

PAKISTAN
STRATEGIC
ALLOCATION
FUND



Asset Manager Rating
'AM2' Positive Outlook (by PACRA)



HEAD OFFICE:

Arif Habib Centre,

23 M. T. Khan Road, Karachi-74000, Pakistan.

Tel: (+92-21) 111-468-378 (111-INVEST)

Fax: (+92-21) 32470351, 32470337

E-mail: marketing@arifhabib.com.pk

Website: www.arifhabib.com.pk



CONTENTS

1	Fund's Information
2	Report of the Director of the Management Company
5	Report of the Fund Manager
10	Trustee Report to the Certificate Holders
11	Statement of Compliance with the Code of Corporate Governance
13	Review Report to the Certificate Holders on Statement of Compliance with Best Practice of Code of Corporate Governance
14	Independent Auditors' Report to the Certificate Holders
16	Statement of Assets and Liabilities
17	Income Statement
18	Distribution Statement
19	Cash Flow Statement
20	Statement of Movement in Equity and Reserves 'Per Certificate'
21	Statement of Movement in Equity and Reserves
40	Notes to and Forming Part of the Financial Statements
41	Pattern of Certificate Holding
42	Categories of Certificate Holders
43	Pattern of Certificate Holding as per Requirement of Code of Corporate Governance
44	Statement of Income and Expenditure of the Management Company in Relation to the Fund
45	Performance Table

FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 23, M.T. Khan Road, Karachi - 74000	
Board of Directors of the Management Company	Mr. Muhammad Shafi Malik Mr. Nasim Beg Mr. Sirajuddin Cassim Mr. S. Gulrez Yazdani Mr. Muhammad Akmal Jameel Mr. Syed Ajaz Ahmed Mr. Muhammad Kashif	Chairman Chief Executive Director Director Director Director Director
Company Secretary & CFO of the Management Company	Mr. Zeeshan	
Audit Committee	Mr. Muhammad Shafi Malik Mr. Muhammad Akmal Jameel Mr. Muhammad Kashif Mr. Syed Ajaz Ahmed	Chairman Member Member Member
Trustee	Central Depository Company of Pakistan (CDC) CDC House, 99-B, SMCHS, Main Shahrah-e-Faisal, Karachi	
Bankers of the Fund	<ul style="list-style-type: none">• Allied Bank Limited• Bank Alfalah Limited• Bank Al Habib Limited• Deutsche Bank AG, Karachi Branch• Habib Metropolitan Bank Limited• MCB Bank Limited• Summit Bank Limited (Formerly: Arif Habib Bank Limited)• The Bank of Punjab	
Auditors	M/s. A.F. Ferguson & Co. Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi - 74000	
Legal Advisor	M/s. Bawaney & Partners 404, Beaumont Plaza, Beaumont Road, Karachi – 75530	
Registrar	M/s. Gangjees Registrar Services Private Limited 516, Clifton Centre, Kehkashan, Clifton, Karachi	
Rating	PACRA: 3 Star (Normal) PACRA: 3 Star (Long Term) PACRA: AM2 (Positive Outlook) – Management Quality rating assigned to the Management Company	

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2010

The Board of Directors of Arif Habib Investments Limited, the Management Company of the Pakistan Strategic Allocation Fund (PSAF), is pleased to present its annual report together with audited Financial Statements for the Financial Year ended June 30, 2010.

Fund Objective

The objective of the fund is to provide investors a mix of income and capital growth over medium to long term primarily from investment in Pakistani equities.

Fund Profile

Pakistan Strategic Allocation Fund (PSAF) is a closed end strategic allocation fund which primarily invests in equities based on a quantitative model. The Fund takes advantage of equity market volatility and buys equities when they are underpriced and sells equities when they are overpriced. DCF (discounted cash flow) valuations are pivotal for stocks selection in the portfolio. The fund is mostly invested in liquid stocks. Under the NBFC Rules, the fund is not allowed to borrow. The board has approved the categorization of the Fund as "Asset Allocation".

Funds Performance during Financial Year ended June 30, 2010

The Net Asset Value (NAV) per certificate at the end of the year stood at Rs 8.44 per certificate as compared to opening ex-dividend NAV of Rs 7.12 per certificate, thus registering an increase of Rs 1.32/- per certificate during the year.

The net assets of the Fund as at June 30, 2010 stood at Rs 2,531.17 million as compared to Rs 2,136.57 million as at June 30, 2009 registering an increase of 18.47%.

The Fund earned net income of Rs 384.45 million during the year ended June 30, 2010 compared a net loss of Rs 934.08 million for the corresponding year. The net income comprises mainly of income from capital gain on sale of investments of Rs 288.52 million, dividend income of Rs 119.41 million, income from government securities of Rs 47.06 million, income from reverse repurchase transaction Rs 3.23 million, income from term finance certificates of Rs 4.91 million, profit on bank deposits of Rs 16.18 million.

Earnings Per Certificate (EPC)

EPC of the Fund for the year ended June 30, 2010 is Rs 1.28.

Income Distribution

The Board in the meeting held on August 03, 2010 has declared final distribution of Rs 1.1534 per certificate (16.20% on the opening Ex – NAV and 11.534% of face value of Rs 10 for Financial Year 2010) in the form of cash dividend amounting to Rs 346.02 million.

Explanation With Regards To Auditor's Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with SHC by some Mutual Funds through their Trustee along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained legal opinions from couple of renowned law firms to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinions, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letters suggest that provisioning was neither required nor necessary. Further, the opinions suggest that the petition filed with the High Court of Sindh be withdrawn.

External Auditors' based on a different legal advice are of the view that provisions for WWF should be made in the financial statements. The management has not made any provisions in respect of WWF and maintains that based on letter issued by Ministry of Labour and Manpower, mutual funds are not establishments and as a result are not liable to pay contribution to WWF

Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the certificate holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Karachi, Lahore & Islamabad stock exchanges.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in certificate holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in Note 3.1.3 to the financial statements to reflect changes introduced by revised "IAS 1".

Accounting estimates are based on reasonable prudent judgment.

- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data of last six years has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of certificate holding, as required by NBFC Regulations and the Code of Corporate Governance is enclosed.
- l. Statement showing attendance of Board meetings is as under:

Attendance of Board Meetings
From July 01, 2009 to June 30, 2010

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr. Shafi Malik	Director	11	11	-
2.	Mr. Salim Chamdia	Former Chairman	3	1	2
3.	Mr. Nasim Beg	Chief Executive	11	11	-
4.	Mr. Sirajuddin Cassim	Director	11	1	10
5.	Mr. S. Gulrez Yazdani	Director	7	7	-
6.	Mr. Muhammad Akmal Jameel	Director	11	10	1
7.	Syed Ajaz Ahmed	Director	11	11	-
8.	Mr. Muhammad Kashif Habib	Director	11	8	3

* Mr. Salim Chamdia resigned from the office on September 07, 2009.

** Mr. S. Gulrez Yazdani was appointed as director on October 06, 2009 and approved by SECP on November 05, 2009.

- m. There have been no trades in the certificates of the Fund carried out by the Directors, C.E, C.F.O and Company Secretary of the Management Company and their spouses and minor children.

Conversion of the fund into an open end fund

The Board of the Management Company in its meeting held on June 17, 2010 has approved the conversion of PSAF into an Open end Fund subject to all regulatory approvals and compliances. Currently, the Management Company is in a process of completing the required formalities.

External Auditors

The outgoing Auditors A.F. Ferguson & Co. Chartered Accountants stand retired and as recommended by the Audit Committee, the Board of Directors of the Management Company has appointed M. Yousuf Adil Saleem & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2011.

Future Outlook

Given the severity of economic damage due to these massive floods, the equity market has responded by retreating almost 10% in early August. On the basis of earnings multiple and dividend yields, Pakistan remains one of the cheapest emerging market and which has been the major reason for continuous inflows of foreign investment. However, equity risk premium will continue to be high for the country given the broader weak macroeconomic picture especially after the recent floods. Not surprisingly, overall, domestic demand is expected to shrink in the coming year, which is likely to impact the top line growth and earnings across various sectors.

The market has started the year with low volumes as capital gain tax has been finally introduced on short term gains (less than one year holding period) on stocks and mutual funds. However, efforts are in place for the introduction of leverage product, which should enable the market to attract some domestic inflows, which have largely shrunk during the past year. Overall, the market is expected to witness lower trading volumes during the year.

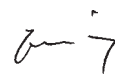
What the market will be hoping for is effective earlier response of the government to the rehabilitation and rebuilding of country's infrastructure. Delays in international support and weak response of the government to the crises will have far reaching negative consequences on the economy.

Interest rates are expected to remain sticky upwards as expectations of continuing double digit inflation (around 12%) and higher government borrowings may not allow SBP to ease its monetary policy in the near term especially in the aftermath of the worst flood in the history of Pakistan, which has resulted in high level damages to the infrastructure, properties, livestock and crop.

Acknowledgement

The Board is thankful to the Fund's valued investors and grateful for the confidence reposed by the investors in the Fund. The Board would also like to thank the Securities and Exchange Commission of Pakistan, the State Bank of Pakistan, the Trustees of the Fund – the Central Depository Company of Pakistan Ltd., and the managements of the Karachi, Lahore and Islamabad Stock Exchanges for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the Management Company.

For and on behalf of the Board



Nasim Beg

Chief Executive

Karachi
August 03, 2010

REPORT OF THE FUND MANAGER FOR THE PERIOD ENDED JUNE 30, 2010

Fund Objective

The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term primarily from investment in Pakistani equities.

Fund's Performance

PSAF NAV increased 18.54% in FY10, compared to 35.74% rise in the KSE-100 Index during this time. Consistent with the stated profile, the fund increased allocation in undervalued stocks and reduced exposure as security prices exceed fair values. A few of the index heavyweights rose above their estimated fair values during the year. As a result, the Fund shed its overvalued investments and at the same time recomposed its portfolio with undervalued stocks. On average, the Fund's equity exposure during the year remained at 75%, however, declined over time from 85.65% at the beginning of the year to 75.16% as at June 30, 2010. The underperformance was mainly because of the lower return (relative to the Index) of some of the top portfolio holdings and absence of OGDC which was the major Index driver during the financial year. Amongst the top holdings, PPL, KAPCO, PSO, Packages underperformed. Nevertheless, these stocks continue to offer long term fundamental growth prospects and hence the allocation in the Fund. POL, ENGRO, FFC and HUBC were outperformers.

NAV Change Analysis and Total Return

	FY2007 – 08	FY2008 – 09	FY2009 – 10
Beginning Net Assets (Rs 000)	4,080,334	3,216,078	2,136,566
Beginning Ex-NAV (Rs per unit)	10.92	9.80	7.12
Ending Net Assets (Rs 000)	3,216,078	2,136,566	2,531,171
Ending NAV (Rs per unit)	10.72	7.12	8.44
Cash Distribution (Rs per unit)	0.70	Nil	1.1534
Bonus Distribution (Rs per unit)	Nil	Nil	Nil
Income Distribution (%)	6.41%	Nil	16.15%
Capital Growth (%)	-8.21%	-27.35%	2.39%
Total Return (%)	-1.80%	-27.35%	18.54%

Total Returns and CAGRs

Year End	Number of Years	Total Return	Annualised Return (CAGR)
30-Jun-10	1 year	18.54%	18.54%
	2 year	-13.88%	-7.20%
	3 year	-15.43%	-5.44%

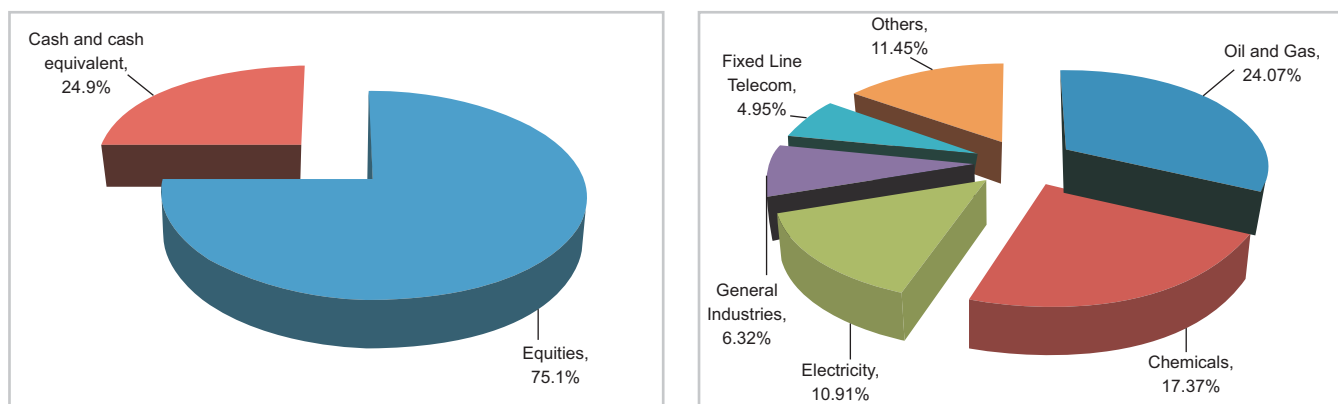
Equity allocation and investment Activities during 2010

PSAF was on average 75.1% invested in equities during the year ended June 2010. The Fund has been following its designated allocation strategy i.e. progressively increasing Fund's equity allocation when values are created in the market and gradually decreasing Fund's equity allocation when scrips trade in the overvalued region. Major allocations of the Fund during FY10 were diversified across the Oil and Gas, Chemical, Electricity, General Industries, Personal Goods, Fixed line Telecommunication and Banking sectors.

On June 17, 2010, the Board of Directors of Arif Habib Investments (AHI) approved conversion of the Fund into an open-end scheme, subject to regulatory approvals. Keeping this in view, equity exposure was brought down considerably towards the end of June to cater to any liquidity needs post conversion into an open-end scheme. Primary focus of this initial reduction was to bring the relatively illiquid holdings down.

PSAF also discontinued working on the existing quantitative model as a consequence of expected conversion and liquidity needs. As of end June, the Fund had 77% liquid assets (including cash and liquid equity holdings), which can comfortably meet liquidity needs.

The average portfolio allocations to various asset classes and sectors during the year were as follows:



Changes in the portfolio

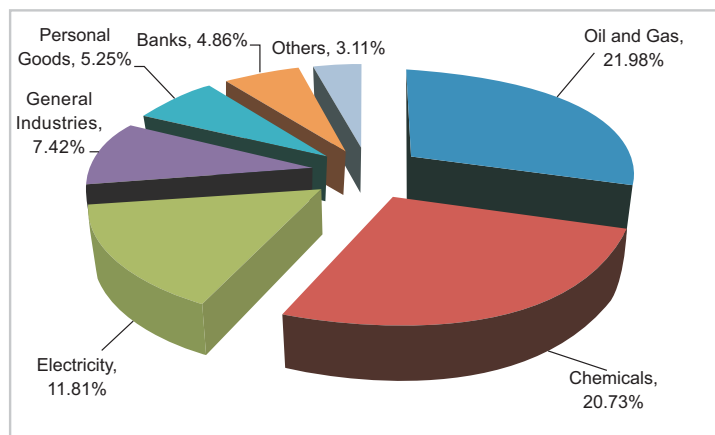
- The Fund remained overweight in the Oil and Gas sector with average exposure at 24.07% during the year. However, year-end exposure was relatively lower at 21.98% primarily due to partial late offloading in PSO. The Fund sold OGDC completely from the portfolio as share price rose above our fair value whereas increased allocation to POL and PPL given their discount to fair values. Within this sector, OGDC (approx. 25%) was the star performer rising by 80% and contributing approximately 10% in the overall index gain for the year. Exit from OGDC and subsequent outperformance of the stock led to the major underperformance of the fund.
- The Fund increased its exposure in Chemical sector from 15.42% to 20.73%. FFBL was added into the portfolio on improved business conditions. ENGRO was gradually accumulated during the year as the scrip was trading at deep discount to its estimated fair value. Few quantities were also shed keeping Fund specific liquidity needs in view. On the other hand, ICI was reduced during the year as share price increased above fair value, however, exposure once again increased as price fell below fair value. Although, ICI share price has fallen by 15% during the year, however, timely entry and exit strategy led ICI to contribute positively to the Fund's return.
- Power Generation sector is a defensive non-cyclical sector, particularly with rising electricity demand and depreciating Rupee. Considering HUBCO's planned expansion and escalating tariff structure, the Fund increased its allocation in the scrip. Some holding in KAPCO was offloaded during the year. By year-end, 11.81% of the Fund's net assets were allocated to Electricity sector with major investment concentrated to KAPCO. Overall, the sector contributed positive towards Fund's return.
- Further exposure was built in Packages, gradually, during the year on the basis of strong long term fundamentals. On average, the Fund remained 6.32% invested in the stock while the year-end exposure in the sector was 7.42%. Packages, however, underperformed the market and has been a major drag on portfolio performance during the year.
- PSAF's exposure in Fixed Line Telecommunication sector reduced from 7.33% to 0.49%. The Fund's disposed off PTCL as share prices rose. On the other hand, PSAF make fresh investment in Wateen. Timely exit from PTCL enable Fund to bank on decent return whereas Wateen share price decline significantly, however, denting Fund's return marginally as the investment was considerably low.
- The Fund's exposure in Banking sector reduced from 7.92% to 4.86%. Exposures were built and sold during the year as security price move against their estimated fair values. End of the year exposure is mostly comprises of ABL where decent NIM's and superior asset quality is likely to pave way for its outperformance. The Fund, on an average, remained 3.67% invested in the Banking sector.
- PSAF gradually accumulated NML into the portfolio keeping core fundamentals in view. The scrip also offers indirect exposure

to its sister concerns through its portfolio investment. In the Personal Goods sector (mainly textiles), the Fund opted to divest its exposure to other relatively illiquid investments. On average, the Fund had approx. 2.7% exposure in the sector.

- Average exposure in the Construction and Material sector, during the year, was 1.5% of the Fund size whereas year-end exposure was zero for the sector. The Fund offloaded most of its investment gradually as share prices exceeded estimated fair values.
- The Fund added small quantities of SEARLE into the portfolio sighting strong fundamentals and relatively high discount to fair value. However, the Fund offloaded most of this investment being illiquid and Fund specific liquidity needs after conversion.
- The Fund added AICL into the portfolio during the year; however, the entire holdings were sold gradually during the year as the share prices rose above fair value.

Portfolio Composition at year end

The composition of the portfolio as at year end June 2009 was as follows:



Fixed Income Portfolio

The Fund invested idle cash in liquid money market instrument with effective yields averaging approx. 12%. By end June 2010, about 18% of net assets were invested in T-Bills and short dated placements maturing during next 3 – 12 months. Weighted average time to maturity of the T-Bill portfolio is computed at approx. 3 months. Other than this, 2.04% of net assets were invested in PIBs at quarter end, while bank deposits were 1.5% of net assets.

Stock market review

The KSE 100 Index gained 35.74% in FY10 and closed at 9721.91. Most of the gains in equities occurred in the 1st quarter (July-September 2009 : 30.53%). The index further increased during the second half, making a high of 10,669.88 on April 19 before closing the year with clipped gains. Economic indicators have started to stabilize during the year after the turbulent 2009 leading to improving investors' confidence.

Foreign portfolio investment shot up to \$ 569 mn in FY10. Foreign participation was mainly driven by attractive valuations of the market as compared to the regional players. On the flip side it was largely tilted towards index heavy weights. Out of the major sector listed on KSE, oil & gas, chemical sector (particularly fertilizer stocks) and auto stocks outperformed the market while cement, refineries and insurance sector were the underperformer. OGDC (largest oil and gas exploration company) and MCB (largest private sector bank) contributed 52 % of index gain (OGDC 45%, MCB 7.0%).

During FY10, KSE100 performance was one of the best among regional indices with MSCI frontier market index (which includes Pakistan) in this time period declining by 3.59%. Average daily volume during the year was 161mn shares (Rs 6.97bn) versus 105.6mn (Rs 4.43bn) a year earlier. During the year eight equity offerings worth Rs 4.3bn were made at local bourses as compared to 4 equity offerings a year earlier.

Financial Year 2010 in Review

A moderate recovery in the economy has been witnessed despite one of the most serious economic crises in the country's history. GDP growth has begun to seep back into the country; however the biggest concern remains whether this recovery is sustainable. An energy and water

shortage, along with the internal security situation and inability to deal with structural issues especially circular debt, poses a considerable hurdle for a more broad based revival of the economy. On the other hand, shortfall in the inflow of external assistance, including from the FoDP combined with the delays in the Coalition Support Fund, has led to high borrowings by the government in the domestic credit market which has resulted in the 'crowding out' of credit to the private sector. An increase in global commodity prices, mainly food has exerted an upward pressure on the domestic inflation where commodities have witnessed a decent increase. Consequently, the State Bank has been unable to use expansionary monetary policy which could potentially add to already significant inflation.

The Real Sector

According to initial estimates, GDP grew by 4.1% during FY10 as against a revised figure of 1.2% a year earlier. The positive outturn for economic growth came in spite of massive costs such as internal security situation and the severe energy shortfall. Large Scale Manufacturing (LSM) posted a growth of 4.71% during Jul-May FY10 against a -8.2% in the same period in FY09. Some major contributors towards this positive LSM growth were pharmaceuticals, automobiles and the fertilizer sector. However, the growth overall is not broad based and is largely biased towards consumer durable goods and major index constituents namely Textile and food processing continue to display negative growth. Similarly, services sector displayed a decent rebound of 4.6% as against previous year's growth of 1.6%. However, agriculture sector growth slows down to 2% as water shortages led to reduced wheat output in the preceding year.

The Monetary Sector

Money supply (M2) has grown as compared to the previous year, but the increase continues to be explained by government borrowing from the banking system which has further increased. Improvement in external balance of payment position has increased the net foreign assets of the banking system during July-Jun FY10 which rose by Rs 89.07bn after witnessing a decline of Rs 188.4bn during the same period of FY09. Net domestic assets on the other hand witnessed a rise of Rs 530.7bn, however lower as compared to the previous years Rs 590.2bn. While government borrowing for budgetary support has increased, borrowing for commodity operations till now has been significantly lower. The Discount rate, after peaking in November 2008 has eased to 13.0% (as of end July) in response to a gradual fall in both headline as well as core inflation. Nevertheless, based on the inflationary environment and continued government borrowing, a further easing in the discount rate for at least FY11 does not seem likely. Treasury yields at this point also reflect heightened concerns regarding inflation and government debt situation.

Prices

CPI Inflation, after dipping to a low of 8.9% YoY in October 2009 mainly due to the base effect, has rebounded to 12.3% YoY as of July 2010, with food inflation at 12.5% and non-food inflation at 12.0%. Core inflation (Non Food Non Energy), on the other hand has been tame at 10.3%. This increase in inflation is mainly due to structural adjustments i.e. electricity and gas subsidy elimination. It would thus not be incorrect to say that this latest round of inflation is due to short term factors; however, it still has raised inflation future expectations which could keep inflation at elevated levels for some time.

The Fiscal Sector

Pakistan is witnessing a low Tax/GDP ratio amidst mounting public debt and significant expenditure requirements. The total tax collection stood at Rs 1136.6bn in July-May 2009-10 against a collection of Rs 900.9bn in the same period last year. Hopefully, the implementation of Value Added Tax (VAT) from October 01, 2010 would further strengthen the tax base and tax/GDP ratio under a flat tax rate. However, at the same time, evidence from other countries has shown that VAT implementation is not without significant costs especially in the first year of imposition. At the same time the government continues to face significant expenditure requirements due to continued war on terror and development needs.

The External Sector

The external sector witnessed an overall improvement during 2010, mainly due to narrowing of the current account deficit. This decline in CAD to US\$3.06 billion was contributed by the improvement in all its components; trade in goods, services, and income and current transfers during FY10. The goods trade deficit declined by 11% while remittances have posted a growth of 14%. Foreign Direct Investment (FDI) in the country declined by 41% during the FY10 due to unstable domestic security situation. On the positive side, Foreign Portfolio Investment (FPI) has rebounded considerably, but these investments are short term and volatile in nature. Pakistan's foreign exchange reserves increased significantly from US\$12.4bn to over US\$ 16.0bn from July 2009 –Jun 2010. Improvements in the SBP's reserves during the period were mainly due to inflows from International Financial Institutions (IFIs) and lower current account deficit. Due to improvements in the overall external account and stable reserve position, Pakistan's currency against the US dollar depreciated by 5% during FY10 compared to a decline of 18.8% in the corresponding period last year.

The year ahead

The fiscal year 2011 has started on a disastrous note for the country as historic high floods due to severe monsoon have resulted in unprecedented loss of human life and vast scale damages to housing/properties, roads/electricity infrastructure, crops and livestock in Pakistan's economic and agriculture heartland along the 3200 kilometre long Indus River. The scale of damages looks quite large with initial estimates of around US\$5-6 bn. As a result, most of the economic targets are set to be revised for FY 2011 with possible contraction in GDP growth, higher inflation and increase in budget deficit. Most notably, government borrowing will increase in the wake of urgency for relief and rehabilitation needed for 20 million (almost 10% of the population) affectees across the country.

Agriculture sector is severely impacted with approximate losses of nearly US\$3 billion on account of severe damages to standing crops of cotton, rice and sugar cane; loss of 500,000 metric tonnes of wheat stock; and loss of hundreds of thousands of livestock. In addition, floods have made it difficult to achieve wheat cultivation target for the year 2011, which will lead to lower wheat output during the year. Against the earlier growth target of 3.8% for FY2011, agriculture sector growth is most likely to be in red for the year. Similarly, manufacturing and services growth, which were earlier projected at 4.9% and 4.7%, are expected to be scaled down due to weak demand conditions in the economy along with the supply side problem due to the heavy destruction of infrastructure (roads, bridges) in the flood affected areas.

With commodity prices on the rise once again in international markets (partly due to flood damages in Pakistan) and Pakistan facing domestic shortages, inflation is expected to rise even further in coming months. As a result, monetary policy will continue to have a tightening stance in the remaining months of the year.

One other major negative consequence will be the deterioration in balance of trade as the country will become net importer of sugar, cotton and wheat and will be left with little rice to export (Pakistan is the third largest exporter of rice in the world-US\$2 bn export in 2010). This additional burden will have its impact on balance of payment and current account deficit, leading to additional downward pressure on the Rupee.

Economic and budgetary targets set for FY11 by the government are in the process of revision in the wake of extraordinary circumstances. While, Pakistan needs higher donors' support at this crucial juncture, it also will require additional long term funding for rebuilding its basic infrastructure (roads, bridges, irrigation canals and electricity distribution) lost in the floods. Given the weak external position, in our view, Pakistan will enter into another multiyear arrangement with the IMF after the expiry of present IMF program by the end of FY11.

Market Outlook

Given the severity of economic damage due to these massive floods, the market has responded by retreating almost 10% in early August. On the basis of earnings multiple and dividend yields, Pakistan remains one of the cheapest emerging market and which has been the major reason for continuous inflows of foreign investment. However, equity risk premium will continue to be high for the country given the broader weak macroeconomic picture especially after the recent floods. Not surprisingly, overall, domestic demand is expected to shrink in the coming year, which is likely to impact the top line growth and earnings across various sectors.

The market has started the year with low volumes as capital gain tax has been finally introduced on short term gains (less than one year holding period) on stocks and mutual funds. However, efforts are in place for the introduction of leverage product, which should enable the market to attract some domestic inflows, which have largely shrunk during the past year. Overall, the market is expected to witness lower trading volumes earlier during the year.

What the market will be hoping for is effective earlier response of the government to the rehabilitation and rebuilding of country's infrastructure. Delays in international support and weak response of the government to the crises will have far reaching negative consequences on the economy.

Other Disclosures under NBFC Regulations 2008

The Fund manager hereby makes the following disclosures as required under the NBFC Regulations 2008.

- a. The management company or any of its delegates did not receive any soft commission (goods & services) from any of its broker/dealer by virtue of transactions conducted by the fund.
- b. There was no certificate split undertaken during the year.
- c. The fund manager is not aware of any circumstances that can materially affect any interests of the certificate holders other than those already disclosed in this report.

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcPakistan.com
Email: info@cdcpak.com

TRUSTEE REPORT TO THE CERTIFICATE HOLDERS

PAKISTAN STRATEGIC ALLOCATION 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 Pakistan Strategic Allocation Fund (the Fund), a closed-end fund was established under a trust deed dated May 26, 2004, executed between Arif Habib Investments 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;
- (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: September 29, 2010



CENTRAL
DEPOSITORY
COMPANY

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

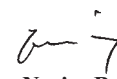
This statement is being presented by the Board of Directors of Arif Habib Investments Limited, the Management Company of Pakistan Strategic Allocation Fund (“The Fund”) to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for 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 Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors, however, none of the directors on the Board represent minority shareholders.
2. The directors of the Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Salim Chamdia had resigned on September 7, 2009 and was replaced by Mr. S. Gulrez Yazdani on October 6, 2009.
5. The Management Company has prepared a ‘Statement of Ethics and Business Practices’, which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. 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 appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on June 30, 2010, there is no other executive director of the Management Company besides the CE.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm’s length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm’s length transactions only if such terms can be substantiated.
10. The Board arranged orientation for the directors of the Management Company during the year to apprise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.
12. The Directors’ Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The Directors, CE and executives of the Management Company do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate holding.
14. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Fund. It comprises of four members, all of whom are non-executive directors including the Chairman of the committee. During the year Mr. Salim Chamdia has resigned as Chairman. Mr. Muhammad Shafi Malik has been appointed as Chairman in his place.
17. The meetings of the audit committee 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 committee have been approved by the Board and advised to the committee for compliance.
18. The Board has set-up an effective internal audit function headed by the Head of Internal Audit and Compliance. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function on a full time basis.
19. 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, that they or any of the partners of the firm, their spouses and minor children do not hold any certificates of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board



Nasim Beg
Chief Executive

Karachi: August 03, 2010

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Arif Habib Investments Limited**, the Management Company of **Pakistan Strategic Allocation Fund** to comply with the Listing Regulations (Chapter XI) of the Karachi, Lahore and Islamabad Stock Exchanges where the Fund is listed.

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

As part of our audit of 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 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.

Further, Sub-Regulation (xiii a) of the above mentioned Listing Regulations requires the Management 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. All such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the 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 prices 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.



Chartered Accountants
Karachi

Dated: August 3, 2010

INDEPENDENT AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the accompanying financial statements of **Pakistan Strategic Allocation Fund Fund**, which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, distribution statement, cash flow statement, statement of movement in equity and reserves and statement of movement in equity and reserves – per certificate for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 the 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 misstatements.

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

Basis for Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Fund as well. However, no provision in respect of Workers Welfare Fund (WWF) has been made by the management for the reasons explained in note 14 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 7.689 million (2009: Nil). Accordingly, the accumulated loss of the Fund at June 30, 2010 would have been higher and Net Assets of the Fund would have been lower by the same amount.

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for qualified 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 approved accounting standards as applicable in Pakistan.

Other matters

In our opinion, the financial statements have been prepared in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.



Chartered Accountants

Engagement Partner: Rashid A. Jafer

Dated: August 3, 2010

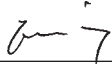
Karachi

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2010

	Note	2010 (Rupees in '000)	2009
ASSETS			
Balances with banks	4	38,860	181,921
Receivable against sale of investments		127,266	13,411
Investments	5	2,379,527	1,958,958
Dividend and profit receivable	6	2,197	20,439
Advances, deposits and prepayments	7	3,096	2,971
Preliminary expenses and floatation costs	8	-	731
Total Assets		2,550,946	2,178,431
LIABILITIES			
Payable to Management Company	9	4,228	10,192
Payable to Central Depository Company of Pakistan Limited - Trustee	10	231	207
Payable to Securities and Exchange Commission of Pakistan	11	2,477	2,008
Payable against purchase of investments		-	15,139
Unclaimed dividend		11,307	13,384
Accrued expenses and other liabilities	12	1,532	935
Total Liabilities		19,775	41,865
NET ASSETS		2,531,171	2,136,566
CERTIFICATE HOLDERS' EQUITY			
Issued, subscribed and paid-up capital			
300,000,000 (2009: 300,000,000) ordinary certificates of Rs. 10 each issued as fully paid up in cash			
		3,000,000	3,000,000
Unrealised appreciation in value of investments classified as 'available for sale'	5.7	37,298	27,146
Accumulated loss		(506,127)	(890,580)
		2,531,171	2,136,566
Rupees			
NET ASSET VALUE PER CERTIFICATE		8.44	7.12
CONTINGENCIES AND COMMITMENTS	13		

The annexed notes from 1 to 27 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)


Chief Executive


Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
(Rupees in '000)			
Income			
Capital gain / (loss) on sale of investments - net		288,515	(321,941)
Income from Continuous Funding System (CFS) Transactions		-	1,130
Income from term finance certificates		4,906	20,320
Income from government securities		47,059	-
Income from placements with financial institutions		6,015	-
Income from reverse repurchase transactions		3,227	-
Dividend income		119,414	115,611
Profit on bank deposits		16,183	23,148
Other Income		70	-
		485,389	(161,732)
Impairment loss on financial assets classified as 'available for sale'	5.7	(1,589)	(172,347)
Unrealised diminution in value of investments `at fair value through profit or loss` - net	5.6	(29,777)	(523,916)
Total income / (loss)		454,023	(857,995)
Operating expenses			
Remuneration of Management Company	9.1	55,593	61,963
Remuneration of Central Depository Company of Pakistan Limited - Trustee		2,439	2,140
Annual fee - Securities and Exchange Commission of Pakistan	11	2,477	2,008
Securities transaction cost		6,281	3,333
Custody, settlement and bank charges		1,031	467
Fees and subscription		345	553
Printing and related costs		289	261
Auditors' remuneration	15	384	504
Amortisation of preliminary expenses and floatation costs		731	4,851
Total operating expenses		69,570	76,080
Net income / (loss) for the year		384,453	(934,075)
Taxation	3.9	-	-
Net income / (loss) after taxation		384,453	(934,075)
Other comprehensive income / (loss) for the year			
Unrealised appreciation in value of investments classified as 'available for sale'	5.7	10,152	64,564
Total comprehensive income / (loss) for the year		394,605	(869,511)
Rupees			
Earnings / (loss) per certificate	16	1.28	(3.11)

The annexed notes from 1 to 27 form an integral part of these financial statements.

**For Arif Habib Investments Limited
(Management Company)**



Chief Executive



Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

2010 2009
(Rupees in '000)

(Accumulated loss) / Undistributed income brought forward

- Realized (loss) / gain

(357,189) 385,477

- Unrealized loss

(533,391) (131,982)

(890,580) 253,495

Final cash distribution for the year ended June 30, 2009: Nil (2008:

Re 0.7 per certificate)

- (210,000)

Net income / (loss) for the year

384,453 (934,075)

Accumulated loss carried forward

(506,127) (890,580)

Accumulated loss carried forward

- Realized loss

(307,473) (357,189)

- Unrealized loss

(198,654) (533,391)

(506,127) (890,580)

The annexed notes from 1 to 27 form an integral part of these financial statements.

**For Arif Habib Investments Limited
(Management Company)**



Chief Executive



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
(Rupees in '000)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year		384,453	(934,075)
Adjustments for non-cash items:			
Amortisation of preliminary expenses and floatation costs		731	4,851
Impairment loss on financial assets classified as 'available for sale'		1,589	172,347
Unrealised diminution in value of investments `at fair value through profit or loss` - net		29,777	523,916
Dividend income		(119,414)	(115,611)
Remuneration of the Management Company		55,593	61,963
Remuneration of Central Depository Company of Pakistan Limited - Trustee		2,439	2,140
		355,168	(284,469)
(Increase) / decrease in assets			
Receivable against sale of investments		(113,855)	(13,393)
Receivable against Continuous Funding System (CFS) Transactions		-	161,432
Investments		(441,783)	135,651
Profit receivable		7,149	(6,451)
Advances, deposits and prepayments		(125)	1,077
		(548,614)	278,316
(Decrease) / Increase in liabilities			
Payable against purchase of investments		(15,139)	15,139
Payable to Management Company		(4,851)	(4,852)
Payable to Central Depository Company of Pakistan Limited - Trustee		2	(30)
Payable to Securities and Exchange Commission of Pakistan		469	(1,489)
Accrued expenses and other liabilities		597	(1,070)
		(18,922)	7,698
		(212,368)	1,545
Dividend received		130,507	124,914
Remuneration paid to Management Company		(56,706)	(64,662)
Remuneration paid to Central Depository Company of Pakistan Limited - Trustee		(2,417)	(2,197)
Net cash (used in) / generated from operating activities		(140,984)	59,600
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(2,077)	(208,958)
Net decrease in cash and cash equivalents		(143,061)	(149,358)
Cash and cash equivalents at the beginning of the year		181,921	331,279
Cash and cash equivalents at the end of the year	4	38,860	181,921

The annexed notes from 1 to 27 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Management Company)


Chief Executive



Director

STATEMENT OF MOVEMENT IN EQUITY AND RESERVES - PER CERTIFICATE FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	(Rupees)	
Net assets per certificate at the beginning of the year	7.12	10.72
Capital gain / (loss) on sale of investments - net	0.96	(1.07)
Dividend income	0.40	0.39
Unrealised diminution in value of investments at fair value through profit or loss - net	(0.10)	(1.75)
Other net operating income / (loss) for the year	0.02	(0.68)
Net income / (loss) for the year	1.28	(3.11)
Unrealised appreciation in value of investments classified as 'available for sale'	0.04	0.21
Final cash dividend @ Re Nil per certificate (2008: Re 0.7 per certificate)	-	(0.70)
Net assets per certificate as at June 30, 2010	<u>8.44</u>	<u>7.12</u>

The annexed notes from 1 to 27 form an integral part of these financial statements.

**For Arif Habib Investments Limited
(Management Company)**



Chief Executive



Director

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

	Issued subscribed and paid up capital	Undistributed income / (Accumulated loss)	Unrealised (diminution) / appreciation in value of investments classified as 'available for sale'	Total
------(Rupees in '000)-----				
Balance as at July 1, 2008	3,000,000	253,495	(37,418)	3,216,077
Total comprehensive loss for the year ended June 30, 2009	-	(934,075)	64,564	(869,511)
Final cash dividend for the year ended June 30, 2008 @ Re 0.7 per certificate	-	(210,000)	-	(210,000)
Balance as at June 30, 2009	<u>3,000,000</u>	<u>(890,580)</u>	<u>27,146</u>	<u>2,136,566</u>
Balance as at July, 1 2009	3,000,000	(890,580)	27,146	2,136,566
Total comprehensive income for the year ended June 30, 2010	-	384,453	10,152	394,605
Balance as at June 30, 2010	<u>3,000,000</u>	<u>(506,127)</u>	<u>37,298</u>	<u>2,531,171</u>

The annexed notes from 1 to 27 form an integral part of these financial statements.



Chief Executive

**For Arif Habib Investments Limited
(Management Company)**



Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Pakistan Strategic Allocation Fund (PSAF) was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee on May 26, 2004. The Management Company of PSAF has obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake asset management services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). Formation of PSAF as a closed-end fund was authorised by SECP on May 13, 2004. PSAF is listed on all three stock exchanges in Pakistan. During the current year, the registered office of the Management Company has been shifted to 23, M.T. Khan Road, Karachi, Pakistan.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2 (positive outlook)' to the Management Company and 3-Star Normal and 3-Star Long Term to the Fund.

The Fund primarily invests in shares of listed companies, term finance certificates and short-term reverse repurchase transactions.

Title to the assets of the Fund is held in the name of the Trustee.

2 CONVERSION OF THE FUND INTO AN OPEN END SCHEME

The Board of Directors in their meeting held on June 17, 2010 have passed a resolution that the Fund be converted into an open end scheme subject to all regulatory approvals and compliances. Key features of the conversion process of the Fund as approved by the Board of Directors in the aforementioned meeting shall be:

- The Management Company would convene a general meeting of the certificate holders to seek their approval (by special resolution) for the conversion of the Fund into an open-end scheme.
- On conversion of the Fund, a supplementary trust deed will be executed between the Management Company and the Trustee .
- Each certificate holder will be allotted units according to their respective holdings as at the date of conversion on the basis of a ratio of 1 certificate : 1 unit.
- After the conversion of the Fund into an open-end scheme, no back end load shall be applied on the redemption of units.

The conversion of the Fund into an open end scheme will not affect the business and operations of the Fund. Accordingly, these financial statements have been prepared on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 3.1.3 to these financial statements.

3.1 Basis of preparation

3.1.1 Statement of compliance

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

3.1.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standards (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

3.1.3 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

- (a) International Accounting Standards 1 (IAS 1) Revised, 'Presentation of Financial statements' (effective from January 1, 2009). 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. It requires 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 in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The Fund has applied IAS 1 (Revised) with effect from July 1, 2009 and has chosen to present all non-owner changes in equity in one performance statement - the Statement of comprehensive income (income statement). Accordingly, items of income and expenses representing other comprehensive income have been presented in the 'Income statement'. Comparative information has been represented to reflect these changes. As the change in accounting policy only impacts presentation aspects, there is no impact on the values of the net assets of the Fund and on earning / loss per certificate for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

- (b) IFRS 8, 'Operating Segments' (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment Reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Under IFRS 8, operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Investment Committee of the Fund has been identified as the chief operating decision maker. The management has determined that the Fund has a single reportable segment as the Investment Committee views the Fund's operations as one reportable segment. The adoption of this standard has not resulted in identification of any new reportable segment.

3.1.4 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning July 1, 2009:

- (a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short - term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Fund's financial statements.
- (b) IFRS 7 (Amendment), 'Financial Instruments: Disclosure'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements, by level of a fair value measurement hierarchy. The adoption of the amendment has resulted in additional disclosures but did not have an impact on the Fund's financial position or performance.
- (c) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. The adoption of this amendment did not have any effect on the Fund's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

3.1.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Fund's accounting periods beginning on or after July 1, 2010:

- (a) IFRS 8 (Amendment), 'Operating segments' (effective from January 1, 2010). There is a minor amendment to the standard to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker. The amendment is not expected to have any impact on the Fund's financial statements.
- (b) IAS 7 (Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that results in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.
- (c) IAS 24 related party Disclosures (revised) (effective from January 01, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

3.1.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (3.2 and 5).

3.2 Financial assets

3.2.1 The management of the Fund classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

b) Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity.

c) Loans and receivables

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

d) Available for sale

These are non-derivatives that are either designated in this category or not classified in any of the other categories.

3.2.2 Regular way contracts

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

3.2.3 Initial recognition and measurement

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

3.2.4 Subsequent measurement

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

a) Basis of valuation of Term Finance Certificates

Investment in term finance certificates are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated January 06, 2009. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

b) Basis of valuation of Government Securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association.

c) Basis of valuation of Equity Securities

The investment of the Fund in equity securities is valued on the basis of quoted market prices available at the stock exchange.

Net gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from the difference in value determined in accordance with the above mentioned criteria compared to the carrying amount in respect of available for sale financial assets are recognised in other comprehensive income until the available for sale financial assets are derecognised. At this time, the cumulative gain or loss previously recognised directly in other comprehensive income is reclassified from other comprehensive income to income statement as a reclassification adjustment.

Loans and receivables and held to maturity financial assets are carried at amortised cost.

3.2.5 Impairment

The carrying amounts of the Fund's assets are assessed at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the income statement. Impairment losses recognised on equity financial assets recognised in the income statement are not reversed through the income statement. For loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Provision for non - performing debt securities is made in accordance with the criteria for provision of non-performing debt securities specified in Circular No.1/2009 dated January 06, 2009 and Circular No.13/2009 dated May 04, 2009 issued by the SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

3.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realised or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

3.2.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

3.2.8 Reclassification

The Fund may choose to reclassify a non-derivative trading financial asset in equity securities out of the 'held for trading' category to the 'available for sale' category if the financial asset is no longer held for the purpose of selling it in the near term. Such reclassifications are made only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. Reclassifications are made at fair value as of the reclassification date which then becomes the new cost and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made.

3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to Management Company, payable to the trustee, payable against purchase of investments, unclaimed dividend and other liabilities.

3.4 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

3.5 Securities under repurchase / resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government 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-repo) are not recognised in the Statement of Assets and Liabilities. Amount 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.

All reverse repo transactions are accounted for on the settlement date.

3.6 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such dividends are declared / transfers are made.

3.7 Provisions

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

3.8 Earnings per certificate

Earnings per certificate is calculated by dividing the income for the year by the weighted average number of shares outstanding during the year.

3.9 Taxation

No provision for taxation has been made as Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the shareholders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of the Second Schedule to the Income Tax Ordinance, 2001.

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 asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its certificate holders every year.

3.10 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are being amortised over a period of five years starting from the commencement of operations of the Fund.

3.11 Revenue recognition

Realised capital gains / losses arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

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

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

Profit on bank deposits is recognised on an accrual basis.

Profit on investment is recognised on an accrual basis.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks.

3.13 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

3.14 Segment reporting

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Investment Committee of the Fund has been identified as the chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments.

The Investment Committee is responsible for the Fund's entire portfolio and considers the business as a single operating segment. The Fund's asset allocation decisions are based on a single integrated investment strategy and the Fund's performance is evaluated on an overall basis.

3.15 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates. The financial statements are presented in Pakistani Rupees, which is the Fund's functional and presentation currency.

4 BALANCES WITH BANKS

	Note	June 30, 2010	June 30, 2009
----- Rupees in '000 -----			
In current accounts		11,307	13,401
In deposit accounts	4.1	27,553	168,520
		<u>38,860</u>	<u>181,921</u>

4.1 Profit rates on deposit accounts range between 5.00% to 11.25% (2009: 5.00% to 13.25%) per annum.

5 INVESTMENTS

	Note	June 30, 2010	June 30, 2009
----- Rupees in '000 -----			
At fair value through profit or loss			
Listed equity securities	5.1	1,796,146	1,649,219
Term finance certificates	5.2	-	128,886
Government Securities	5.3	477,157	-
		<u>2,273,303</u>	<u>1,778,105</u>
Available for sale			
Listed equity securities	5.4	106,224	180,853
		<u>2,379,527</u>	<u>1,958,958</u>

Name of the Investee Company	Number of shares				Balance as at June 30, 2010				Market value as a % of net assets	Market value as a % of total investments	Paid up value of shares as a % of total paid up capital of the investee company.
	As at July 1, 2009	Purchases during the year	Bonus/ Rights Issue	Sales during the year	As at June 30, 2010	Cost	Market value	(Diminution)/ Appreciation			
---Rupees in '000---											
PHARMA AND BIO TECH											
Searle Pakistan Limited	-	311,429	-	194,530	116,899	6,757	6,897	140	0.27	0.29	0.38
						6,757	6,897	140			
FIXED LINE TELECOMMUNICATION											
Pak Telecommunication Company Limited	9,081,200	-	-	9,081,200	-	12,580	12,460	(120)	-	-	-
Watecom Telecom Limited	-	2,000,000	-	-	2,000,000	12,580	12,460	(120)	0.49	0.52	0.32
ELECTRICITY											
Hub Power Company Limited	2,414,500	1,490,668	-	-	3,905,168	123,034	124,809	1,775	4.93	5.25	0.34
Kot Addu Power Company Limited	4,184,000	-	-	9,676	4,174,324	198,425	174,236	(24,189)	6.88	7.32	0.47
						321,459	299,045	(22,414)			
BANKS											
Allied Bank Limited	1,008,670	1,680,219	25,918	839,331	1,875,476	111,710	106,808	(4,902)	4.22	4.49	0.24
Bank AL-Habib Limited	-	515,000	-	-	515,000	15,579	16,223	644	0.64	0.68	0.07
Habib Bank Limited	-	316,900	8,318	325,218	-	-	-	-	-	-	-
MCB Bank Limited	380,500	59,600	1,130	44,230	-	-	-	-	-	-	-
National Bank of Pakistan	116,400	958,771	137,727	1,212,898	-	-	-	-	-	-	-
United Bank Limited	1,683,520	-	-	1,683,520	-	127,289	123,031	(4,258)	-	-	-
NON LIFE INSURANCE											
Adanjee Insurance Company Limited	-	467,454	6,668	474,122	-	-	-	-	-	-	-
						1,994,196	1,796,146	(198,050)			

5.2 Term Finance Certificates 'at fair value through profit or loss'

Name of the investee company	Issue date	Number of certificates				Balance as at June 30, 2010				Market value as a percentage of total investments	Percentage in relation to the size of the issue
		As at July 1, 2009	Purchases during the year	Sales / Matured during the year	As at June 30, 2010	Cost	Market Value	Appreciation / (Diminution)			
---(Rupees in '000)---											
United Bank Limited	February 14, 2008	25,000	-	25,000	-	-	-	-	-	-	-
Pakistan Mobile Communication	October 1, 2007	3,200	-	3,200	-	-	-	-	-	-	-

5.3 Government securities - 'at fair value through profit or loss'

Issue Date	Tenor	Face Value				Balance as at June 30, 2010			Investment	
		As at July 1, 2009	Purchases during the year	Sales / Matured during the year	As at June 30, 2010	Cost	Market value	Appreciation / (Diminution)	Market value as a % of net assets	Market value as a % of total investments
----- (Rupees in '000) -----										
Pakistan Investment Bonds										
September 3, 2009	10 Years	-	50,000	50,000	-	-	-	-	-	-
September 3, 2009	5 Years	-	25,000	-	25,000	24,358	24,151	(207)	0.95	1.01
September 3, 2009	3 Years	-	25,000	-	25,000	24,548	24,418	(130)	0.96	1.03
						48,906	48,569	(337)		
Treasury Bills										
February 12, 2009	12 Months	-	50,000	50,000	-	-	-	-	-	-
March 26, 2009	12 Months	-	50,000	50,000	-	-	-	-	-	-
April 23, 2009	12 Months	-	155,000	155,000	-	-	-	-	-	-
September 26, 2009	12 Months	-	50,000	-	50,000	48,723	48,642	(81)	1.92	2.04
October 8, 2009	12 Months	-	75,000	-	75,000	72,748	72,627	(121)	2.87	3.05
April 9, 2010	12 Months	-	150,000	150,000	-	-	-	-	-	-
April 23, 2009	6 Months	-	75,000	75,000	-	-	-	-	-	-
May 7, 2009	6 Months	-	75,000	75,000	-	-	-	-	-	-
September 10, 2009	6 Months	-	150,000	150,000	-	-	-	-	-	-
September 26, 2009	6 Months	-	100,000	100,000	-	-	-	-	-	-
October 8, 2009	6 Months	-	75,000	75,000	-	-	-	-	-	-
September 26, 2009	3 Months	-	25,000	25,000	-	-	-	-	-	-
October 8, 2009	3 Months	-	75,000	75,000	-	-	-	-	-	-
October 22, 2009	3 Months	-	60,000	60,000	-	-	-	-	-	-
December 3, 2009	3 Months	-	150,000	150,000	-	-	-	-	-	-
January 14, 2010	3 Months	-	50,000	50,000	-	-	-	-	-	-
February 25, 2010	3 Months	-	150,000	150,000	-	-	-	-	-	-
April 8, 2010	3 Months	-	150,000	150,000	-	-	-	-	-	-
April 8, 2010	3 Months	-	25,000	-	25,000	24,992	24,992	-	0.99	1.05
April 22, 2010	3 Months	-	185,000	50,000	135,000	134,387	134,387	-	5.31	5.65
May 20, 2010	3 Months	-	150,000	-	150,000	148,005	147,940	(65)	5.84	6.22
						428,855	428,588	(267)		
						477,761	477,157	(604)		

5.4 Listed equity securities - 'available for sale'

Name of the Investee Company	Number of shares			As at June 30, 2010	Balance as at June 30, 2010		Market value as a % of net assets	Market value as a % of total investments	Paid up value of shares as a % of total paid up capital of the investee company.
	As at July 1, 2009	Purchases during the year	Bonus/ Rights issue		Sales during the year	Cost less impairment recognised up to June 30, 2010			
-Rupees in '000-									
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise									
OIL AND GAS									
Oil & Gas Development Company Limited	312,780	-	-	312,780	-	-	-	-	-
CHEMICALS									
Fauji Fertilizer Company Limited	1,446,463	-	-	638,000	808,463	53,926	83,328	29,402	0.12
						53,926	83,328	29,402	
AUTOMOBILE AND PARTS									
Pak Suzuki Motor Company Limited	83,820	-	-	-	83,820	4,571	6,645	2,074	0.10
						4,571	6,645	2,074	
PERSONAL GOODS									
Kohinoor Mills Limited	934,626	-	-	-	934,626	4,542	2,953	(1,589)	1.84
Kohinoor Textile Mills Limited	2,583,652	-	-	1,552,170	1,031,482	4,559	5,797	1,238	0.71
Reliance Weaving Mills Limited	840,000	-	-	6,578	833,422	2,917	7,501	4,584	2.70
Suraj Cotton Mills Limited	464,000	-	-	464,000	-	-	-	-	-
						12,018	16,251	4,233	
						70,515	106,224	35,709	

5.5 The above includes shares with a market value aggregating to Rs. 44,660 thousand (2009: Rs 61,137 thousand) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of circular no 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

	June 30, 2010	June 30, 2009
	(Rupees in '000)	
5.6 Net unrealised diminution in value of investments 'at fair value through profit or loss'		
Market value of investments	2,273,303	1,778,105
Less: Cost of investments	(2,471,957)	(2,311,496)
	<u>(198,654)</u>	<u>(533,391)</u>
Less: Realised on disposal during the year	(364,514)	(122,507)
Less: Net unrealised diminution in value of investments at fair value through profit or loss at the beginning of the year	533,391	131,982
	<u>(29,777)</u>	<u>(523,916)</u>
5.7 Net unrealised appreciation in value of investments classified as 'available for sale'		
Market value of investments	106,224	180,853
Less: Cost less impairment	(70,515)	(326,054)
	<u>35,709</u>	<u>(145,201)</u>
Impairment loss on financial assets classified as 'available for sale'- transferred to Income Statement	1,589	172,347
	<u>37,298</u>	<u>27,146</u>
Net unrealised (appreciation) / diminution in value of investments at the beginning of the year	(27,146)	37,418
	<u>10,152</u>	<u>64,564</u>

As at June 30, 2010, the management has carried out a scrip wise analysis of impairment in respect of equity securities classified as available for sale and has determined that an impairment loss amounting to Rs. 1.589 million for the year ended June 30, 2010 be charged to the income statement.

	Note	June 30, 2010	June 30, 2009
		(Rupees in '000)	
6 DIVIDEND AND PROFIT RECEIVABLE			
Dividend receivable		-	11,093
Accrued profit on bank deposits		327	1,715
Income accrued on Term Finance Certificates		-	7,631
Income accrued on Pakistan Investment Bonds		1,870	-
		<u>2,197</u>	<u>20,439</u>
7 ADVANCES, DEPOSITS AND PREPAYMENTS			
Advance tax		171	171
Deposit with Central Depository Company of Pakistan		300	300
Deposit with National Clearing Company of Pakistan Limited		2,625	2,500
		<u>3,096</u>	<u>2,971</u>
8 PRELIMINARY EXPENSES AND FLOATATION COSTS			
Opening balance		731	5,582
Less: Amortisation during the year		(731)	(4,851)
		<u>-</u>	<u>731</u>
9 PAYABLE TO MANAGEMENT COMPANY			
Management fee	9.1	4,228	5,341
Preliminary expenses and floatation costs	9.2	-	4,851
		<u>4,228</u>	<u>10,192</u>

9.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. In compliance with the requirement of the said regulation, the Management Company has charged remuneration at two percent per annum with effect from August 23, 2009 (three percent till August 22, 2009) as the Fund has completed its five years on August 22, 2009.

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

10 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	Note	June 30, 2010	June 30, 2009
(Rupees in '000)			
Remuneration payable	10.1	199	177
Custody fee payable		26	25
CDS charges payable		6	5
		231	207

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2010 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
On amount exceeding Rs. 2,000 million up to Rs. 5,000 million	Rs. 2,075,000 plus 0.06% p.a. on amount exceeding Rs. 2,000 million

The remuneration is paid to the trustee monthly in arrears.

11 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

12 ACCRUED EXPENSES AND OTHER LIABILITIES	June 30, 2010	June 30, 2009
(Rupees in '000)		
Auditors' remuneration	250	310
Legal and Professional	65	62
Brokerage payable	848	241
Others	369	322
13 CONTINGENCIES AND COMMITMENTS	1,532	935

There were no contingencies and commitments as at June 30, 2010.

14 CONTRIBUTION TO WORKERS WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with SHC by some Mutual Funds through their Trustee along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained a legal opinion to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinion, among other things, stated that mutual funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letter suggests that provisioning was neither required nor necessary. Further, the opinion suggests that the petition filed with the High Court of Sindh be withdrawn.

The management has not made any provision in respect of WWF and still maintains that mutual funds are not establishments and as a result are not liable to pay contribution to WWF.

	June 30, 2010	June 30, 2009
15 AUDITORS' REMUNERATION	(Rupees in '000)	
Audit and review fee	340	340
Other certifications and services	10	133
Out of pocket expenses	34	31
	384	504
16 EARNINGS / (LOSS) PER CERTIFICATE - BASIC AND DILUTED		
Net income / (loss) for the year	384,453	(934,075)
	Number of certificates	
Weighted average number of ordinary certificates outstanding during the year	300,000	300,000
	(Rupees)	
Earning / (loss) per certificate - basic and diluted	1.28	(3.11)

Diluted earnings per certificate has not been presented as the Fund does not have any convertible instruments in issue as at June 30, 2010 and 2009 which would have any effect on the earnings / loss per certificate.

17 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Management Company (AMC), Arif Habib Securities Limited being the holding company of AHI, Arif Habib Limited and Thatta Cement Limited being companies under common control, Arif Habib Bank Limited and Pak Arab Fertilizer being companies under common directorship, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

The transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Remuneration payable to Management Company and trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

Details of transactions with connected persons and balances with them at year end are as follows:

	June 30, 2010	June 30, 2009
17.1 Transactions during the year	(Rupees in '000)	
Management Company		
Remuneration for the year	55,593	61,963
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the year	2,439	2,140
Charges for the year	447	434
Arif Habib Limited - Brokerage house		
Brokerage *	703	407
Arif Habib Bank Limited		
Mark-up for the year	14,131	20,671
Bank charges	-	40
Pakistan Income Fund		
Purchase of Term Finance Certificates		
Allied Bank Limited (December 6, 2006) nil certificates (2009: 13,600)	-	72,503
Jahangir Siddiqui & Company Limited (September 30, 2005) nil certificates (2009: 8,000)	-	38,151
United Bank Limited (February 14,2008) nil certificates (2009: 32,000)	-	162,823

	June 30, 2010	June 30, 2009
	(Rupees in '000)	
Pakistan Income Enhancement Fund		
Sale of Term Finance Certificates		
Allied Bank Limited (December 6, 2006) nil certificates (2009: 7,600)	-	37,032
Pakistan Capital Market Fund		
Purchase of Term Finance Certificates		
Pakistan Mobile Communications Limited (October 1, 2007) nil certificates (2009: 3,200)	-	14,467

The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

17.2	Amounts outstanding as at the year end	June 30, 2010	June 30, 2009
		(Rupees in '000)	
	Management Company		
	Remuneration payable	4,228	5,341
	Preliminary expenses and floatation costs	-	4,851
	Central Depository Company of Pakistan Limited - Trustee		
	Remuneration payable	199	177
	Other Payables	32	30
	Security deposit	300	300
	Arif Habib Limited - Brokerage house		
	Brokerage payable	95	28
	Arif Habib Bank Limited		
	Balance with bank	16,955	172,823
	Accrued mark-up	303	1,715
	Certificates held by	-----Certificates-----	
	Arif Habib Investments Limited	15,629,000	14,127,000
	Arif Habib Securities Limited	45,403,658	41,849,000
	Arif Habib Limited	-	9,541,500
	Arif Habib Bank Limited	2,237,000	-
	Trustee - AHI Employees Provident Fund	380,902	150,000
	Trustee - AHI Employees Stock Beneficial Ownership Trust	61,000	25,000

18 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of the investment committee of the Fund are as follows:

	2010			
	Designation	Qualification	Experience in years	
1	Basharat Ullah	Chief Investment Officer	MBA	17
2	Zeeshan	Chief Financial Officer	ACA	7
3	Nazia Nauman	Head of Equity Funds	MBA / CFA	10
4	Tariq Hashmi	Head of Marketing	MBA	18
5	Muhammad Imran Khan	Head of Equity Research	MBA	7
6	Faisal Khatri	Fund Manager	MBA	5

19	TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID	2010
1	Arif Habib Limited	12.85%
2	Invest & Finance Securities (Pvt.) Limited	8.20%
3	IGI Finex Securities Limited	8.15%
4	BMA Capital Management Limited	7.48%
5	Taurus Securities Limited	4.48%
6	Ample Securities (Pvt) Limited.	4.30%
7	Habib Metropolitan Financial Services Ltd	3.48%
8	Cassim Investments (Pvt.) Limited	3.43%
9	D J M Securities (Pvt.) Limited	3.25%
10	JS Global Capital Limited	3.18%
		2009
1	Arif Habib Limited	10.39%
2	KASB Securities Limited	10.02%
3	Invest & Finance Securities (Pvt.) Limited	6.27%
4	First Capital Equities Limited	5.85%
5	H.H Misbah Securities (Pvt) Limited	5.04%
6	FDM Capital Securities (Pvt.) Limited	4.49%
7	Al Falah Securities (Pvt.) Limited	4.41%
8	Aziz Fidahusein & Co. (Pvt.) Limited	4.12%
9	IGI Finex Securities Limited	4.11%
10	J.S. Global Capital Limited	3.68%

20 PATTERN OF CERTIFICATE HOLDING

	June 30, 2010		
	Number of certificate holders	Investment amount (Rupees in '000)	Percentage Investment
Individual	2,242	744,878	24.83
Associate companies & Undertakings	5	637,116	21.24
Insurance Companies	6	25,135	0.84
Banks / DFIs /NBFCs	36	1,229,129	40.97
Public Limited Companies	12	54,740	1.82
Others	78	309,002	10.30
	2,379	3,000,000	100.00
	June 30, 2009		
	Number of certificate holders	Investment amount (Rupees in '000)	Percentage Investment
Individuals	2,570	868,851	28.96
Associated companies	7	657,175	21.91
Insurance companies	7	25,935	0.86
Bank / DFIs / NBFCs	48	915,274	30.51
Public Limited companies	56	267,365	8.91
Others	56	265,400	8.85
	2,744	3,000,000	100.00

21 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd, 73rd Board meetings were held on July 6, 2009, July 28, 2009, July 29, 2009, October 22, 2009, November 10, 2009, February 22, 2010, March 22, 2010, April 22, 2010, April 24, 2010, June 16, 2010, June 17, 2010 respectively. Information of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
1 Mr. Shafi Malik	11	11	-	-
2 Mr. Salim Chamdia *	3	1	2	64th and 65th meeting
3 Mr. Nasim Beg	11	11	-	-
4 Mr. Sirajuddin Cassim	11	1	10	63rd to 67th and 69th to 73rd meeting
5 Mr. S. Gulrez Yazdani **	7	7	-	-
6 Mr. Muhammad Akmal Jameel	11	10	1	64th meeting
7 Syed Ajaz Ahmed	11	11	-	-
8 Mr. Muhammad Kashif Habib	11	8	3	67th, 69th and 70th meeting

* Mr. Salim Chamdia resigned from the office on September 7, 2009.

** Mr. S. Gulrez Yazdani was appointed as director on October 6, 2009 and approved by SECP on November 5, 2009.

22 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risk: market risk, credit risk and liquidity risk.

22.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Board and regulations laid down by the Securities and Exchange Commission of Pakistan.

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

22.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

22.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Sensitivity analysis for fixed rate instruments

As at June 30, 2010, the Fund holds Pakistan Investment Bonds and Treasury Bills which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be lower by Rs 1.73 million (2009: Nil). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher by Rs 1.78 million (2009: Nil).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

As at June 30, 2010

	Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		
------(Rupees in '000)-----					
Financial Assets					
Balances with banks	27,553	-	-	11,307	38,860
Receivable against sale of investments	-	-	-	127,266	127,266
Investments	355,961	72,627	48,569	1,902,370	2,379,527
Dividend and profit receivable	-	-	-	2,197	2,197
Advances, deposits and prepayments	-	-	-	2,925	2,925
	383,514	72,627	48,569	2,046,065	2,550,775
Financial Liabilities					
Payable to Management Company	-	-	-	4,228	4,228
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	231	231
Dividend payable	-	-	-	11,307	11,307
Accrued expenses and other liabilities	-	-	-	1,532	1,532
	-	-	-	17,298	17,298
On-balance sheet gap	383,514	72,627	48,569	2,028,767	2,533,477

As at June 30, 2009

	Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		
------(Rupees in '000)-----					
Financial Assets					
Balances with banks	168,520	-	-	13,401	181,921
Receivable against sale of investments	-	-	-	13,411	13,411
Investments	-	-	128,886	1,830,072	1,958,958
Dividend and profit receivable	-	-	-	20,439	20,439
Advances, deposits and prepayments	-	-	-	2,800	2,800
	168,520	-	128,886	1,880,123	2,177,529
Financial Liabilities					
Payable to Management Company	-	-	-	10,192	10,192
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	207	207
Payable against purchase of investments	-	-	-	15,139	15,139
Dividend payable	-	-	-	13,384	13,384
Accrued expenses and other liabilities	-	-	-	935	935
	-	-	-	39,857	39,857
On-balance sheet gap	168,520	-	128,886	1,840,266	2,137,672

22.1.3 Price Risk

The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as available for sale and at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks in accordance with the risk management guidelines adopted by the Management Company. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

In case of 5% increase in KSE 100 index on June 30, 2010, net income and net assets of the Fund would increase by Rs 97.293 million (2009: Rs 80.802 million) as a result of gains / losses on equity securities at fair value through profit or loss.

In case of 5% decrease in KSE 100 index on June 30, 2010, net income and net assets of the Fund would decrease by Rs 96.773 million (2009: Rs 80.802 million) as a result of gains / losses on equity securities at fair value through profit or loss.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index calculated over last three years. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of the KSE 100 index.

22.2 Credit risk

Credit risk represents the risk of loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, credit exposure arising as a result of dividends receivable on equity securities and balances with banks. For banks and financial institutions, only reputed parties are accepted. Credit risk on dividend receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the central clearing company. The risk of default is considered minimal due to inherent systematic measures taken therein. In addition, the internal risk management policies and investment guidelines (approved by the Investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency.

The analysis below summarises the credit rating quality of the Company's financial assets as at June 30, 2010:

Bank Balances by rating category

	2010
Allied Bank Limited	AA
Arif Habib Bank Limited	A
Bank Al Habib Limited	AA+
Bank of Punjab	AA-
Bank Alfalah Limited	AA
Faysal Bank Limited	AA
Habib Metropolitan Bank Limited	AA+
Soneri Bank Limited	AA-
Standard Chartered Bank (Pakistan) Limited	AAA
KASB Bank Limited	A-

	2009
Allied Bank Limited	AA
Arif Habib Bank Limited	A
Bank Al Habib Limited	AA+
Bank of Punjab	AA-
Bank Alfalah Limited	AA
Faysal Bank Limited	AA
Habib Metropolitan Bank Limited	AA+
Soneri Bank Limited	AA-
Standard Chartered Bank (Pakistan) Limited	AAA
KASB Bank Limited	A

Term Finance Certificates by rating category	June 30, 2010	June 30, 2009
Nil (2009: AA)	-	89.18%
Nil (2009: AA-)	-	10.82%

Concentration of credit risk

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

22.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Management Company 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.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	As at June 30, 2010		
	Total	Upto three months	More than three months and upto one year
			More than one year
	-----Rupees '000-----		
Liabilities			
Payable to Management Company	4,228	4,228	-
Payable to Central Depository Company of Pakistan Limited - Trustee	231	231	-
Unclaimed dividend	11,307	11,307	-
Accrued expenses and other liabilities	1,532	1,532	-
	17,298	17,298	-

	As at June 30, 2009		
	Total	Upto three months	More than three months and upto one year
			More than one year
	-----Rupees '000-----		
Liabilities			
Payable to Management Company	10,192	10,192	-
Payable to Central Depository Company of Pakistan Limited - Trustee	207	207	-
Payable against purchase of investments	15,139	15,139	-
Unclaimed dividend	13,384	13,384	-
Accrued expenses and other liabilities	935	935	-
	39,857	39,857	-

22.4 FINANCIAL INSTRUMENTS BY CATEGORY

	As at June 30, 2010		
	Loans and receivables	Assets at fair value through profit or loss	Available for sale
			Total
	-----Rupees in '000-----		
Assets			
Balances with banks	38,860	-	38,860
Receivable against sale of investments	127,266	-	127,266
Investments	-	2,273,303	2,379,527
Dividend and profit receivable	2,197	-	2,197
Advances, deposits and prepayments	2,925	-	2,925
	171,248	2,273,303	2,550,775

	-----As at June 30, 2010-----		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
Liabilities			
Payable to Management Company	-	4,228	4,228
Payable to Central Depository Company of Pakistan Limited - Trustee	-	231	231
Dividend payable	-	11,307	11,307
Accrued expenses and other liabilities	-	1,532	1,532
	-	17,298	17,298

	-----As at June 30, 2009-----			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	-----Rupees in '000-----			
Assets				
Balances with banks	181,921	-	-	181,921
Receivable against sale of investments	13,411	-	-	13,411
Receivable against Continuous Funding System (CFS) transactions	-	-	-	-
Investments	-	1,778,105	180,853	1,958,958
Dividend and profit receivable	20,439	-	-	20,439
Advances, deposits and prepayments	2,800	-	-	2,800
	218,571	1,778,105	180,853	2,177,529

	-----As at June 30, 2009-----		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
Liabilities			
Payable to Management Company	-	10,192	10,192
Payable to Central Depository Company of Pakistan Limited - Trustee	-	207	207
Payable against purchase of investments	-	15,139	15,139
Dividend payable	-	13,384	13,384
Accrued expenses and other liabilities	-	935	935
	-	39,857	39,857

22.5 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective January 1, 2009, the Fund adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) level 3).

	As at June 30, 2010			Total
	Level 1	Level 2	Level 3	
----- Rupees in '000 -----				
ASSETS				
Investment in securities - at fair value through profit or loss	2,273,303	-	-	2,273,303
Investment in equity securities - available for sale	106,224	-	-	106,224

23 CAPITAL RISK MANAGEMENT

The Fund's objective when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for certificate holders and to maintain a strong capital base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Fund is required to distribute at least 90 percent of its income from sources other than unrealised gains as reduced by such expenses as are chargeable to the Fund.

Pakistan Strategic Allocation Fund is a closed end fund. The Fund has a limited number of certificates sold at the Fund's inception. The Fund's certificates are not redeemable directly with the Fund, instead certificates are traded on the stock exchange at a price that could be different from certificate's net asset value.

The Fund is not subject to externally imposed capital requirements.

24 CORRESPONDING FIGURES

No significant rearrangements or reclassification were made in these financial statements except as required because of the changes in accounting policies as more fully explained in notes 3.1.3 to these financial statements.

25 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 03, 2010 by the Board of Directors of the Management Company.

26 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the management company has approved a final cash distribution of Rs 1.1534 per certificate (2009: Nil) for the year ended June 30, 2010, amounting to Rs 346.020 million (2009: Nil) in total in their meeting held on August 03, 2010. The financial statements for the year ended June 30, 2010 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2011.

27 GENERAL

27.1 Figures have been rounded off to the nearest thousand rupees.



 Chief Executive

**For Arif Habib Investments Limited
 (Management Company)**



 Director

**PATTERN OF CERTIFICATE HOLDING
FOR THE YEAR ENDED JUNE 30, 2010**

PARTICULARS	NUMBER OF CERTIFICATES HOLDERS	CERTIFICATE HOLDINGS	PERCENTAGE
Individuals	2,242	74,487,786	24.83
Insurance Companies	6	2,513,500	0.84
Joint Stock Companies	42	21,557,001	7.19
Financial Institutions	32	112,701,653	37.57
Modaraba	3	87,500	0.03
Associated Companies & Undertakings	5	63,711,560	21.24
Leasing Companies	3	2,300,000	0.77
Others	46	22,641,000	7.55
TOTAL	2,379	300,000,000	100.00

CATEGORIES OF CERTIFICATE HOLDERS FOR THE YEAR ENDED JUNE 30, 2010

NUMBER OF CERTIFICATE HOLDERS	CERTIFICATES		TOTAL CERTIFICATES HELD	PERCENTAGE
	FROM	TO		
24	-	100	537	0.00
120	101	500	58,571	0.02
564	501	1,000	560,721	0.19
699	1,001	5,000	2,379,648	0.79
325	5,001	10,000	2,934,457	0.98
97	10,001	15,000	1,285,372	0.43
81	15,001	20,000	1,545,594	0.52
53	20,001	25,000	1,264,499	0.42
39	25,001	30,000	1,130,000	0.38
19	30,001	35,000	640,903	0.21
28	35,001	40,000	1,094,013	0.36
18	40,001	45,000	790,000	0.26
33	45,001	50,000	1,622,265	0.54
11	50,001	55,000	585,000	0.20
12	55,001	60,000	709,093	0.24
12	60,001	65,000	755,500	0.25
7	65,001	70,000	481,000	0.16
7	70,001	75,000	522,000	0.17
5	75,001	80,000	395,487	0.13
8	80,001	85,000	664,500	0.22
8	85,001	90,000	700,000	0.23
8	90,001	95,000	744,500	0.25
28	95,001	100,000	2,798,000	0.93
5	100,001	105,000	516,500	0.17
2	105,001	110,000	216,000	0.07
2	110,001	115,000	230,000	0.08
5	115,001	120,000	595,000	0.20
4	120,001	125,000	500,000	0.17
1	125,001	130,000	127,001	0.04
1	130,001	135,000	133,500	0.04
2	135,001	140,000	279,000	0.09
12	140,001	150,000	1,797,000	0.60
1	150,001	155,000	150,500	0.05
2	155,001	160,000	315,500	0.11
3	160,001	165,000	489,500	0.16
8	165,001	170,000	1,352,500	0.45
1	170,001	180,000	180,000	0.06
1	180,001	185,000	183,000	0.06
1	185,001	190,000	185,200	0.06
1	190,001	195,000	195,000	0.07
10	195,001	200,000	1,995,098	0.67
3	200,001	205,000	611,409	0.20
2	205,001	230,000	457,415	0.15
1	230,001	235,000	234,500	0.08
1	235,001	240,000	235,300	0.08
7	240,001	250,000	1,749,000	0.58
4	250,001	255,000	1,014,379	0.34
1	255,001	260,000	260,000	0.09
1	260,001	275,000	272,000	0.09
4	275,001	300,000	1,200,000	0.40
1	300,001	315,000	312,092	0.10
2	315,001	320,000	636,000	0.21
1	320,001	325,000	325,000	0.11
2	325,001	340,000	679,000	0.23
1	340,001	350,000	348,604	0.12
1	350,001	355,000	352,216	0.12
1	355,001	365,000	360,149	0.12
1	365,001	370,000	366,500	0.12
5	370,001	375,000	1,875,000	0.63
1	375,001	385,000	380,902	0.13
3	385,001	400,000	1,200,000	0.40
1	400,001	405,000	401,000	0.13
1	405,001	425,000	425,000	0.14
1	425,001	430,000	429,500	0.14

CATEGORIES OF CERTIFICATE HOLDERS

FOR THE YEAR ENDED JUNE 30, 2010

NUMBER OF CERTIFICATE HOLDERS	CERTIFICATES		TOTAL CERTIFICATES HELD	PERCENTAGE
	FROM	TO		
1	430,001	450,000	450,000	0.15
2	450,001	500,000	1,000,000	0.33
1	500,001	510,000	508,500	0.17
1	510,001	535,000	532,000	0.18
1	535,001	550,000	550,000	0.18
1	550,001	585,000	581,000	0.19
1	585,001	590,000	585,500	0.20
1	590,001	595,000	592,000	0.20
1	595,001	625,000	625,000	0.21
1	625,001	665,000	662,000	0.22
1	665,001	710,000	708,500	0.24
1	710,001	735,000	735,000	0.25
3	735,001	750,000	2,249,251	0.75
1	750,001	780,000	777,115	0.26
1	780,001	795,000	791,000	0.26
1	795,001	840,000	839,500	0.28
4	840,001	850,000	3,400,000	1.13
1	850,001	895,000	893,000	0.30
1	895,001	980,000	978,500	0.33
1	980,001	1,000,000	1,000,000	0.33
1	1,000,001	1,070,000	1,066,000	0.36
1	1,070,001	1,100,000	1,100,000	0.37
1	1,100,001	1,105,000	1,105,000	0.37
1	1,105,001	1,240,000	1,238,865	0.41
1	1,240,001	1,275,000	1,273,000	0.42
1	1,275,001	1,310,000	1,310,000	0.44
1	1,310,001	1,500,000	1,500,000	0.50
1	1,500,001	1,575,000	1,573,600	0.52
1	1,575,001	1,650,000	1,650,000	0.55
1	1,650,001	1,665,000	1,662,500	0.55
1	1,665,001	1,820,000	1,816,500	0.61
1	1,820,001	1,900,000	1,900,000	0.63
1	1,900,001	1,990,000	1,988,456	0.66
1	1,990,001	2,000,000	2,000,000	0.67
1	2,000,001	2,045,000	2,042,500	0.68
1	2,045,001	2,125,000	2,125,000	0.71
1	2,125,001	2,205,000	2,204,000	0.73
1	2,205,001	2,240,000	2,237,000	0.75
1	2,240,001	2,250,000	2,250,000	0.75
1	2,250,001	2,575,000	2,574,334	0.86
1	2,575,001	2,695,000	2,692,500	0.90
1	2,695,001	3,005,000	3,004,645	1.00
1	3,005,001	3,465,000	3,464,000	1.15
1	3,465,001	4,505,000	4,501,500	1.50
1	4,505,001	4,755,000	4,750,001	1.58
1	4,755,001	4,800,000	4,799,900	1.60
1	4,800,001	5,000,000	5,000,000	1.67
1	5,000,001	5,310,000	5,309,349	1.77
1	5,310,001	6,240,000	6,240,000	2.08
1	6,240,001	7,500,000	7,500,000	2.50
1	7,500,001	8,370,000	8,370,000	2.79
1	8,370,001	8,985,000	8,984,632	2.99
1	8,985,001	10,000,000	10,000,000	3.33
1	10,000,001	12,855,000	12,851,501	4.28
1	12,855,001	15,520,000	15,515,091	5.17
1	15,520,001	15,630,000	15,629,000	5.21
1	15,630,001	16,955,000	16,951,078	5.65
1	16,955,001	18,735,000	18,731,599	6.24
1	18,735,001	45,405,000	45,403,658	15.13
	<u>2,379</u>		<u>300,000,000</u>	<u>100.00</u>

**PATTERN OF CERTIFICATE HOLDING
AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2010**

PARTICULARS	CERTIFICATES HELD	PERCENTAGE
Individuals	74,227,786	24.7426
Associated Companies and Undertakings		
- Arif Habib Investments Limited*	15,629,000	5.2097
- Arif Habib Securities Limited	45,403,658	15.1346
- Arif Habib Bank Limited	2,237,000	0.7457
- Trustee - AHI Employee Providend Fund	380,902	0.1270
- Trustee - AHI Employee Stock Beneficial Ownership Trust	61,000	0.0203
National Investment Trust	1,238,865	0.4130
Directors/ CEO and their Spouses		
- Nasim Beg**	60,000	0.0200
- Sirajuddin Qasim**	200,000	0.0667
Executives	-	-
Public Sector Companies and Corporations	5,474,000	1.8247
Banks , DFI's , NBFC's , Insurance Companies , Mudarabas and Mutual Funds	124,187,553	41.3959
Other Companies	30,900,236	10.3001
TOTAL	300,000,000	100.0000

* Holding more than ten percent of total certificate holding.

** These certificates are held in Joint Account.

**STATEMENT OF INCOME AND EXPENDITURE
OF THE MANAGEMENT COMPANY IN RELATION TO THE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	2010	2009
Revenue	(Rupees in '000)	
Management Company remuneration	55,593	61,963
Return on bank deposits	413	118
Markup on Term Finance Certificates	-	250
Dividend Income	-	9,889
(Loss) / Gain on sale of available for sale investment	21,990	(37)
Other Income	2,699	2,115
	80,695	74,298
Operating Expenses		
Staff salary	26,440	35,827
Technical and professional services	493	836
Staff training	259	468
Marketing and advertisement	2,515	1,572
Rent, rates and taxes	1,960	2,872
Communication cost	968	1,500
Directors' fee	326	293
Printing, stationery and other supplies	919	850
Insurance	389	733
Repair and maintenance	2,886	1,506
Fees and subscription	607	733
Legal and professional fees	755	781
Travelling and conveyance	634	548
Financial charges	8,122	2,963
Depreciation	3,303	2,687
Impairment loss	37	94,074
Worker's Welfare Fund	255	-
	50,868	148,243
Net Income for the period	29,827	(73,945)

Note: Above mentioned expenses are based on revenue generated through Collective Investment Schemes (CIS) during the year. Expenses directly related to CIS are allocated to CIS.

PERFORMANCE TABLE

	2010	2009	2008	2007	2006	2005*
----- (Rupees in '000) -----						
Net assets	2,531,171	2,136,566	3,216,077	4,080,334	3,989,330	3,651,951
Net (loss) / income	334,453	(934,075)	(73,666)	803,401	855,120	918,640
----- Announcement date of distribution -----						
Interim	-	-	-	-	-	Feb. 10, 2005
Final	Aug. 3, 2010	-	Jul. 25, 2008	Jul. 21, 2007	Jul. 22, 2006	Jul. 30, 2005
----- Percentage -----						
Total Return	18.54	(27.35)	(1.80)	24.78	23.38	31.86
Dividend distribution - Interim	-	-	-	-	-	10.00
Dividend distribution - Final	11.534	-	7.00	25.00	25.00	15.00
Capital Growth	2.39	(27.35)	(8.21)	1.85	0.19	6.86
Average Annual Return (CAGR):						
First year	18.54	(27.35)	(1.80)	24.78	23.38	-
Second year	(7.20)	(15.55)	10.68	24.12	-	-
Third year	(5.44)	(3.81)	14.76	-	-	-
----- (Rupees in '000) -----						
Net assets value per certificate	8.44	7.12	10.72	13.60	13.30	12.17
Earnings per certificate - basic and diluted	1.28	(3.11)	(0.25)	2.68	2.85	3.06
Interim distribution per certificate	-	-	-	-	-	1.00
Final distribution per certificate	1.1534	-	0.70	2.50	2.50	1.50
Total distribution per certificate	1.1534	-	0.70	2.50	2.50	2.50

* First year of operations from the period July 21, 2004 to June 30, 2005

Disclaimer:

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

