement</b>	<b>16</b>
<b>Distribution Statement</b>	<b>17</b>
<b>Statement of Movement in Certificate Holder's Fund</b>	<b>18</b>
<b>Cash Flow Statement</b>	<b>19</b>
<b>Notes to the Financial Statement</b>	<b>20</b>
<b>Pattern of Certificate Holding</b>	<b>38</b>



## CORPORATE INFORMATION

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### Management Company

#### Registered Office

Dawood Capital Managements  
1500-A Saima Trade Towers  
I. I. Chundrigar Road  
Karachi 74000

UAN : 111-DAWOOD (111-329-663)  
PABX : (92-21) 227-1874/87  
Fax : (92-21) 227-1913  
E-Mail : dcm@firstdawood.com  
Website : [www.firstdawood.com/dcm](http://www.firstdawood.com/dcm)

<b>Board of Directors</b>	Mr. Feroze Sayeed-ud-Deane	Chairman	(Nominee of GM)
	Miss Tara Uzra Dawood	Chief Executive Officer	
	Mr. Hasib Ahmed	Director	(Nominee of ADB)
	Mr. Safdar Rashid	Director	(Nominee of BRRI)
	Mr. Gul Nawaz	Director	(Nominee of NIT)
	Mr. Anwar A. Shaikh	Director	
	Mr. Shah Faisal	Director	

**Group Finance Director** Mr. Muhammad Shoaib  
**Chief Financial Officer** Mr. Muhammad Shahid Usman  
**Company Secretary** Mr. Tahir Mehmood

**Audit Committee**

Mr. Shah Faisal	Chairman
Miss Tara Uzra Dawood	Member
Mr. Anwar A. Shaikh	Member

**Auditors** KPMG Taseer Hadi & Co.  
Chartered Accountants  
1st Floor, Sheikh Sultan Trust Building No.2  
Beaumont Road, Karachi.

**Tax Adviser** Anjum Asim Shahid Rehman  
3rd Floor, Modern Motors House  
Beaumont Road, Karachi.

**Legal Advisors** Bawaney & Partners  
404, 4th Floor, Beaumont Plaza, 6-cl-10  
Beaumont Road, Karachi.

**Bankers** Metropolitan Bank Limited  
Saudi Pak Commerical Bank

**Registrars** F. D. Registrar Services (SMC Pvt.) Ltd.  
1500 A Saima Trade Tower  
I. I. Chundrigar Road  
Karachi 74000



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## *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**

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On behalf of the Board of Directors of Dawood Capital Management Limited (the Company), the Investment Advisor of First Dawood Mutual Fund (the Fund), it gives me immense pleasure to present the Second Annual Report of the Fund along with the Audited Financial Statements, and Auditors' Report to the certificate holders for the year ended June 30, 2006.

**Fund Performance**

As at June 30, 2006, net assets were Rs. 618 million as compared to Rs. 505 million as at June 30, 2005, an increase of 22.38% over the preceding year. The net income before distribution for the financial year 2005-06 was Rs. 113 million, as against Rs. 5 million last year. This increase in net income is due to whole year operations by the fund as compared to three months operations in last year. The Board of Directors of the Investment Advisor has declared a Stock Dividend of 15% for the year ended June 30, 2006.

Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003 provides that "a security listed on a stock exchange shall be valued at its last sale price on such exchange on the date on which it valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security shall be valued at an amount neither higher than the closing asked price nor lower than the closing bid price". TFCs quoted on the stock exchange are neither actively traded on the exchange nor the quotes available are indicative of fair value of the underlying security. According to the guidelines of IAS-39, to reflect the reliable measure of fair value to Term Finance Certificates, the Management Company has adopted policy of valuation of TFCs based on the average quotes available from reputable brokerage houses dealing in money market transactions.

**Earnings per Certificate**

Earnings per certificate for the period from July 01, 2005 to June 30, 2006 are Rs. 2.24 per certificate.

**Taxation**

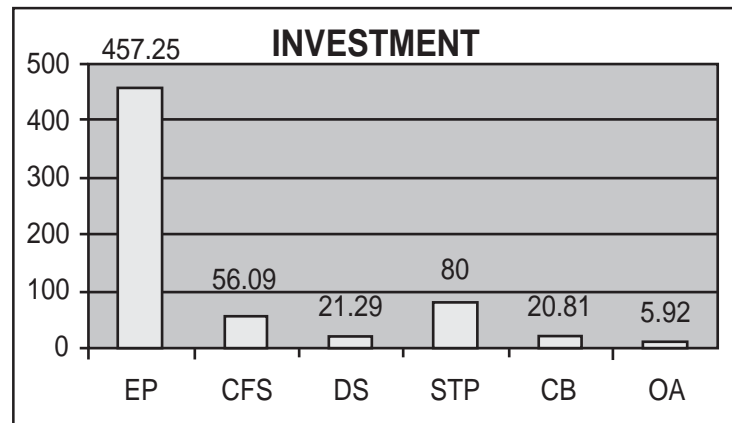
The income of FDMF will not be subject to income tax under Clause 99 of the Part 1 of the 2nd Schedule of the income tax ordinance 2001 because FDMF is distributing more than 90% of its income for the year, excluding realized and unrealized capital gains.

**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 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.

On June 30, 2006, the Fund has made investments of Rs. 457 million mostly in strong dividend payout and blue chip scripts representing 73.96% of total asset value. 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 Banks and Financial Institutions 19.8%, Insurance 15.7%, Chemicals, Fertilizer and Pharmaceuticals 14.7%, Textiles 4.6%, Oil & Gas sector 11.5% and Cement 9.9%. Break-up of total assets of the Fund are follows:



(Rupees in Million)

- EP = Equity Portfolio
- CFS = Continuous Funding System
- DS = Debt Securities
- STP = Short-Term Placements
- CB = Cash at Bank
- OA = Other Assets

**Overall Economic Scenario**

*Global Economic Situation*

While solid pace of economic expansion this year was underpinned by the macro economic policies pursued by the government, Pakistan has also benefited from the buoyant global economic environment undeterred by the rising and volatile energy prices. The global economy continued its strong expansion, becoming geographically more broad-based, and global growth is expected to remain strong over the near term. Inflation and inflationary expectations remained well contained but there is no room for complacency as there are downside risks, including those related to continued high and volatile oil prices, and abrupt tightening of global financial conditions, and a rise in protectionism.

*Performance of the Pakistan economy*

Pakistan's economy grew by 8.4 percent in 2005, the fastest rate of growth in the last two decades, but inflation and current account slipped from surplus to deficit emerged as big challenges for Islamabad. GDP growth rate is dip to 6.5 percent in 2006 but could rise to 7.3 percent in 2007. According to the ADB, Pakistan's medium term Outlook is favourable for growth which is likely to be in the range of 6 to 8 percent, assuming continued robust performance in economic management, greater investment to ease infrastructure bottlenecks, continued security and political stability. The Outlook adds that tightening of monetary policy was expected to bring inflation rate down to 8.5 percent this year and to 7.6 percent in 2007.

**Market Outlook and Prospects**

The economy is sharing very strong indications but the Stock Market continued to remain very volatile. In year 2005-06, the KSE-100 index touched its high at 12273.77 on April 17, 2006 and its low at 6970.59 on August 11, 2005. However, the KSE-100 index crossed the barrier of 12000 mark for the first time in the history of Karachi Stock Exchange. This is only due to continued interest of foreign investors' and financial institutions at August Index level, a consistent increase in the business volumes creates a healthy atmosphere.



Fuel and Energy, Banks and Financial Institutions, Transport and Communication and Cement sectors were the trend setters in the stock market during the current fiscal year.

The Securities and Exchange Commission of Pakistan (SECP) has been actively pursuing a capital market reform program geared towards the development of a modern and efficient corporate sector and capital market, based on sound regulatory principles that provide impetus for high economic growth.

#### **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 Investment Advisor hereby confirm the following as required by clause (xix) of the Code:

- The Financial statements of the Fund, prepared by the Investment Advisor of the fund present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- The Investment Advisor has maintained proper books of accounts of the Fund.
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for change in accounting policies as disclosed in note 2.2 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 going concern.
- There has been no trading during the year in the certificates 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 except as disclosed in the financial statements.

#### **Changes in Chairman/Directors**

Since the last report, there have been changes in the composition of the Board of the Investment Advisor. Mr. Rafique Dawood has resigned and board has approved his resignation through resolution. Simultaneously, the Board has approved the appointment of Mr. Feroze Sayeed-ud-Deane as Chairman of the Board in place of outgoing Chairman Mr. Rafique Dawood. Also, Mr. Muhammad Abdul Samad Nominee Director of NIT has resigned and Mr. Gul Nawaz has been nominated in his place.

The Board expresses its appreciation of the sincere efforts made by the previous director and with to welcome on board the new appointee. The Board would also like to appreciate the valuable contributions made by the outgoing Chairman, Mr. Rafique Dawood

Currently, the Company has Seven Directors on its Board.





### Board of Directors Meetings

During the year 2005-06 six (6) meetings of the Board of Directors of the Investment Advisor 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	2	-
2.	Mr. Rafique Dawood	Ex-Chairman	4	-
3.	Miss T. Uzra Dawood	Chief Executive	6	2
4.	Mr. Safdar Rashid	Director	6	-
5.	Mr. Anwar A. Sheikh	Director	6	3
6.	Mr. Hasib Ahmed	Director	6	3
7.	Mr. Gul Nawaz	Director	2	-
8.	Mr. Shah Faisal	Director	6	1
9.	Mr. Muhammad Abdul Samad	Director	4	1

### Audit Committee

The Board of Directors of the Investment Advisor 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. Shah Faisal	Chairman
Mr. Anwar A. Sheikh	Member
Miss T. Uzra Dawood	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, KPMG Taseer Hadi & Co, Chartered Accountants are due for retirement and being eligible, offer themselves for re-appointment. As required under the Code of Corporate Governance the Audit Committee of Investment Advisor has recommended the appointment of KPMG Taseer Hadi & Co, Chartered Accountant as auditors for the year ending June 30, 2007.

### 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.

The Fund 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
- Asset Liability 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](http://www.firstdawood.com/dcm) which provides corporate product information.

**Rating**

The Rating of FDMF is in progress by Pakistan Credit Rating Agency Limited (PACRA)

**Pattern of Certificate Holders as on June 30, 2006**

The pattern of certificate holders as on June 30, 2006 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**

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

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

Karachi  
Date : September 27, 2006

For and on behalf of the Board,

**Feroze Sayeed-ud-Deane**  
Chairman



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## **REPORT OF THE TRUSTEE**

### **Report of the Trustee Pursuant to the Rule 45(g) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003**

The First Dawood Mutual Fund a closed - end scheme was established under a trust deed executed between Dawood Capital Management Limited as the investment Adviser and Central Depository Company of Pakistan Limited as Trustee on December 8, 2004. The Scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on January 28, 2005.

In our opinion, Dawood Capital Management Limited, the investment Adviser of First Dawood Mutual Fund has in all material respects managed First Dawood Mutual Fund during the year ended June 30, 2006 in accordance with the provision of the Trust Deed (and the modifications authorized by the SECP from time to time) and the Non - Banking Finance Companies (Establishment and Regulation) Rules, 2003.

For the purpose of information, the attention of the Certificate Holders is drawn towards Term Finance Certificates which have been valued on the basis of brokers' quotations instead of the closing rate quoted on stock exchange in accordance with Non - Banking Finance Companies (Establishment and Regulation) Rules, 2003. Had these been valued on the basis of Non - Banking Finance Companies (Establishment and Regulation) Rules 2003. the net assets would have been higher by Rs. 2.2 Million approximately.

Date: September 27, 2006  
Kartachi

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



## **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2006**

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### **Statement of Compliance with the Code of Governance (As Required by the Listing Regulations).**

This Statement is being presented to comply with the Code of Corporate Governance (the "Code") contained in Regulation No.37 of listing regulations of Karachi Stock Exchange (Guaranteed) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance. The Investment Advisor of First Dawood Mutual Fund (The Fund) with Dawood Capital Management Limited (The Company) has applied with the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present, the Board includes six (6) independent non-executive directors. This mean 85.71% of the directors of the board are independent non-executive directors.
2. The directors of the company have confirmed that none of them is serving as a director in more then ten listed companies, including this Company.
3. All the resident directors of the Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. A casual vacancy occurred in the Board of the company was filled up by the directors within 30 days thereof.
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 of the Investment Advisor has adopted a vision/mission statement of the Fund and all the overall corporate strategy of the Company and have also formulated significant policies as mentioned in the Code. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.
7. All the powers of the Board of the company have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of the Chief Executive Officer have been taken by the Board.
8. The meetings of the Board of the company were preside over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with the 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 Directors of the Company have been provided with copies of the Listing Regulations, Code of Corporate Governance, NBFCs Rules, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant of the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and article of Associations and of their duties and responsibilities. Directors have also attended talks and seminars on the subject of Corporate Governance.
10. The Board of Directors of the Company has approved the appointment of the Chief Financial Officer, Company Secretary and internal auditor including their remuneration and terms and conditions of employment as determined by the Chief Executive Officer.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. Financial Statements for the half-year ended December 31, 2005 quarter ended September 30, 2005, March 31, 2006 and full year ended June 30, 2006 presented to the Board of the company for consideration and approval, were duly endorsed and signed by the Chief Executive Officer and Chief Financial Officer.
13. The Directors, Chief Executive Officer and executives of the company do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.



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14. The Company has complied with all the corporate and financial reporting requirements of the Code.
  15. The Board of the company has formed an Audit Committee. It comprises 3 members, of whom 2 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 the interim and final results of the Fund 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 of the company has appointed M/s Anjum Asim Shahid Rehman & Co. Chartered Accountants, as Internal Auditors of the Company and has also approved their terms and conditions. They are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund and their representatives are involved in the internal audit function on a full time basis.
  18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
  19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance to the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
  20. We confirm that all other material principles contained in the Code have been complied.

**Karachi**  
**Date: September 27, 2006**

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

**Tara Uzra Dawood**  
**Chief Executive Officer**



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
First Floor  
Sheikh Sultan Trust Building No. 2,  
Beaumont Road,  
Karachi 75530 Pakistan

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Fax + 92 (21) 568 5095  
Internet [www.kpmg.com.pk](http://www.kpmg.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 Adviser of First Dawood Mutual Fund ("the Fund") to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Director of the Investment Adviser 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 Adviser's personnel and review of various document prepared by the Investmnet Adviser to Comply with the Code.

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

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 period ended 30 June 2006.

Karachi :

Date : September 27, 2006

**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
First Floor  
Sheikh Sultan Trust Building No. 2,  
Beaumont Road,  
Karachi 75530 Pakistan

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Fax + 92 (21) 568 5095  
Internet www.kpmg.com.pk

## **AUDITOR'S REPORT TO THE CERTIFICATE HOLDERS**

We have audited the annexed Statement of Assets and Liabilities of **First Dawood Mutual Fund** as at 30 June 2006 and the related income statement, distribution statement, cash flow statement and statement of movement in equity and reserves together with the notes forming part thereof (here-in-after referred to as the "financial statements"), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Investment Advisor (Dawood Capital Management Limited) to establish and maintain a system of internal control and prepare and present the above said statements in conformity with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by Investment Advisor, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides reasonable basis for our opinion and after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Investment Advisor in respect of First Dawood Mutual Fund as required by the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;
- b) in our opinion, the statement of assets and liabilities, the income statement, distribution statement, cash flow statement and statement of movement in equity and reserves, together with notes thereon have been drawn up in conformity with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes indicated in note 2.2, with which we concur;
- c) in our opinion and to the best of our information and according to the explanations given to us, the statement of assets and liabilities, the income statement, distribution statement, cash flow statement and statement of movement in equity and reserves, together with the notes forming part thereof, give the information required by the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan, in the manner so required and respectively give a true and fair view of the state of the Fund's affairs as at 30 June 2006 and of the transactions of the Fund for the year then ended.

Karachi :

Date : September 27, 2006

**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**



**STATEMENT OF ASSETS AND LIABILITIES  
AS AT 30 JUNE 2006**

	Note	2006	2005 (Restated)
<b>ASSETS</b>			
Bank Balance - Current Account - Remunerative		20,806,852	39,767,384
Receivables Against Carry-Over Transactions		-	174,063,215
Receivables Against Continuous Funding System	5	56,089,430	-
Investments	6	478,533,036	256,813,352
Placements	7	80,000,000	65,000,000
Other Receivables	8	8,125,164	11,583,174
<b>Total Assets</b>		<u>643,554,482</u>	<u>547,227,125</u>
<b>LIABILITIES</b>			
Remuneration Payable to Investment Advisor	9	18,288,671	4,797,078
Remuneration Payable to Trustee	10	81,237	73,035
Annual Fee Payable to Securities and Exchange Commission of Pakistan	11	609,624	162,796
Preliminary Expenses Payable to Investment Advisor	12	4,200,000	5,000,000
Creditors, Accrued and Other Liabilities	13	2,273,195	32,194,216
<b>Total Liabilities</b>		<u>25,452,727</u>	<u>42,227,125</u>
<b>Net Assets</b>	<b>Rupees</b>	<u><u>618,101,755</u></u>	<u><u>505,000,000</u></u>
<b>Certificate Holder's Equity</b>			
Issued, Subscribed and Paid-Up Capital	14	505,000,000	500,000,000
Unappropriated Profit		113,101,755	5,000,000
	<b>Rupees</b>	<u><u>618,101,755</u></u>	<u><u>505,000,000</u></u>

The annexed notes 1 to 26 form an integral part of these financial statements.

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

Tara Uzra Dawood  
Chief Executive Officer

Shah Faisal  
Director

Safdar Rashid  
Director





**INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	2006	From 28 January 2005 to 30 June 2005
<b>INCOME</b>			
Capital Gain on Sale of Investment		75,803,095	2,462,859
Income from Carry-Over Transactions		3,405,651	15,166,181
Income from Continuous Funding System		16,306,037	-
Income from Term Finance Certificates		2,880,077	341,435
Income from Certificate of Deposits/Placements		8,047,800	4,240,851
Dividend Income		14,485,733	982,625
Profit on Bank Balances		1,226,260	1,467,498
		<u>122,154,653</u>	<u>24,661,449</u>
Unrealised Gain/(Loss) on Revaluation of Investments classified as Financial Assets at Fair Value through Profit or Loss	15	16,837,000	(5,633,622)
Unrealised Loss on Revaluation of Forward Contract		-	(408,000)
<b>Total Income</b>		<u>138,991,653</u>	<u>18,619,827</u>
<b>EXPENSES</b>			
Remuneration to Investment Advisor	9	18,288,671	4,797,078
Remuneration to Trustee	10	962,702	288,035
Annual Fee to SECP	11	609,624	162,796
Brokerage and Settlement Charges		5,397,199	2,705,314
Auditors' Remuneration	16	124,000	82,500
Fees and Subscription		483,702	553,104
Legal and Professional Charges		24,000	31,000
Preliminary Expenses and Formation Cost		-	5,000,000
<b>Total Expenses</b>		<u>25,889,898</u>	<u>13,619,827</u>
<b>Net Income For The Year</b>		<b>Rs. 113,101,755</b>	<b>5,000,000</b>
<b>Earnings Per Certificate - Basic and Diluted</b>	17	<b>Rs. 2.24</b>	<b>0.10</b>

The annexed notes 1 to 26 form an integral part of these financial statements.

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

Tara Uzra Dawood  
Chief Executive Officer

Shah Faisal  
Director

Safdar Rashid  
Director



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**DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	2006	From 28 January 2005 to 30 June 2005 (Restated)
Unappropriated Income As At 1 July - As Previously Reported	-	-
Change in Accounting Policy For Proposed Issue of Bonus Certificates	5,000,000	-
Unappropriated Income As At 1 July - Restated	5,000,000	-
Issue of Bonus Certificates For The Period Ended 30 June 2005	(5,000,000)	-
Net Income For The Year	113,101,755	5,000,000
<b>Unappropriated Income At 30 June</b>	<b>Rupees 113,101,755</b>	<b>5,000,000</b>

The annexed notes 1 to 26 form an integral part of these financial statements.

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

Tara Uzra Dawood  
Chief Executive Officer

Shah Faisal  
Director

Safdar Rashid  
Director



**STATEMENT OF MOVEMENT IN EQUITY AND RESERVE  
FOR THE YEAR ENDED 30 JUNE 2006**

	<b>2006</b>	<b>From 28 January 2005 to 30 June 2005</b>
Face Value of Certificate	10.00	10.00
Capital Gain on Sale of Securities	1.50	0.05
Income from Carry-Over Transactions	0.07	0.30
Income from Continuous Funding System	0.32	-
Income from Term Finance Certificate	0.06	0.01
Income from Certificate of Deposits/Placements	0.16	0.08
Dividend Income	0.29	0.02
Profit on Bank Balances	0.02	0.03
Other Net Operating Expenses	(0.51)	(0.27)
	<u>11.91</u>	<u>10.22</u>
Unrealised Gain/(Loss) on Revaluation of Investments		
Classified as Financial Assets at Fair Value Through Profit or Loss	0.33	(0.11)
Unrealised Loss on Revaluation of Forward Contract	-	(0.01)
<b>Rupees</b>	<u><u>12.24</u></u>	<u><u>10.10</u></u>

The annexed notes 1 to 26 form an integral part of these financial statements.

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

Tara Uzra Dawood  
Chief Executive Officer

Shah Faisal  
Director

Safdar Rashid  
Director



**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	2006	From 28 January 2005 to 30 June 2005
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit for the Year	113,101,755	5,000,000
<b>Adjustments For :</b>		
Unrealised Gain/Loss on Revaluation of Investments Classified as Financial Assets at Fair Value Through Profit or Loss	(16,837,000)	5,633,622
Unrealised Loss on Revaluation of Forward Contract	-	408,000
Amortization of Preliminary Expenses and Floatation Costs	-	5,000,000
	<u>96,264,755</u>	<u>16,041,622</u>
Remuneration of Investment Advisor	18,288,671	4,797,078
Remuneration of Trustee	962,702	288,035
Annual Fee of SECP	609,624	162,796
Investments (Net)	(204,882,684)	(262,854,974)
Placements	(15,000,000)	(65,000,000)
Receivables Against Carry-Over Transactions	174,063,215	(174,063,215)
Receivables Against Continuous Funding System	(56,089,430)	-
Other Receivables	3,458,010	(11,583,174)
Creditors, Accrued and Other Liabilities	(29,921,021)	32,194,216
	<u>(12,246,158)</u>	<u>(460,017,616)</u>
Annual Fee Paid to SECP	(162,796)	-
Reimbursement of Preliminary Expenses & Floatation Cost	(800,000)	-
Remuneration Paid to Investment Advisor	(4,797,078)	-
Remuneration Paid to Trustee	(954,500)	(215,000)
<b>Net Cash Outflow from Operating Activities</b>	<u>(18,960,532)</u>	<u>(460,232,616)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from Issue of Certificates of the Fund	-	500,000,000
Net Increase in Cash and Cash Equivalents	(18,960,532)	39,767,384
Cash and Cash Equivalents at the Beginning of the Year	39,767,384	-
Cash and Cash Equivalents as at End of the Year	<u>20,806,852</u>	<u>39,767,384</u>

The annexed notes 1 to 26 form an integral part of these financial statements.

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

Tara Uzra Dawood  
Chief Executive Officer

Shah Faisal  
Director

Safdar Rashid  
Director



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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006**

### **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 a closed-end Fund was authorized by Securities and Exchange Commission of Pakistan (SECP) on 28 January 2005. It has been established under a 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 in Karachi, Pakistan and Central Depository Company of Pakistan Limited, as the Trustee, a public limited company incorporated under the Companies Ordinance, 1984, and duly approved by the SECP. FDMF is listed on the Karachi Stock Exchange. The certificates of FDMF were offered for public subscription from 21 March 2005 to 22 March 2005. FDMF started investing activities from 25 February 2005.

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

2.1 These financial statements have been prepared in accordance with the requirements of approved accounting standards as applicable in Pakistan, the requirements of the NBFC Rules and directives issued by the SECP. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the NBFC Rules and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules and the said directives take precedence.

#### **2.2 Changes in Accounting Policies**

##### **2.2.1 Distribution of Cash Dividend and Bonus Certificates Declared after the Balance Sheet Date**

During the year, FDMF changed its accounting policy whereby distribution of cash dividend and bonus certificates are now recognised in the year in which they are declared. Previously, the financial statements were adjusted for distribution approved subsequent to the year-end. The change has been made to comply with directive of the Institute of Chartered Accountants of Pakistan, through Circular No. 6 of 2006. The comparative statements for the period ended 30 June 2005 have been restated to conform to the changed policy under the International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors (IAS-8)". Had there been no change in accounting policy, appropriation for the year ended 30 June 2006 would have been lower by Rs. 5 million while appropriation for the period ended 30 June 2005 would have been higher by the same amount.

##### **2.2.2 Financial Assets at Fair Value Through Profit or Loss**

International Accounting Standard (IAS) - 39 dealing with "Financial Instruments Recognition and Measurement" was revised and made applicable for annual periods beginning on or after 1 January 2005. Under the above mentioned revision, assets may be classified as "Financial Assets at Fair Value through Profit or Loss", which in turn contains two further categories; namely Held for Trading instruments and those instruments which upon initial recognition are designated by the management



at fair value through profit or loss. In accordance with the transitional provision of the above IAS, the Fund's investments which up to the previous year were classified in available for sale category (amounting to Rs. 23.575 million) have been reclassified into the later category of financial assets at fair value through profit/loss. This reclassification had no impact on the income statement and the statement of assets and liabilities of the current or the previous years.

### **2.3 New Accounting Standards and IFRIC Interpretations that are not yet effective**

IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). Management considers that this amendment is not relevant to the Fund, as all employees are on the payroll of the management company.

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). This amendment is not relevant to the Fund's operations, as the Fund does not have any intragroup transactions that would qualify as a hedged item in the financial statements.

IAS 39 (Amendment), The Fair Value Option (effective 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Fund believes that this amendment should not have a significant impact on the classification of financial instruments, as the Fund should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (IFRS 4 not yet adopted by local regulatory authorities). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts. Management considers that this amendment is not relevant to the Fund.

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 July 2006). These amendments are not relevant to the Fund's operations.

IFRS 6, Exploration for an Evaluation of Mineral Resources (expected to be locally effective from 1 July 2006). IFRS 6 is not relevant to the Fund.

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (adoption status is not yet confirmed by local regulatory authorities). IFRS 7 introduces new disclosures to improve information about financial instruments. It requires the disclosure for qualitative and quantitative information about exposures to risks arising from financial instrument, including specified minimum disclosures about credit risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments:

Presentation of Financial Statements. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. This IFRIC is not relevant to the Fund's operations.



IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Fund's operations.

IFRIC 6, Liabilities arising from Participating in a Specific market - Waste Electrical and Electronic Equipment (effective for financial periods beginning 1 December 2005). IFRIC 6 is not relevant to the Fund's operations.

### **3. BASIS OF PREPARATION**

These financial statements have been prepared under the historical cost convention, except that certain financial assets have been included 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.

The preparation of financial statements have been made 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, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are discussed in note 21 to these financial statements.

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

#### **4.1 Investments**

All investments are initially recognized at cost, being the fair value of consideration given including acquisition charges associated with the investments excluding those pertaining to investments classified as financial assets at fair value through profit or loss which are charged to the income statement immediately.

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.



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- 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 Stock Exchange quoted market prices at the close of business on balance sheet date except for those term finance certificates not actively traded on the Stock Exchanges, in respect of which rates quoted by brokers are used. Gains or losses on investments on remeasurement of these investments are recognised in income.

*Available for Sale*

Investments which do not fall under the above categories are classified as Available-For-Sale. After initial recognition, investments classified as Available-For-Sale are remeasured at fair value, determined with reference to the year-end quoted rates. Gains or losses on remeasurement of these investments are recognised directly in equity until the investment is sold, collected or otherwise disposed-off, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

All regular way of purchases and sales of investments are recognised on the trade date i.e. the date the Fund commits to purchase/sell the investments. Regular way purchases and sales of investments require delivery of securities within three days after the transaction as required by the Stock Exchange Regulations.

**4.2 Securities Under Resale Agreements**

Transactions of purchase under resale (reverse-repo) of marketable securities 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 repos) are not recognized in the statement of assets and liabilities. Amounts paid under these agreements are included in receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverse-repo agreement.

**4.3 Derivatives**

Derivatives instruments held by the Fund generally comprise of future contracts in the capital market. These are initially recognized at fair value and are subsequently remeasured at their fair value. The fair value of future contracts is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contracts. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the Statement of Assets and Liabilities. The resultant gains and losses are included in the income currently.

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 hedge accounting is not used by the Fund.





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#### **4.4 Financial Instruments**

All the financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or losses on derecognition of the financial assets and financial liabilities are taken to income directly.

#### **4.5 Offsetting of Financial Instruments**

Financial assets and financial 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 asset and settle the liability simultaneously. Corresponding income on the asset and charge on the liability is also offset.

#### **4.6 Cash and Cash Equivalents**

Cash and cash equivalents comprise of bank balances.

#### **4.7 Taxation**

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

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 realised or unrealised, is distributed amongst the Fund's 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 amount used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilized tax losses to the extent that this will be available for set off against future taxable profits. However, the Fund intends to continue availing the tax exemption by distributing atleast ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its certificate holders every year. Accordingly, no tax liability and deferred tax has been recognised in these financial statements.

#### **4.8 Revenue Recognition**

Realised capital gains/(losses) arising on sale of investments are included in the Income Statement in the period in which they arise.

Unrealised capital gains/(losses) arising on marking to market of investments classified as 'fair value through profit or loss' are included in the Income Statement in the period in which they arise.

Dividend income is recognized on the date of book closure of the Investee Company/Institution declaring the dividend. Dividend received on marketable securities acquired after the announcement of dividend till the book closure date are not taken to income but reflected as reduction in the cost of investment.

Income on Term Finance Certificates is recognized on an effective yield on time proportionate basis.

Profit on bank deposits and other similar instruments are recognized on an accrual basis.



#### 4.9 Earnings Per Certificate

Earnings per certificate is calculated by dividing the net income for the period by the weighted average number of certificates outstanding during the period.

#### 4.10 Provision

Provisions are recognised when the Fund has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

#### 4.11 Impairment

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

#### 4.12 Transaction with Connected Person

Transactions between the Fund and its connected persons as defined in the NBFC Rules are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method". Transactions with connected persons have been disclosed in note 13 to these financial statements.

### 5. RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM

The rates of return on these transactions range between 12.5% to 18% per annum, with a maximum maturity of 30 days. Fair value of the collaterals accepted against the above receivable balance as at 30 June 2006 amounted to Rs. 63.472 million.

### 6. INVESTMENTS

		2006	2005
Fair Value Through Profit or Loss			
- Held-for-Trading	6.1	457,247,781	233,238,352
- Initially Designated at Fair Value Through Profit or Loss	6.2	21,285,255	23,575,000
	Rupees	<u>478,533,036</u>	<u>256,813,352</u>



## 6.1 Investment in Marketable Securities - Held-for-Trading

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

### Quoted

Sector Scrips	Opening Balance	Purchase	Bonus / Right	Sold	Closing	Cost	Market Value	Appreciation/ (Diminution)	Percentage in relation to		
									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)
<b>CLOSE END MUTUAL FUNDS</b>											
Pakistan Capital Market Fund	10,000	-	-	10,000	-	-	-	-	-	-	-
<b>MODARABAS</b>											
B.R.R. International Modaraba	-	174,500	-	174,500	-	-	-	-	-	-	-
First Equity Modaraba	5,500	11,000	-	6,500	10,000	144,719	71,000	(73,719)	0.01%	0.0191%	0.02%
<b>LEASING COMPANIES</b>											
Saudi Pak Leasing Company Limited	2,500	-	-	2,500	-	-	-	-	-	-	-
Union Leasing Corporation Limited	-	52,500	-	-	52,500	854,875	590,625	(264,250)	0.10%	0.1342%	0.13%
<b>INVESTMENT BANKS / COMPANIES</b>											
Arif Habib Securities Limited	20,000	3,500	10,000	3,500	30,000	7,404,765	14,940,000	7,535,235	2.42%	0.1111%	3.27%
First National Equities Limited	50,000	281,500	-	113,500	218,000	7,335,147	9,265,000	1,929,853	1.50%	0.4360%	2.03%
Jawed Omer Vohra & Company	10,000	14,300	5,000	14,300	15,000	1,546,784	690,750	(856,034)	0.11%	0.0500%	0.15%
Jahangir Siddiqui Investment Bank Limited	81,600	59,500	-	104,000	37,100	1,696,594	2,149,945	453,351	0.35%	0.0435%	0.47%
Orix Investment Bank Limited	600	16,000	-	-	16,600	402,275	446,540	44,265	0.07%	0.0457%	0.10%
Pakistan Industrial Credit & Investment Corporation Limited	176,100	373,400	111,448	332,000	328,948	15,446,646	13,980,290	(1,466,356)	2.26%	0.0871%	3.06%
<b>COMMERCIAL BANKS</b>											
Askari Commercial Bank Limited	25,000	81,000	9,405	73,000	42,405	3,935,583	3,288,508	(647,075)	0.53%	0.0212%	0.72%
Bank Al Habib Limited	13,500	55,000	15,940	5,000	79,440	4,136,133	5,084,160	948,027	0.82%	0.0302%	1.11%
Bank Alfalah Limited	28,000	62,000	-	90,000	-	-	-	-	-	-	-
Bank Of Punjab Limited	152,000	811,500	110,101	933,000	140,601	13,126,336	11,627,703	(1,498,633)	1.88%	0.0490%	2.54%
Faysal Bank Limited	19,500	137,000	14,370	108,500	62,370	4,354,839	3,835,755	(519,084)	0.62%	0.0147%	0.84%
MCB Bank Limited	51,600	391,700	4,400	437,700	10,000	2,462,800	2,103,000	(359,800)	0.34%	0.0020%	0.46%
Meezan Bank Limited	-	2,500	-	2,500	-	-	-	-	-	-	-
Metropolitan Bank Limited	73,000	79,400	49,066	2,000	199,466	9,905,695	13,713,287	3,807,592	2.22%	0.0959%	3.00%
My Bank Limited	-	15,000	3,500	8,500	10,000	232,833	199,500	(33,333)	0.03%	0.0049%	0.04%
National Bank Of Pakistan	129,900	665,400	27,840	789,800	33,340	7,159,173	7,184,770	25,597	1.16%	0.0056%	1.57%
PICIC Commercial Bank Limited	-	21,000	3,000	24,000	-	-	-	-	-	-	-
Saudi Pak Commercial Bank Limited	-	78,000	-	45,000	33,000	561,650	457,050	(104,600)	0.07%	0.0086%	0.10%
Soneri Bank Limited	-	51,000	1,500	11,500	41,000	1,838,275	1,599,000	(239,275)	0.26%	0.0191%	0.35%
Union Bank Limited	-	70,000	1,500	71,500	-	-	-	-	-	-	-
United Bank Limited	-	99,900	-	99,900	-	-	-	-	-	-	-



*Quoted*

Sector Scripts	Opening Balance	Purchase	Bonus/Right	Sold	Closing	Cost	Market Value	Appreciation/ (Diminution)	Percentage in relation to		
									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)
<b>INSURANCE</b>											
Adamjee Insurance Company Limited	10,000	95,400	1,250	98,400	8,250	1,456,890	1,010,625	(446,265)	0.16%	0.0091%	0.22%
American Life Insurance Company Limited	-	2,070,000	-	500	2,069,500	53,025,590	64,154,500	11,128,910	10.38%	6.3677%	14.03%
Askari Insurance Company Limited	18,000	70,000	13,500	-	101,500	2,363,485	4,166,575	1,803,090	0.67%	0.9933%	0.91%
Century Insurance Company Limited	2,200	18,500	3,920	-	24,620	909,173	997,110	87,937	0.16%	0.1636%	0.22%
International General Insurance Limited	1,100	-	330	-	1,430	221,859	507,650	285,791	0.08%	0.0093%	0.11%
New Jubilee Life Insurance Company Limited	10,000	75,000	-	40,000	45,000	1,005,700	990,000	(15,700)	0.16%	0.0718%	0.22%
Pakistan Reinsurance Company Limited	-	20,000	-	20,000	-	-	-	-	-	-	-
<b>TEXTILE WEAVING</b>											
Zephyr Textile Limited	-	105,000	-	35,000	70,000	746,233	490,000	(256,233)	0.08%	0.1178%	0.11%
<b>TEXTILE COMPOSITE</b>											
Artistic Denim Mills Limited	-	2,000	-	1,000	1,000	174,513	225,000	50,487	0.04%	0.0071%	0.05%
Azgard Nine Limited (Preference Shares)	1,000,000	69,500	-	412,875	656,625	6,879,628	6,566,250	(313,378)	1.06%	0.7559%	1.44%
Azgard Nine Limited	-	456,073	-	11,500	444,573	8,784,656	9,802,835	1,018,179	1.59%	0.5118%	2.14%
Chenab Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
Gul Ahmed Textile Mills Limited	7,200	720	720	-	8,640	536,760	354,240	(182,520)	0.06%	0.0205%	0.08%
Nishat (Chunian) Limited	1,800	56,000	2,220	32,100	27,920	2,235,562	1,242,440	(993,122)	0.20%	0.0371%	0.27%
Nishat Mills Limited	-	339,000	-	339,000	-	-	-	-	-	-	-
Reliance Weaving Mills Limited	2,500	-	-	2,500	-	-	-	-	-	-	-
<b>SYNTHETIC &amp; RYON</b>											
Dewan Salman Fibre Limited	132,500	210,000	-	130,000	212,500	3,885,838	2,380,000	(1,505,838)	0.39%	0.0580%	0.52%
<b>SUGAR &amp; ALLIED INDUSTRIES</b>											
Dewan Sugar Mills Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
J.D.W. Sugar Mills Limited	-	162,700	13,890	80,200	96,390	6,201,662	8,144,955	1,943,293	1.32%	0.3703%	1.78%
Shakarganj Sugar Mills Limited	-	5,000	-	-	5,000	193,250	137,500	(55,750)	0.02%	0.0097%	0.03%
Tandlianwala Sugar Mills Limited	-	7,500	-	7,500	-	-	-	-	-	-	-
<b>CEMENT</b>											
Al Abbas Cement Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
Cherat Cement Company Limited	-	10,000	-	-	10,000	813,000	650,000	(163,000)	0.11%	0.0120%	0.14%
D.G.Khan Cement Limited	40,000	389,500	-	393,500	36,000	5,142,719	3,240,000	(1,902,719)	0.52%	0.0195%	0.71%
D.G.Khan Cement Limited - Right	-	5,000	7,500	-	12,500	266,500	650,000	383,500	0.11%	0.0271%	0.14%
Dewan Cement Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
Fauji Cement Company Limited	-	161,000	-	161,000	-	-	-	-	-	-	-
Gharibwal Cement Limited	-	27,500	-	27,500	-	-	-	-	-	-	-
Kohat Cement Limited	-	129,000	-	82,500	46,500	2,708,368	2,508,675	(199,693)	0.41%	0.0628%	0.55%
Lucky Cement Company Limited	5,000	137,500	-	115,000	27,500	3,269,943	2,847,625	(422,318)	0.46%	0.0104%	0.62%
Maple Leaf Cement Limited	20,000	280,500	10,000	215,000	95,500	3,499,234	2,444,800	(1,054,434)	0.40%	0.0321%	0.53%
Pioneer Cement Limited	51,500	771,000	34,225	134,000	722,725	21,582,830	32,992,396	11,409,566	5.34%	0.4448%	7.22%
Zeal Pak Cement Factory Limited	-	25,000	-	25,000	-	-	-	-	-	-	-



*Quoted*

Sector Scripts	Opening Balance	Purchase Bonus / Right	Sold	Closing	Cost	Market Value	Appreciation/ (Diminution)	Percentage in relation to			
								Net Assets of the Fund Value of Investment)	Paid Up Capital of Investee Company (with Face Value of Investment)	Total Market Value (Carrying Value of Investment)	
<b>TOBACCO</b>											
Lakson Tobacco Company Limited	2,000	-	400	-	2,400	452,540	715,200	262,660	0.12%	0.0047%	0.16%
<b>REFINERY</b>											
Attock Refinery Limited	15,900	3,500	3,900	6,400	16,900	2,323,384	1,465,230	(858,154)	0.24%	0.0372%	0.32%
Bosicor Pakistan Limited	-	525,500	-	295,500	230,000	7,250,277	4,945,000	(2,305,277)	0.80%	0.0939%	1.08%
<b>POWER GENERATION &amp; DISTRIBUTION</b>											
Hub Power Company Limited	25,000	75,000	-	52,500	47,500	1,274,549	1,092,500	(182,049)	0.18%	0.0041%	0.24%
Kot Addu Power Company Limited	97,500	126,000	-	43,500	180,000	8,086,323	7,578,000	(508,323)	1.23%	0.0204%	1.66%
Karachi Electric Supply Corporation	10,000	135,000	-	60,000	85,000	984,250	654,500	(329,750)	0.11%	0.0028%	0.14%
Kohinoor Energy Limited	10,500	-	-	10,500	-	-	-	-	-	-	-
Southern Electric Power Company Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
<b>OIL &amp; GAS MARKETING COMPANIES</b>											
Attock Petroleum Limited	-	21,400	-	20,900	500	163,683	161,500	(2,183)	0.03%	0.0013%	0.04%
Pakistan State Oil Company Limited	27,600	288,400	-	245,500	70,500	24,100,310	21,784,500	(2,315,810)	3.52%	0.0411%	4.76%
Shell Pakistan Limited	-	12,500	-	2,600	9,900	5,286,502	4,765,860	(520,642)	0.77%	0.0226%	1.04%
Sui Northern Gas Pipeline Limited	35,000	95,000	-	130,000	-	-	-	-	-	-	-
Sui Southern Gas Company Limited	110,000	414,500	-	439,500	85,000	2,885,263	2,456,500	(428,763)	0.40%	0.0127%	0.54%
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>											
Mari Gas Company Limited	-	2,000	-	2,000	-	-	-	-	-	-	-
Oil & Gas Development Corporation	46,000	1,053,600	-	1,018,600	81,000	11,185,027	11,076,750	(108,277)	1.79%	0.0019%	2.42%
Pakistan Oilfields Limited	17,500	245,400	17,150	251,100	28,950	9,124,956	9,692,460	567,504	1.57%	0.0220%	2.12%
Pakistan Petroleum Limited	154,500	461,800	-	603,300	13,000	2,858,167	2,754,050	(104,117)	0.45%	0.0019%	0.60%
<b>ENGINEERING</b>											
Transmission Engineering Industries Limited	-	35,500	-	35,500	-	-	-	-	-	-	-
<b>AUTOMOBILE ASSEMBLER</b>											
Dewan Farooq Motors Limited	-	64,500	-	64,500	-	-	-	-	-	-	-
Indus Motor Company Limited	-	3,000	-	3,000	-	-	-	-	-	-	-
Pak Suzuki Motor Company Limited	-	4,000	-	4,000	-	-	-	-	-	-	-
<b>AUTOMOBILE PARTS &amp; ACCESSORIES</b>											
Agrauto Industries Limited	-	5,000	-	5,000	-	-	-	-	-	-	-
General Tyre Limited	-	5,000	-	5,000	-	-	-	-	-	-	-



## Quoted

Sector Scrips	Opening Balance	Purchase	Bonus/Right	Sold	Closing	Cost	Market Value	Appreciation/ (Diminution)	Percentage in Relation to		
									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)
<b>CABLE &amp; ELECTRIC GOODS</b>											
Pak Electron Limited	9,800	15,000	1,470	15,500	10,770	476,590	1,141,082	664,492	0.18%	0.0176%	0.25%
<b>TRANSPORT</b>											
Pakistan International Airlines Corporation	10,000	196,000	-	206,000	-	-	-	-	-	-	-
Pakistan International Container Terminal Limited	5,000	-	-	5,000	-	-	-	-	-	-	-
Pakistan National Shipping Corporation	4,000	-	400	4,400	-	-	-	-	-	-	-
<b>TECHNOLOGY &amp; COMMUNICATION</b>											
Calmate Telips Telecom Limited	26,000	503,000	108,721	126,500	511,221	25,702,924	28,372,766	2,669,842	4.59%	0.7821%	6.21%
Netsol Technologies Limited	-	31,500	-	12,000	19,500	919,681	434,850	(484,831)	0.07%	0.0549%	0.10%
Pakistan Telecommunication Company Limited	109,500	305,500	-	357,500	57,500	3,529,156	2,334,500	(1,194,656)	0.38%	0.0015%	0.51%
Telecard Limited	-	455,000	-	370,000	85,000	1,283,057	964,750	(318,307)	0.16%	0.0283%	0.21%
TRG Pakistan Limited	37,000	155,000	-	72,000	120,000	1,458,583	1,206,000	(252,583)	0.20%	0.0524%	0.26%
TRG Pakistan Limited - Right	-	-	66,000	-	66,000	-	23,100	23,100	0.00%	0.0457%	0.01%
World Call Communications Limited	-	35,000	-	35,000	-	-	-	-	-	-	-
<b>FERTILIZERS</b>											
Dawood Hercules Chemicals Limited	-	7,000	600	3,000	4,600	794,914	1,359,300	564,386	0.22%	0.0056%	0.30%
Engro Chemical Pakistan Limited	-	237,900	-	200,900	37,000	6,507,972	6,267,800	(240,172)	1.01%	0.0242%	1.37%
Fauji Fertilizer Company Limited	55,775	100,100	26,312	54,700	127,487	13,591,373	15,425,927	1,834,554	2.50%	0.0258%	3.37%
Fauji Fertilizer Company-Bin Qasim Limited	46,000	722,500	-	522,000	246,500	9,298,366	7,210,125	(2,088,241)	1.17%	0.0264%	1.58%
<b>PHARMACEUTICALS</b>											
GlaxoSmithKline Pakistan Limited	95,400	7,700	25,725	100	128,725	17,954,849	22,655,600	4,700,751	3.67%	0.1178%	4.95%
Otsuka Pakistan Limited	-	236,500	-	500	236,000	9,472,007	10,360,400	888,393	1.68%	2.3600%	2.27%
<b>CHEMICALS</b>											
Biafo Industries Limited.	-	10,000	-	-	10,000	211,400	215,000	3,600	0.03%	0.0500%	0.05%
BOC Pakistan Limited	-	13,000	-	700	12,300	2,103,988	1,512,900	(591,088)	0.24%	0.0491%	0.33%
Colgate Palmolive Limited	2,100	-	-	-	2,100	508,116	726,600	218,484	0.12%	0.0172%	0.16%
I.C.I Pakistan Limited	-	41,500	-	41,500	-	-	-	-	-	-	-
Nimir Industries Chemical Limited	-	25,000	-	25,000	-	-	-	-	-	-	-
Pakistan PTA Limited	30,000	324,500	-	150,000	204,500	1,641,342	1,308,800	(332,542)	0.21%	0.0135%	0.29%
<b>PAPER &amp; BOARD</b>											
Century Paper Limited	6,000	127,100	-	53,100	80,000	5,036,620	3,876,000	(1,160,620)	0.63%	0.2490%	0.85%
<b>FOOD AND PERSONAL CARE PRODUCTS</b>											
Clover Pakistan Limited	10,400	-	-	-	10,400	996,320	1,185,600	189,280	0.19%	0.1905%	0.26%
Gillette Pakistan Limited	2,000	200	-	-	2,200	126,520	244,200	117,680	0.04%	0.0115%	0.05%
Muree Brewery Company Limited	19,700	1,100	2,080	-	22,880	1,652,581	2,195,336	542,755	0.36%	0.2321%	0.48%
Nestle Milk Pak Limited	-	5,400	-	100	5,300	5,910,045	5,843,515	(66,530)	0.95%	0.0117%	1.28%
Unilever Pakistan Limited (Rs.50 per share)	-	40	-	-	40	58,404	76,000	17,596	0.01%	0.0001%	0.02%
Zulfiqar Industries Limited	3,400	-	-	-	3,400	325,720	476,000	150,280	0.08%	0.0850%	0.10%



*Quoted*

Sector Scrips	Opening Balance	Purchase	Bonus / Right	Sold	Closing	Cost	Market Value	Appreciation/ (Diminution)	Percentage in relation to		
									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)
<b>MISCELLANEOUS</b>											
Cinepax Limited *	-	50,000	-	-	50,000	500,000	500,000	-	0.08%	-	0.11%
Ecopack Limited	855,500	2,700	128,325	2,500	984,025	49,475,064	34,293,271	(15,181,793)	5.55%	5.9957%	7.50%
Siddiquesons Tin Plate Limited	-	5,000	-	-	5,000	210,750	166,250	(44,500)	0.03%	0.0070%	0.04%
Tri-Pack Films Limited	-	30,000	-	30,000	-	-	-	-	-	-	-
						<u>Rupees 444,170,088</u>	<u>457,247,781</u>	<u>13,077,693</u>			

\* The Company has Applied with the Karachi Stock Exchange for listing of its securities.



## 6.2 Initially Designated at Fair Value Through Profit or Loss

Term Finance Certificates (TFCs)	2006	2005
<i>Leasing Company</i>		
Al Zamin Leasing Modaraba	4,727,500	5,000,000
<i>Communication</i>		
Telecard Limited	16,557,755	18,575,000
	Rupees <u>21,285,255</u>	<u>23,575,000</u>

The above TFCs are redeemable semi-annually by 26 November 2006 with the yield ranging from 9.5% to 12.5% (2005: 8.28% to 12.5%) per annum. All TFCs have the face value of Rs. 5,000 each. The total cost of investment in TFCs is Rs. 23,575,000 (2005: 23,575,000).

## 7. PLACEMENTS

<i>Unsecured</i>		
Housing Finance	55,000,000	10,000,000
Leasing Company	-	25,000,000
Discount House	-	30,000,000
Investment Bank	25,000,000	-
	Rupees <u>80,000,000</u>	<u>65,000,000</u>

These are clean placements having return ranging from 11% to 13% (2005: 10% to 12.5%) per annum with maturities ranging from 10 August 2006 to 5 September 2006 (2005: 4 July 2005 to 15 September 2005).

## 8. OTHER RECEIVABLES

<i>Considered Good</i>		
Security Deposit	50,000	50,000
Dividend Income Receivable	1,438,028	3,523,700
Profit on Term Finance Certificate Receivable	277,800	269,529
Profit on Placement Receivable	922,466	220,547
Profit on Bank Balance Receivable	148,047	118,033
Receivable from Broker	4,788,919	6,708,064
Advance Tax Receivable	395,557	693,301
Income Receivable on CFS investments	104,347	-
	Rupees <u>8,125,164</u>	<u>11,583,174</u>

## 9. REMUNERATION PAYABLE TO INVESTMENT ADVISOR

The Investment Advisor is entitled to remuneration for services rendered to the Fund under the provision of the NBFC Rules for the first five years of the Fund, of an amount not exceeding three percent of the average daily net assets of the Fund and two percent per annum of the average daily net assets thereafter of The investment advisor has decided to charge its remuneration for the current period at the rate of three percent of net assets value as at year end.





**10. 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.

**11. ANNUAL FEE PAYABLE TO SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**

This represents the annual fee payable to SECP in accordance with Rule 54 of NBFC Rules at the rate of one tenth of one percent of the daily net assets value of the Fund.

**12. PRELIMINARY EXPENSES PAYABLE TO MANAGEMENT COMPANY**

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

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

	<b>2006</b>	<b>2005</b>
Opening Balance	5,000,000	-
Expenses Incurred During the Period	-	5,000,000
Paid During the Year	<u>(800,000)</u>	<u>-</u>
Closing Balance	Rupees <u>4,200,000</u>	<u>5,000,000</u>

**13. CREDITORS, ACCRUED AND OTHER LIABILITIES**

Payable to Broker	2,158,195	31,666,579
Fair Value of Derivative Financial Instruments	-	408,000
Legal and professional Charges	-	26,000
Auditors Remuneration	110,000	82,500
Other Payable	<u>5,000</u>	<u>11,137</u>
	Rupees <u>2,273,195</u>	<u>32,194,216</u>

**14. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

Fully paid ordinary certificates of Rs. 10 each

<b>2006</b>	<b>2005</b>		<b>2006</b>	<b>2005</b>
(Number of certificates)				
50,00,000	50,00,000	Issued for fully paid in cash	500,000,000	500,000,000
500,000	-	Issued as fully paid bonus certificates	<u>5,000,000</u>	<u>-</u>
<u>50,50,000</u>	<u>50,00,000</u>		Rupees <u>505,000,000</u>	<u>500,000,000</u>


**15. UNREALISED GAIN/(LOSS) ON REVALUATION OF INVESTMENTS CLASSIFIED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>30 June 2006</b>	<b>From 28 January 2005 to 30 June 2005</b>
Unrealized Gain/(Loss) on Held for Trading Investments	19,119,315	(5,633,622)
Unrealized Loss on Revaluation of Investments Initially Designated at Fair Value Through Profit or Loss	<u>(2,282,315)</u>	<u>-</u>
Rupees	<u><u>16,837,000</u></u>	<u><u>(5,633,622)</u></u>

**16. AUDITORS REMUNERATION**

Audit Fee	85,000	75,000
Half -Yearly Review	25,000	-
Other Certification and Services	14,000	7,500
Rupees	<u><u>124,000</u></u>	<u><u>82,500</u></u>

**17. EARNING PER CERTIFICATE**

Profit for the Year	Rupees	<u><u>113,101,755</u></u>	<u><u>5,000,000</u></u>
Weighted Average Certificate Outstanding During the Year	Number	<u><u>50,500,000</u></u>	<u><u>50,500,000</u></u>
Earnings Per Certificate - Basic and Diluted	Rupees	<u><u>2.240</u></u>	<u><u>0.099</u></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 close family members.

Transactions with the 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:

**Associated Companies**

Balance at the Beginning of the Year	-	-
Placements During the Year	627,000,000	413,000,000
Maturities of Placements During the Year	<u>(602,000,000)</u>	<u>(413,000,000)</u>
<b>Balance at the End of the Year</b>	Rupees <u><u>25,000,000</u></u>	<u><u>-</u></u>



Investment Advisor	2006	2005
Balances at the Beginning of the Year	9,797,078	-
Remuneration for the Year	18,288,671	4,797,078
Formation and Floatation Cost Payable	-	5,000,000
Issuance of Unit Certificate	-	75,500,000
Received against Issuance of Unit Certificate	-	(75,500,000)
Reimbursement of Formation & Floatation Cost		
During the Year	(800,000)	-
Remuneration Paid During the Year	(4,797,078)	-
<b>Balances at the End of the Year</b>	<b>Rupees 22,488,671</b>	<b>9,797,078</b>

**19. 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:

	Effective rate (%) per annum	2006				Total
		Exposed to MROR risk			Not exposed to MROR risk	
		Up to three months	More than three months and upto one year	More than one year		
<b>Financial Assets</b>						
Bank Balances	4.5 - 9.0	20,806,852	-	-	-	20,806,852
Receivable Against CFS	12.0 - 18.00	56,089,430	-	-	-	56,089,430
Investments	9.5 - 12.5	-	-	21,285,255	457,247,781	478,533,036
Placements	11.0 - 13.0	80,000,000	-	-	-	80,000,000
Other Receivables		-	-	-	7,729,607	7,729,607
		156,896,282	-	21,285,255	464,977,388	643,158,925
<b>Financial Liabilities</b>						
Remuneration Payable to Management Company	-	-	-	-	(18,288,671)	(18,288,671)
Remuneration Payable to Trustee	-	-	-	-	(81,237)	(81,237)
Annual Fee Payable to SECP	-	-	-	-	(609,624)	(609,624)
Preliminary Expenses Payable to Investment Advisor	-	-	-	-	(4,200,000)	(4,200,000)
Creditors, Accrued and Other Liabilities	-	-	-	-	(2,273,195)	(2,273,195)
		-	-	-	(25,452,727)	(25,452,727)
<b>On-Balance Sheet Gap</b>	Rupees	156,896,282	-	21,285,255	439,524,661	617,706,198



	Effective rate (%) per annum	2005			Not exposed to MROR risk	Total
		Exposed to MROR risk				
		Up to three months	More than three months and upto one year	More than one year		
<b>Financial Assets</b>						
Bank Balances	3.00	39,767,384	-	-	-	39,767,384
Receivable Against Carry-Over Transactions	10.23	174,063,215	-	-	-	174,063,215
Investments	8.28-12.5	-	-	23,575,000	233,238,352	256,813,352
Placements	10-12.5	65,000,000	-	-	-	65,000,000
Other Receivables	-	-	-	-	10,889,873	10,889,873
		278,830,599	-	23,575,000	244,128,225	546,533,824
<b>Financial Liabilities</b>						
Remuneration Payable to Management Company	-	-	-	-	(4,797,078)	(4,797,078)
Remuneration Payable to Trustee	-	-	-	-	(73,035)	(73,035)
Annual Fee Payable to SECP	-	-	-	-	(162,796)	(162,796)
Preliminary Expenses Payable to Investment Advisor	-	-	-	-	(5,000,000)	(5,000,000)
Creditors, Accrued and Other Liabilities	-	-	-	-	(32,194,216)	(32,194,216)
		-	-	-	(42,227,125)	(42,227,125)
On-Balance Sheet Gap	Rupees	278,830,599	-	23,575,000	201,901,100	504,306,699

## 20. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

## 21. RISK MANAGEMENT

The Fund primarily invests in listed equities and debt securities, continuous funding system and reverse repurchase transactions. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

### 21.1 Market Risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Investment Adviser manages market risk by monitoring exposure on marketable securities by following the investment guidelines and regulations laid down by the SECP.



## 21.2 Credit Risk

### Credit Risk Management

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in the case of reverse re-purchase transactions or other arrangements to fulfill their obligations. There is a possibility of default by participants and of failure of the financial markets/ stock exchanges, the depositories, the settlements or the clearing system, etc.

The risk is managed through assignment of credit limits, obtaining adequate collaterals and following strict credit evaluation criteria laid down by the Investment Adviser. The Investment Advisor does not expect to incur material credit losses on financial assets existing at reporting date.

### *Concentration of Credit Risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Financial assets subject to credit risk amount to Rs. 643.159 million (2005: Rs. 547.227 million). The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk.

## 21.3 Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Investment Adviser manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

## 21.4 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 Adviser 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. The Investment Adviser expects economic uncertainty, the portfolio will be restructured so as to comprise of short-term debt securities, money market instruments, short maturity reverse repurchase transactions and continuous funding system.

## 22. PERFORMANCE TABLE

The Fund's financial highlights for the year ended 30 June 2006 and earlier period are as under:

	<b>30 June 2006</b>	<b>From 28 January 2005 to 30 June 2005</b>
Net Asset Value	Rupees 618,101,755	505,000,000
Net Income	Rupees 113,101,755	5,000,000
Net Asset Value Per Certificate	Rupees 12.24	10.10
Earning Per Certificate	Rupees 2.24	0.10
Dividend/Bonus Distribution	Percent	1



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**23. ACCOUNTING ESTIMATES AND JUDGMENTS**

The Investment Advisor of the Fund makes judgments and assumptions that affect the reported amount of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant judgment exercised by the management in respect of these financial statements was the determination of the fair value of financial instruments. Management has determined fair value of certain investments by using quotations from active market. Fair value estimates are made at a specific point of time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matter of judgment (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

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

The Board of Directors of the management company have approved bonus dividend @ 15% (2005: bonus dividend @ 1%) for the year ended 30 June 2006. These financial statements do not reflect this proposed issue.

**25. DATE OF AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

These financial statements have been authorised for issue on September 27, 2006 by the Board of Directors of the Investment Adviser.

**26. GENERAL**

Figures have been rounded off to nearest rupee.

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

Tara Uzra Dawood  
Chief Executive Officer

Shah Faisal  
Director

Safdar Rashid  
Director



**PATTERN OF CERTIFICATE HOLDING AS AT JUNE 30, 2006**

No. of Certificate Holders	Certificate Holding		Total Certificate Held
	From	To	
63	1	100	419
11	101	500	5,400
182	501	1000	100,825
57	1001	5000	112,017
12	5001	10000	92,318
13	10001	15000	157,745
4	15001	20000	80,000
1	40001	45000	43,000
3	45001	50000	143,000
4	50001	55000	202,000
1	60001	65000	63,500
1	65001	70000	66,000
2	70001	75000	148,500
1	85001	90000	90,000
1	95001	100000	100,000
2	100001	105000	202,000
1	250001	255000	252,500
1	265001	270000	267,000
1	275001	280000	277,000
1	365001	370000	370,000
1	485001	490000	488,000
1	495001	500000	500,000
6	500001	505000	3,030,000
1	655001	660000	658,500
1	780001	785000	781,000
1	845001	850000	846,500
1	900001	905000	905,000
1	925001	930000	927,000
1	950001	955000	952,500
1	980001	985000	984,000
1	1000001	1005000	1,001,000
4	1005001	1010000	4,040,000
1	1070001	1075000	1,072,781
1	1400001	1405000	1,403,281
2	1510001	1515000	3,030,000
1	1800001	1805000	1,804,321
1	1830001	1835000	1,830,281
1	2520001	2525000	2,525,000
1	3025001	3030000	3,030,000
1	3060001	3065000	3,060,704
1	3665001	3670000	3,665,704
1	4575001	4580000	4,575,704
1	6615500	6620000	6,615,500
394			50,500,000



## CATEGORIES OF CERTIFICATE HOLDERS AS AT JUNE 30, 2006

### Categories of Certificate holders

Particulars	Number of Share Holders	Total Share Held	Percentage %
Financial Institutions	12	25,105,112	49.71
Individuals	348	2,362,244	4.68
Insurance Companies	3	676,000	1.34
Investment Companies	1	1,001,000	1.98
Joint Stock Companies	8	7,872,962	15.59
Leasing Companies	5	4,672,270	9.25
Modarabas	7	2,498,897	4.95
Modaraba Companies	2	1,010	0.00
Mutual Fund	2	755,000	1.50
Others	6	5,555,505	11.00
	394	50,500,000	100

## PATTERN OF CERTIFICATE HOLDING AS AT JUNE 30, 2006

Category No.	Categories of Certificate Holders	Number	Certificates Held	Percentage %
<b>1</b>	<b>Associated Companies</b>			
	Dawood Capital Management		7,599,500	15.05
	First Dawood Investment Bank Limited		1,001,000	1.98
	Guardian Modaraba		56,294	0.11
		<b>6</b>	<b>8,656,744</b>	<b>18.78</b>
<b>2</b>	<b>NIT &amp; ICP</b>			
	National Bank of Pakistan, Trustee Dept.	<b>1</b>	<b>4,575,704</b>	<b>9.06</b>
<b>3</b>	<b>Directors, CEO and their Spouses and Minor Children</b>			
	Tara Uzra Dawood	<b>2</b>	<b>10,100</b>	<b>0.02</b>
<b>4</b>	<b>Public Sector Companies and Corporation</b>			
<b>5</b>	<b>Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds</b>	<b>32</b>	<b>28,579,789</b>	<b>56.59</b>
<b>6</b>	<b>Certificate Holders Holding Ten Percent or More in the Fund.</b>			
	Dawood Capital Management		<b>7,599,500</b>	<b>15.05</b>



**Managed by Dawood Capital Management Ltd.**  
**A company sponsored by Asian Development Bank & First Dawood Group**  
**Trustee: Central Depository Company of Pakistan**



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