

CONTENTS

	Page No.
Fund's Information	1
Report of the Directors of the Management Company	2
Report of the Fund Manager	5
Trustee Report to the Unit Holders	10
Report of the Shariah Advisory Council	11
Shariah Compliance Auditors' Report to the Unit Holders	12
Statement of Compliance with the Code of Corporate Governance	13
Review Report to the Unit Holders on Statement of Compliance with Best Practices of Code of Corporate Governance	15
Independent Auditors' Report to the Unit Holders	16
Statement of Assets and Liabilities	18
Income Statement	19
Distribution Statement	20
Statement of Movement in Unit Holder Fund	21
Cash Flow Statement	22
Notes to the Financial Statements	23
Detail of Pattern of Holding (Units)	50
Pattern of Unit Holding (By Size)	51
Performance Table	52

FUND'S INFORMATION

Management Company

Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
2 / 1, R.Y. 16, Old Queens Road,
Karachi-74000.

Board of Directors of the Management Company

Mr. Salim Chamdia	Chairman
Mr. Nasim Beg	Chief Executive
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Shafi Malik	Director
Mr. Muhammad Kashif	Director
Mr. Sirajuddin Cassim	Director
Mr. Syed Ajaz Ahmed	Director

Audit Committee

Mr. Salim Chamdia	Chairman
Mr. Muhammad Akmal Jameel	Member
Mr. Muhammad Kashif	Member
Mr. Muhammad Shafi Malik	Member
Mr. Syed Ajaz Ahmed	Member

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Shariah Advisory Council

Justice (Rtd) Muhammad Taqi Usmani
Mulana Mahmood Ashraf Usmani
Dr. Muhammad Imran Ashraf Usmani
Mufti Muhammad Zahid

Trustee

Central Depository Company of Pakistan Limited (CDC)
CDC House, 99-B, Block B, S.M.C.H.S
Main Shahrah-e-faisal, Karachi.

Bankers

- Arif Habib Bank Limited
- Bank Al Falah Limited Islamic Banking
- Bank Al Habib Limited
- Al Baraka Islamic Bank
- Dawood Islamic Bank
- Meezan Bank Limited

Auditors

M/s. KPMG Taseer Hadi & Co.
Chartered Accountants
First Floor, Sheikh Sultan Trust Building No. 2
Beaumont Road, Karachi - 75530

Legal Adviser

M/s. Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

M/s. Gangjees Registrar Services (Pvt.) Limited
Room No. 516, 5th Floor, Clifton Centre,
Kehkashan, Clifton, Karachi.

Distributors

Arif Habib Bank Limited
Bank AL Habib Limited
Standard Chartered Bank
The Bank of Punjab
Allied Bank Limited
CitiBank N.A.
IGI Investment Bank
National Bank of Fujairah

Rating

PACRA: 4 Star Normal
PACRA: AM2 – Management Company

**REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED 30TH JUNE 2009**

The Board of Directors of Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited), the Management Company of Pakistan International Element Islamic Fund (PIIF) submits herewith its fourth annual report together with audited Financial Statements for the Financial Year ended 30th June 2009.

Fund Objective

The objective of the Fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally.

Fund Profile

PIIF is an Open-end asset allocation Fund, which seeks to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic allocations towards different asset classes.

The investment process is driven by fundamental research. The domestic portfolio of the Fund primarily invests in fundamentally strong Shariah compliant equities, while some portion of the Fund is also allocated towards high quality Sukuks and other types of Shariah compliant instruments offering higher comparative returns. For equities investment, fundamental outlook of sectors/companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the Fund's portfolio is high quality liquid stocks. International investments up to 30% of the net assets are made in Shariah compliant mutual funds investing into various world markets. Allocation in various international mutual funds is decided on the basis of economic and capital market outlook for major world economies and track record of the fund managers.

Fund Performance During Financial Year Ended 30th June 2009

The net assets of the Fund as at 30th June 2009 stood at Rs 606.59 million. The ex-dividend Net Asset Value (NAV) per unit at the start of the period was Rs 50.11, a decline of Rs 7.95 in the NAV per unit was recorded during the period under review. The NAV per unit as on 30th June 2009 was Rs 42.16. Further, during the year, PIIF delivered a total negative return of 15.87% as compared to a negative return of 29.62% in its Hybrid Benchmark, which comprises of 70% Dow Jones Islamic Market Pakistan Index and 30% Dow Jones Islamic Market World Index, representing the allowed allocation limits of domestic and international investments as per the Fund's Trust Deed and KSE-100 index which had a negative return of 41.72%.

Reason for Loss

The Fund incurred a net loss Rs 114.98 million as equity prices fell sharply during the first half of FY09 amid deterioration in Pakistan's economic situation, prolonged period of price floor on stock prices and global market meltdown. During the year, the Fund incurred capital loss on sale of investments of Rs 109.55 million while unrealised diminution in the value of investments was Rs 89.22 million. Due to this, the Board has not proposed dividend for the year ended 30th June 2009.

Loss Per Unit (LPU)

LPU has not been disclosed as we feel determination of weighted average units for calculating LPU is not practicable for open-end funds.

Corporate Governance

The Fund is listed on all the three Stock Exchanges of Pakistan; hence the Management Company is required to comply with the requirements of the Code of Corporate Governance for listed companies. The Financial Statements prepared by the Management Company present fairly the state of affairs of the Fund and results of its Operations, Cash Flows and Movement in the Unit Holders' Fund. Proper books of account of the Fund have been maintained and appropriate accounting policies have been consistently applied in preparation of Financial Statements and accounting estimates are based on reasonable and prudent judgment. International Financial Reporting Standards as applicable in Pakistan have been followed in the preparation of Financial Statements. The system of internal control is sound in design and has been effectively implemented and monitored. There are no events or conditions that cast doubt upon the Fund's ability to continue as going concern. There has been no material departure from the best practices of Corporate Governance, as detailed in listing regulations. Key financial data is summarized in the Financial Statements. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the Financial Statements. The statement as to the value of investments of Provident Fund is not applicable in the case of the Fund as such expenses are borne by the Management Company. The detailed pattern of Unit Holding, as required by the Code of Corporate Governance is given in the annual report.

**ATTENDANCE OF BOARD MEETINGS
FROM 01ST JULY 2008 TO 30TH JUNE 2009**

Statement showing attendance of Board meetings is as follows:

S. No.	Name	Designation	Meetings		
			Total	Attended	Leave Granted
1.	Mr. Salim Chamdia	Chairman	11	9	2
2.	Mr. Nasim Beg	Chief Executive	11	10	1
3.	Mr. Muhammad Akmal Jameel	Director	11	9	2
4.	Mr. Muhammad Shafi Malik	Director	11	10	1
5.	Mr. Muhammad Kashif	Director	11	7	4
6.	Syed Ajaz Ahmed	Director	4	4	-
7.	Mr. Sirajuddin Cassim	Director	11	3	8
8.	Mr. Mirza Qamar Baig	Former Director	1	1	-
9.	Mr. Yacoob Memon	Former Director	2	2	-

During the year Mr. Yacoob Memon was appointed as a Director in place of Mr. Mirza Qamar Beg, whose appointment was not cleared by the SECP. Syed Ajaz Ahmed was then appointed to fill the casual vacancy after the gap of three months.

The trades in units of the Fund carried out by the Directors, CE, CFO / Company Secretary of the Management Company and their spouses and minor children are as under:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Chief Executive	-	-	351.44
2.	Muhammad Akmal Jameel	Director	-	-	100.76

External Auditors

As recommended by the Audit Committee, the Board of Directors of the Management Company has reappointed M/s. KPMG Taseer Hadi & Co., Chartered Accountants as the Fund's auditor for the year ending 30th June 2010.

Future Outlook Domestic

On the basis of relative valuations, KSE is at a substantial discount to regional and international markets. From its lows of 4,810 in January 2009, the KSE-100 has rebounded by almost 50%. Global equity markets, particularly emerging markets have shown strong performance since March 09 amid early signs of global economic recovery (or end of recession). While relative valuations signal Pakistani equities to deliver positive performance in 2010, for the market to show sustainable recovery, the economy needs to come out of its somber state and critically GDP growth should pick up pace in coming months. On the stimulus front, there appears to be little the government can provide for in the short term, however, continuing fall in domestic interest rates and global economic recovery should help in improving the prospects of relatively better GDP growth in the second half of the current fiscal year. Most importantly, the government needs to bring the domestic security situation under control as prolonged conflict and war like situation in the tribal belt will make it extremely difficult to attract any sizeable investment inflows in the country.

International

The international portfolio of PIIF comprises Mayfair Greater China Segregated Portfolio (China) and HSBC Amanah G.C.C Equity Fund (the G.C.C region). In our view both these regions offer relatively better investment prospects than the rest of the world. A USD 600bn stimulus plan introduced by the Chinese government in November 2008 kept fixed investment robust, with most leading economic indicators showing signs of a recovery. In fact, the economy registered an impressive GDP growth of 7.1 percent YoY in 1H2009. Going forward, a pick-up in domestic consumption and export growth as a result of a global economic recovery are major factors further brightening prospects for China.

Strong fiscal and current account positions characteristic of the majority of G.C.C economies allowed them to mobilize public spending and withstand a severe recession. However, oil prices recovering from their recent lows from the mid 30s USD per barrel at the start of 2009 to mid 60s by the end of the first half has improved the outlook for the G.C.C region. In addition, oil demand and hence price is likely to pick further up on the back of a global recovery, providing further impetus to business activity in the Gulf region.

Acknowledgement

The Board is thankful to the Fund’s valued investors, Securities and Exchange Commission of Pakistan, State Bank of Pakistan, the Trustees to the Fund-Central Depository Company of Pakistan Limited and the managements of Karachi, Lahore and Islamabad Stock Exchanges for their continued cooperation and support. The Directors also appreciate the efforts put in by the team of the Management Company.

For and on behalf of the Board



Nasim Beg
Chief Executive

28th July 2009
Karachi

**REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED 30TH JUNE 2009**

Fund Objective

The objective of the Fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally.

Fund's Performance

During the year ended 30th June 2009, PIIF's NAV declined by 15.87%, compared with a decline of 29.62% in its Hybrid Benchmark -- 70% Dow Jones Islamic Market Pakistan Index and 30% Dow Jones Islamic Market World Index (representing the allowed allocation limits of international investments). The Fund offloaded/reduced its exposure in local scrips ahead of the fall in equities, which resulted in relatively lesser drop in its NAV. In addition, its exposure in the international market helped PIIF benefit from a large Rupee depreciation during the year. Exit from the US and Europe markets and entry in China and GCC region further supported Fund returns positively.

NAV Change Analysis and Total Return

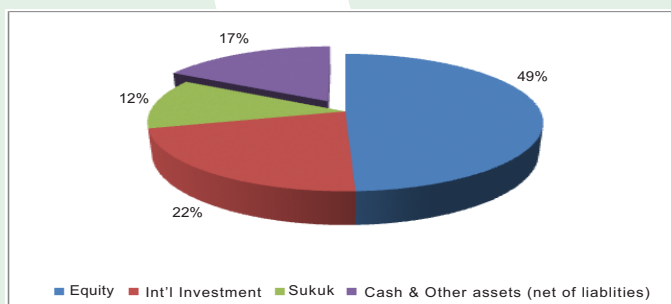
	FY2006 - 07	FY2007 - 08	FY2008 - 09
Beginning Net Assets (Rs 000)	1,378,168	1,072,531	984,083
No. of Units	28,877,192	21,388,967	19,556,040
Beginning NAV (Rs per unit)	47.73	50.14	50.11
Ending Net Assets (Rs 000)	1,072,531	984,083	606,589
No. of Units	18,211,172	18,974,014	14,387,759
Ending NAV (Rs per unit)	58.89	51.86	42.16
Bonus Distribution (Rs per unit)	8.75	1.75	Nil
Ending NAV (Ex-Dividend) (Rs per unit)	50.14	50.11	42.16
Income Distribution (%)	18.33	3.49	Nil
Capital Growth (%)	5.07	(0.06)	(15.87)
Total Return (%)	23.40	3.43	(15.87)

CAGR Returns for Last 1, 2 & 3 year periods

Year End	Number of Years	Total Return	Annualised Return (CAGR)
30-Jun-09	1 year	-15.87%	-15.87%
	2 year	-12.98%	-6.71%
	3 year	7.37%	2.40%

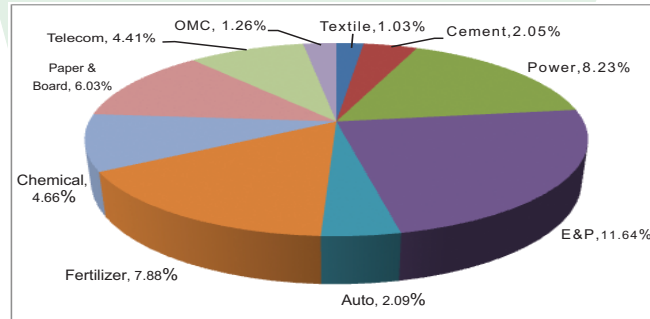
Asset allocation and investment Activities during 2009

The average (month- end) portfolio allocations to the different asset classes during the year were as follows:



Equity Portfolio (Domestic)

The domestic equity portfolio covers wide range of economic sectors. Average (month-end) exposure in different sectors were as follows:



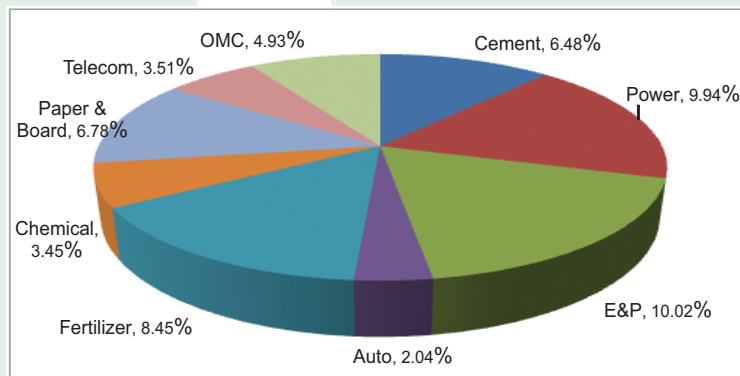
Changes in the portfolio

During the year, the Fund completely disposed off its holding in Textile sector while reductions were made in Power, Fertilizer, Chemical and E&P sectors. On the other hand, further exposures were built in Cement and OMC sectors. Almost every sector contributed negative to the Fund’s total return primarily due to across-the-board massive drop in stock prices. Major activities in the portfolio during the year are highlighted below:

- Holdings in Textile (NML) were completely disposed off from the portfolio as these became non-compliant on the basis of December 2008 accounts. The sector contributed approx. -0.5% to the total return of the Fund.
- Allocation in Lucky Cement was added during 4Q FY09 sighting better full year earnings of the company. The Fund continued to hold investment in Attock Cement. Overall, the sector contributed approx. -0.2% to total returns of the Fund.
- Investment in Chemical (ICI) was reduced from 5.11% to 3.45% on lower than expected 1QCY09 earning announcement. The sector contributed approx. -0.8% to total returns of the Fund.
- Exposure in OMC sector was reduced substantially in the initial part of the year and added back again towards the close of the financial year as outlook on earnings improved. The contribution from this sector in the total return was approx. -2.5%.
- Allocation in E&P sector was initially increased primarily in PPL and POL owing to their availability at discount to fair values. However, the Fund opted to exit from both PPL and POL sighting near term challenges on international oil prices. The sector contributed approx. -4.2% to the total returns of the Fund.
- Allocation in Fertilizer sector was reduced in 1H FY09 by disposing holdings in ENGRO. By end of the financial year, small quantities of ENGRO have been added to the portfolio as the scrip was trading at deep discount to its estimated fair value. Exposure in this sector, however, reduced from 13.52% at the beginning of the year to 8.45% as of June 30, 2009. Overall, the sector contributed approx. -2.1% to total return of the Fund.

Portfolio Composition at year end

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



International Portfolio

As of Jun-09 end, the international portfolio was 27.06% of the Fund size (out of the 30% maximum allowed). The year witnessed a slump in equities in major regions as larger economies entered a recessionary phase. PIIF's international portfolio also suffered as a result. However, the downside in the portfolio was limited due to Rupee depreciation of more than 20% during the year. This portfolio registered a total return of -6.2%.

During the year, the Fund divested its investments in Alfanar funds. Mayfair Greater China Fund was added into the portfolio which primarily invests in China, Hong Kong and Taiwan. Complete exit from European markets was decided on the back of low probability of a quick recovery in Euro economies. Fresh exposures were built in HSBC Amanah GCC Equity Fund which primarily invests in GCC countries, sighting moderate growth on the back of strong position with respect to their current and fiscal account surpluses providing macroeconomic resilience.

Sukuk Portfolio

The Fund reduced its Sukuk portfolio, selling a portion of Engro Sukuk. Engro Sukuk carries floating rate linked to 6-month KIBOR with premium 1.5% above KIBOR. By year end, the Fund had approx. 8% of net assets invested in Sukuk.

Stock market review

The KSE-100 index recorded a fall of 42% by the close of FY 09 (June). The year was marked with the ugly episode of a price floor imposition on stock prices from 27th August till 15th December 2008. This drastic measure was taken to give some breathing space to the clearing system; however, the situation got worse and the price floor mechanism got prolonged as equity prices kept on retreating in the off-market as global markets tumbled due to crises in the financial markets. Amid global economic recession, Pakistani economy too was severely impacted and the country had to enter into a \$7.6 bn two year stabilization programme with the IMF in November 2008. GDP growth decelerated sharply to just 2% in 2009 (as against 6.5% average during the previous 5 years), with inflation accelerating to above 20%, hence forcing the Central Bank to increase the policy rate to 15% by January 2009.

The index plummeted by almost 50% straight after the removal of the floor (around 9000) before consolidating and commencing a new upturn and eventually closing at 7162.18 as against 12289.03 at the end of FY08. Since Feb 09, the market has shown steady recovery, with the index reaching as high as 8000 in April 09 and thereafter consolidating around 7000 levels during May and June. The last quarter saw significant drop in both inflation and interest rates (10 yr PIB yield fell below 12%), which helped in the rerating of equity valuations.

Average daily volumes plunged to a ten year low of 106mn, down 56% compared to 242mn registered in FY08. At the same time, while market capitalization in Rupee terms deteriorated by 44% reaching PKR 2,121bn, in Dollar terms it fell 53% to USD 26bn.

The performance of KSE-100 index was by far the worst vis-à-vis regional markets that witnessed an average decline of 13%. Consequently the index reached a P/E of 6.7x, a significant discount of 57% to the regional earnings multiple of 15.7x, whereas the dividend yield touched 8.6% compared to the regional average of 3.4%.

Foreign investment during the fiscal year witnessed an outflow USD 445mn. This trend, however, did see a modest u-turn during the last month as during June 2009 there was an inflow to the tune of USD 16mn. This has primarily been due to the fact that KSE-100 was included in the MSCI Frontier Index in late May 2009 with a weight of 3% after being removed from the MSCI Emerging Markets Index in December 2008.

Economic Review

The economy suffered from severe deterioration at the onset of Financial Year 09, brought upon by record commodity prices and capital flight. The government, aiming for fiscal consolidation initiated elimination of subsidies, resulting in record inflation at 25.3 percent YoY at its peak in August. SBPs FX reserves fell to a mere USD 3bn amidst a massive import bill, with the currency depreciating almost 15 percent in Q1 FY09. Entry into the IMF program and the commodity price meltdown commencing in Q2 FY09 allowed the economy to re-gain stability. In order to reverse capital flight and suppress inflation, SBP opted for monetary tightening, increasing the policy rate by a total of 300bps. However, severe liquidity pressures compelled the Central Bank to relax the SLR and CRR rates.

2HFY09 saw the Current Account Deficit (CAD) narrow significantly amid stable currency and build up in reserves. Higher interest rates have ignited interest in Treasuries, allowing the government to retire some of its debt with the SBP and move towards the less inflationary bank debt for financing its deficit. In anticipation of lower inflationary expectations and

subsequent policy rate cuts, market yields began to decline substantially. Liquidity also improved and the benchmark KIBOR came down from the 15 percent range at the start of 2009 to the 12 percent range at FY09 end. Fiscal spending has remained restricted with PSDP expenditure greatly underutilized.

The country witnessed major deterioration in security situation as Taliban militants took control of Swat and Malakand region in the province of NWFP, which eventually forced the government to undertake large scale military offensive in Swat and the tribal belt. This war like situation has put a severe strain on the economy in the form of huge increase in outlays for internally displaced people and higher military spending.

Real economic activity has been adversely affected with an initial estimate of only 2 percent GDP growth. Large scale manufacturing declined by 8.24 percent Jul-Apr FY09 as production fell across all the major industries due to fall in domestic demand and exports. Agriculture sector showed strong performance with growth of 4.7 percent on the back of bumper wheat crop, while service sector recorded growth of 3.6 percent.

The Year Ahead

Inflation is likely to continue to fall in Q1 till the base effect starts to reverse in October, after which there may be some upward trend due to expectations of increasing electricity tariffs and fuel prices. Market yields are likely to settle at around 10-11 percent and a total of 300bps cut in the policy rate can be expected for FY10. Decreasing interest rates combined with the gradual pick-up of domestic demand are likely to increase the off-take of credit and subsequently an increase can be seen in manufacturing activity by 2HFY10. Overall a money supply (M2) growth of 11 percent seems likely for FY10.

The federal budget envisions a significant increase in development expenditure of PKR 646bn which is likely to provide stimulus to the economy, however shortfalls with respect to the ambitious tax revenue target of PKR 1,531bn is likely to induce cuts in the PSDP. In addition to this, inability to achieve the revenue target may also induce the government to borrow more extensively from scheduled banks which may reduce the quantum of credit available for the private sector. Overall we expect spending on PSDP should be lower than what has been estimated as growth in tax revenues amid slowing economy will be difficult to materialize.

The CAD, after experiencing a significant improvement by over USD 5bn in FY09 will likely worsen slightly in FY10 mainly as imports start to pick-up and exports continue to remain depressed. International oil prices will be the key factor as higher oil prices (which have recently rebounded above USD 60 a barrel) will have a negative impact on Pakistan's balance of payments. Remittances are likely to remain strong, although growth similar to FY09 (20 percent) is unlikely due to a higher base. Commitments made in the FoDP amounting to USD 5.2bn over three years and USD 1.5bn a year from the Kerry-Lugar bill approved by Congress will provide much needed support to the Financial Account as FDI and FPI are not expected to pick-up significantly in FY10. Existing reserves and disbursement of IMF tranches will continue to keep FX-reserves in a comfortable position. There is still room for further depreciation of the local currency based on inflation and interest rate differentials with trading partners although it is probably not going to be more than 4-5 percent.

The government is targeting 3.3 percent overall GDP growth for FY10, with 3.8 percent in Agriculture, 1.8 percent in Manufacturing and 3.6 percent in Services. Despite the fact that sluggish growth is expected in FY10 as compared to previous years, growth targets can be outperformed if the current macroeconomic adjustment process continues going forward and improvement in the security situation as a result of military action yields positive results.

Outlook

On the basis of relative valuations, KSE is at a substantial discount to regional and international markets. From its lows of 4810 in January 2009, the KSE-100 has rebounded by almost 50%. Global equity markets, particularly emerging markets have shown strong performance since March 09 amid early signs of global economic recovery (or end of recession). While relative valuations signal Pakistani equities to deliver positive performance in 2010, for the market to show sustainable recovery, the economy needs to come out of its somber state and critically GDP growth should pick up pace in coming months. On the stimulus front, there appears to be little the government can provide for in the short term, however, continuing fall in domestic interest rates and global economic recovery should help in improving the prospects of relatively better GDP growth in the second half of the current fiscal year. Most importantly, the government needs to bring the domestic security situation under control as prolonged conflict and war like situation in the tribal belt will make it extremely difficult to attract any sizeable investment inflows in the country.

The international portfolio of PIIF comprises 14% MayFair Islamic Greater China Fund (China) and 13% HSBC Amana GCC Equity Fund (the GCC region). In our view both these regions offer relatively better investment prospects than the rest of the world. A USD 600bn stimulus plan introduced by the Chinese government in November 2008 kept fixed investment

robust, with most leading economic indicators showing signs of a recovery. In fact, the economy registered an impressive GDP growth of 7.1 percent YoY in 1H2009. Going forward, a pick-up in domestic consumption and export growth as a result of a global economic recovery are major factors further brightening prospects for China.

Strong fiscal and current account positions characteristic of the majority of G.C.C economies allowed them to mobilize public spending and withstand a severe recession. However, oil prices recovering from their recent lows from the mid 30s USD per barrel at the start of 2009 to mid 60s by the end of the first half has improved the outlook for the G.C.C region. In addition, demand for oil and consequently price is likely to pick further up on the back of a global recovery, providing further impetus to business activity in the Gulf region.

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 unit split undertaken during the year.
- c. The fund manager is not aware of any circumstances that can materially affect any interests of the unit holders other than those already disclosed in this report.



TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC 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 International Element Islamic Fund (the Fund), an open-end fund was established under a trust deed dated December 14, 2005, executed between Arif Habib Investments Limited (Formerly Arif Habib Investment Management Limited), as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2009 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 pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) 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
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 09, 2009

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office: CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi-74400, Pakistan. Ph : (92-21) 111-111-500, Fax : (92-21) 34326020-23
URL: www.cdcpakistan.com E-mail: info@cdcpak.com

REPORT OF THE SHARIAH ADVISORY COUNCIL

Alhamdulillah, the year under review was the third full year of operations of Pakistan International Element Islamic Fund (the Fund). We, the Shariah Advisory Council of the Fund, are issuing this report in accordance with the clause 2.3 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

It is the responsibility of M/s Arif Habib Investments Limited (formally Arif Habib Investment Management Limited), the management company of the Fund, to establish and maintain a system of internal controls to ensure compliance with the Shariah guidelines. Our responsibility is to express an opinion, based on our review of the representations made by the management, to the extent where such compliance can be objectively verified.

For screening equities in the local stock market, we have advised a criteria on the basis of the following; (1) Nature of business, (2) Interest bearing debt in relation to the total assets, (3) Illiquid assets in relation to the total assets, (4) Investment in non-Shariah compliant activities to total assets (5) Income from non-complaint investment to Gross revenues and (6) Net liquid assets per share vs. share price.

For screening international equities, we have advised the Dow Jones Islamic Indices criteria to be used as well as other criteria which we deem appropriate. These criteria relate with the level of cash, receivable, interest bearing securities and debt to the average market capitalization of the company. As of 30th June 2009 PIEIF had approximately 27.06% of its NAV in international investments, namely in two Islamic Funds (Mayfair China and HSBC Amanah GCC Equity Fund). These funds were reviewed prior to the investment and as such were deemed Shariah compliant.

As part of our mandate as Shariah Advisor to the Fund, we have reviewed the following, during the year;

- The modes of investment of the Fund's property and its compliance with the Shariah guidelines.
- Shariah compliance of new investment avenues proposed by AHIL.
- Shariah compliance of its International investment.

In the light of the above scope, we hereby certify that all the provisions of the scheme and investments made by the Fund for the year ended 30th June 2009 are in compliance with the Shariah principles.

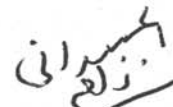
The management company has been directed to set aside as charity, amount earned as interest from conventional banks. In addition, there are investments made by the PIEIF where Investee companies have earned a part of their income from non-complaint sources (e.g. interest income). In such cases, the management company has been directed to set aside as charity such proportion of the income from Investee companies in order to purify the earnings of the Fund.

During the year an amount of Rupees 0.302 million was transferred to the charity account and an amount of Rupees 1.878 million was disbursed.

May Allah bless us with Tawfeeq to accomplish these cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Karachi

Dated: 14th July 2009



Dr Ejaz Samadani

For and on behalf of Shariah Advisory Council



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

Telephone +92 (21) 568 5847
Fax +92 (21) 568 5095
Internet www.kpmg.com.pk

Independent Assurance Provider’s Report on Shariah Compliance to the Unit holders

We have performed our independent assurance engagement of **Pakistan International Element Islamic Fund** (the Fund) to assess the Fund’s compliance with the Shariah investment guidelines prescribed by the Shariah Advisor Council of the Fund for the year ended 30 June 2009.

Management Company’s responsibility

Management Company of the Fund is responsible for the appointment of Shariah Advisor of the Fund and for compliance with the Shariah Investment Guidelines prescribed by the Shariah Advisory Council. This responsibility includes: designing, implementing and maintaining internal control to ensure compliance with the Shariah investment guidelines issued by the Shariah Advisory Council of the Fund.

Responsibility of independent assurance providers

Our responsibility is to express our conclusion on the compliance based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagements (ISAE 3000) ‘Assurance Engagement other than Audits or Review of Historical Financial Information’. This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the Fund has complied with the guidelines issued by the Shariah Advisory Council.

The procedures selected depend on our judgement, including the assessment of the risks of material non-compliances with the Shariah investment guidelines. In making those risk assessments, we have considered internal controls relevant to the entity’s compliance with the guidelines in order to design our procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the guidelines. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

Conclusion

In our opinion, the Fund was, in all material respects, in compliance with the Shariah investment guidelines issued by the Shariah Advisory Council of the Fund for the year ended 30 June 2009.

Date: **26 AUG 2009**

Karachi

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

KPMG Taseer Hadi & Co., a partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30TH JUNE 2009**

This statement is being presented by the Board of Directors of Arif Habib Investments Limited (*formerly: Arif Habib Investment Management Limited*) (“the Management Company”), the Management Company of Pakistan International Element Islamic 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 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Mirza Qamar Beg had resigned and was replaced by Mr. Yacoob Memon. Subsequently, Syed Ajaz Ahmad replaced Mr. Yacoob Memon, due to the reasons disclosed in the Directors’ Report.
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 approved the 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 30th June 2009, 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. 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 an orientation course 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. During the year Chief Financial Officer and Company Secretary was replaced by the Board.
12. The roles and responsibilities of the Chairman and CE have been approved by the Board of Directors.
13. 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.
14. The Directors, CE and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.

15. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.
16. The Management Company has complied with all the corporate and financial reporting requirements of the Code relevant to the Fund.
17. The Board has formed an audit committee for the Fund. It comprises five members, all of whom are non-executive directors including the Chairman of the committee.
18. 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.
19. 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.
20. 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 units 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.
21. 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.
22. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board



Nasim Beg
Chief Executive

Karachi
28th July 2009



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Review report to the Unit holders of Pakistan International Element Islamic Fund (“the Fund”) on Statement of compliance with best practices of code of corporate governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited), “the Management Company” of the Fund comply with the Listing Regulation no 35 (previously Regulation no 37) of the Karachi Stock Exchange, Chapter XI of the Islamabad Stock Exchange and Chapter XI of the Lahore Stock Exchange 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. 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 Management Company’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 financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company’s corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulation no 35 (previously Regulation no 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 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 transaction which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect The Management Company’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2009.

Date: 28 JUL 2009

Karachi

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
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Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **Pakistan International Element Islamic Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2009 and the income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the 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 is 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.

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2009, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.



KPMG Taseer Hadi & Co.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The corresponding figures presented are based on financial statements of the Fund as of 30 June 2008, which were audited by another firm of chartered accountants whose report dated 25 July 2008 expressed an unqualified opinion on those statements.

Date: 28 JUL 2009

Karachi

KPMG Taseer Hadi & Co.
KPMG TH
KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30TH JUNE 2009

	Note	30 th June 2009	30 th June 2008
(Rupees in '000)			
Assets			
Bank balances	4	69,046	121,266
Receivable against sale of investments		-	2
Receivable against sale of units		4,258	20,185
Investments - 'at fair value through profit or loss'	5	550,524	831,299
Dividend and profit receivable	6	6,638	10,207
Advance, deposits, prepayments and other receivables	7	3,446	3,594
Preliminary expenses and floatation costs	8	3,020	4,670
Total assets		636,932	991,223
Liabilities			
Payable to Management Company	9	1,216	2,632
Payable to Central Depository Company of Pakistan Limited - Trustee	10	99	165
Payable to Shariah Advisor		-	83
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	11	637	1,030
Payable against purchase of investments		26,028	-
Payable on redemption of units		1,153	180
Accrued expenses and other liabilities	12	1,210	3,050
Total liabilities		30,343	7,140
Contingencies and commitments			
	13		
Net assets		606,589	984,083
Unit holders' fund (as per statement attached)		606,589	984,083
(Number of units)			
Number of units in issue		14,387,759	18,974,014
(Rupees)			
Net asset value per unit		42.16	51.86

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

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)


Chief Executive


Director

**INCOME STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2009**

	Note	30 th June 2009 (Rupees in '000)	30 th June 2008
Income			
Capital (loss) / gain on sale of investments - 'at fair value through profit or loss'		(109,551)	56,484
Profit on saving bank deposits		6,248	6,390
Dividend income		23,210	31,665
Income from investment in sukuk bonds		10,786	7,308
Other income		704	1,402
Unrealised diminution in the value of investments - 'at fair value through profit or loss'	5.4	(89,224)	(23,990)
Total (loss) / income		(157,827)	79,259
Expenses			
Remuneration of Management Company	14	18,038	28,474
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	1,308	2,019
Remuneration of Shariah Advisor		-	496
Annual fee - Securities and Exchange Commission of Pakistan	11	637	1,030
Securities transaction cost		1,245	2,264
Settlement and bank charges		220	227
Fees and subscriptions		253	351
Auditors' remuneration	15	622	769
Printing and related cost		325	322
Professional charges		222	268
Amortisation of preliminary expenses and floatation costs	8	1,650	1,650
Total expenses		24,520	37,870
Net (loss) / income from operating activities		(182,347)	41,389
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		67,370	(8,629)
Net (loss) / income carried forward for distribution		(114,977)	32,760
(Loss) / earnings per unit	16		

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

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)


Chief Executive


Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2009**

	<i>Note</i>	30th June 2009	30th June 2008
		(Rupees in '000)	
Undistributed income brought forward	17	35,386	161,974
Final distribution (2008: Rs. 1.75 per unit dated 3 rd July 2008) (2007: Rs. 8.75 per unit)			
- Bonus units		(29,385)	(125,228)
- Cash distribution		(3,820)	(34,120)
Net (loss) / income for the year		(114,977)	32,760
Net (loss) / income for the year less distribution		(148,182)	(126,588)
Undistributed (loss) / income carried forward		<u>(112,796)</u>	<u>35,386</u>

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

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)


Chief Executive


Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30TH JUNE 2009


	30 th June 2009	30 th June 2008
	(Rupees in '000)	
Net assets at the beginning of the year	984,083	1,072,531
Issue of 6,636,972 units (30 th June 2008: 12,724,685 units)	306,181	698,176
Redemption of 11,809,614 units (30 th June 2008: 14,459,413 units)	(497,508)	(793,893)
	(191,327)	(95,717)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to income statement	(67,370)	8,629
Capital (loss) / gain on sale of investments - 'at fair value through profit or loss' (excluding exchange gain)	(124,345)	54,158
Net unrealised diminution on investments at fair value through profit or loss (excluding exchange gain)	(100,819)	(39,223)
Exchange gain	26,389	17,559
Other net income for the year	83,798	266
	(114,977)	32,760
Final distribution (30 th June 2008: Rs. 1.75 per unit dated 3 rd July 2008) (30 th June 2007: Rs. 8.75 per unit)		
- Bonus distribution	(29,385)	(125,228)
- Cash distribution	(3,820)	(34,120)
	(33,205)	(159,348)
Net (loss) / income less distribution for the year	(148,182)	(126,588)
Issue of 586,387 bonus units for the year ended 30 th June 2008 (30 th June 2007: 2,497,570 units)	29,385	125,228
Net assets as at the end of the year	606,589	984,083

(Rupees)

Net asset value per unit at the beginning of the year	51.86	58.89
Net asset value per unit at the end of the year	42.16	51.86

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

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)



Chief Executive



Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2009**

	30 th June 2009	30 th June 2008
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) / income for the year	(114,977)	32,760
Adjustments for:		
Dividend income	(23,210)	(31,665)
Unrealised diminution in the value of investments - 'at fair value through profit or loss'	89,224	23,990
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	2,182	5,969
Amortisation of preliminary expenses and floatation costs	1,650	1,650
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(67,370)	8,629
	<u>(112,501)</u>	<u>41,333</u>
Decrease / (increase) in assets		
Receivable against sale of investments	2	18,354
Investments - 'at fair value through profit or loss'	191,551	49,010
Profit receivable	2,664	(2,008)
Advance, deposits, prepayments and other receivables	148	5,524
	<u>194,365</u>	<u>70,880</u>
(Decrease) / increase in liabilities		
Payable to Management Company	(1,416)	624
Payable to Central Depository Company of Pakistan Limited - Trustee	(66)	(10)
Payable to Shariah Advisor	(83)	(127)
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(393)	(237)
Payable against purchase of investments	26,028	-
Accrued expenses and other liabilities	(1,839)	(728)
	<u>22,231</u>	<u>(478)</u>
Dividend received	24,115	31,120
Net cash from operating activities	<u>128,210</u>	<u>142,855</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(3,820)	(34,120)
Net receipts / (payments) against sales / redemption of units	(176,610)	(155,651)
Net cash used in financing activities	<u>(180,430)</u>	<u>(189,771)</u>
Net decrease in cash and cash equivalents during the year	(52,220)	(46,916)
Cash and cash equivalents at the beginning of the year	121,266	168,182
Cash and cash equivalents at the end of the year	<u>69,046</u>	<u>121,266</u>

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

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)


Chief Executive


Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2009**

1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited - AHIL (formerly Arif Habib Investment Management Limited - AHIML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14th December 2005 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 2/1, R.Y. 16, Old Queens Road, Karachi, Pakistan.

The Fund is an open-ended mutual fund, listed on the Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Fund is to make investment in shariah compliant investments in securities or instruments both inside and outside Pakistan. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

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

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2' to the Management Company and '4 Star Normal' to the Fund.

These financial statements comprise of statement of assets and liabilities as at 30th June 2009 and the related income statement, distribution statement, statement of movement in unit holders' funds, cash flow statement and notes thereto, for the year ended 30th June 2009.

2. BASIS OF PREPARATION

The transactions undertaken by the Fund are in accordance with the process prescribed under the Shariah guidelines issued by the Shariah Advisory Board.

2.1 Statement of compliance

These financial statements have been prepared in accordance with the 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, provisions of and directives issued under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules 2003), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations 2007), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations 2008) and

the requirements of the Trust Deed. Wherever, the requirements of the Trust Deed, the NBFC Rules 2003, the NBFC Regulations 2007, the NBFC Regulations 2008 and the said directives differ with the requirements of these Standards, the requirements of the Trust Deed, the NBFC Rules 2003, the NBFC Regulations 2007, the NBFC Regulations 2008 and the said directives shall prevail.

2.2 Initial application of a standard or an interpretation

During the year, amendments to International Accounting Standards (IAS) 39- Financial instruments: Recognition and Measurement and IFRS 7-Financial Instruments: Disclosures- regarding reclassification of financial assets became effective from 1st July 2008. Further IAS 29 -Financial Reporting in Hyperinflationary Economies, International Financial Reporting Standard (IFRS) 7- Financial Instruments: Disclosures, IFRIC 13-Customer Loyalty Programme and IFRIC 14 -The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction became effective during the year. The application of these standards and interpretations did not have any material effect on the Fund's financial statements except for certain increased disclosures.

2.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1st July 2009 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1st January 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.

Revised IAS 23-Borrowing costs (effective from 1st January 2009). Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.

Amendment to IAS 27- Consolidated and separate financial statement (effective for annual period beginning on or after 1st January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Fund's financial investment.

IAS 32 (amendment)-Financial instruments: Presentation and consequential amendment to IAS 1- Presentation of Financial Statements (effective for annual period beginning on or after 1st January 2009). IAS 32 amended classification of Puttable Financial Instruments.

Amendment to IAS 39- Financial Instruments: Recognition and Measurement -Eligible Hedged Items (effective for annual period beginning on or after 1st July 2009). Amendment clarifies the application of existing principles that determines whether specific risk or portion of cash flows are eligible for designation in hedging relationship.

IFRS 2 (amendment)-Share-based payments and withdrawal of IFRIC 8- Scope of IFRS 2 and IFRIC 11- Group and Treasury Share Transactions (effective for annual periods beginning on or after 1st January 2010). Amendment provide guidance on the accounting for share based payment transactions among group entities.

IFRS 2 (amendment)-Share-based payments (effective for annual periods beginning on or after 1st January 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.

IFRS 3 (amendment)-Business Combinations and consequential amendments to IAS 27-Consolidated and separate financial statements, IAS 28-Investment in associates and IAS 31-Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009).

IFRS 4 -Insurance Contracts (effective for annual period beginning on or after 1st January 2009). The IFRS makes limited improvements to accounting for insurance contracts and contain disclosures requirements.

Amendment to IFRS 7- Improving Disclosures about Financial Instruments (effective for annual period beginning on or after 1st January 2009. The amendment contain additional disclosures for fair value measurement of financial instruments.

IFRS 8- Operating Segments (effective for annual period beginning on or after 1st January 2009). The standard introduced 'management approach' to segment reporting.

Amendment to IFRIC 9 -Reassessment of Embedded Derivatives and consequential amendment to IAS 39 -Financial Instruments: Recognition and Measurement (effective for annual period beginning on or after 30th June 2009. Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual period beginning on or after 1st October 2009). The interpretation clarifies the recognition of revenue by real estate developers.

IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual period beginning on or after 1st October 2008). The interpretation contain clarification on investment hedging of foreign operations.

IFRIC 17- Distribution of Non-cash Assets to the Owner and related amendments to IFRS 5- Non-current Assets Held for Sale and Discontinued Operations and IAS 10- Event after the Balance Sheet Date (effective for annual period beginning on or after 1st July 2009). The interpretation contain recognition and measurement requirements regarding non-cash assets distributions by the entity to the owner.

IFRIC 18- Transfer of Assets from Customers (effective for annual period beginning on or after 1st July 2009). The interpretation contain guidance from the perspective of the recipient regarding recognition and measurement principles on transferred assets by customer to the entity.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standards.

The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standards.

2.4 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except that certain investments and derivative financial instruments are measured at fair value.

2.5 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund and has been rounded off to the nearest thousand of Rupees.

2.6 Use of estimates and judgment

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Information about significant area of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effects on amounts recognised in the financial statements, as described in note 3.1, 21 and 22 to these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

3.1 Financial instruments

The Fund classifies its financial instruments and derivatives in the following categories:

a) *Financial instruments at fair value through profit or loss*

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

Upon initial recognition attributable transaction costs are recognised in Income Statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in Income Statement.

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

b) *Available-for-sale*

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

c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available-for-sale. This includes receivable against sale of investments and other receivables and are carried at amortised cost using the effective yield method, less impairment losses, if any.

d) *Financial liabilities*

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

Recognition

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

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available-for-sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holder Fund until derecognised or impaired, then the accumulated fair value adjustments recognised in Unit Holder Fund are included in the Income Statement.

Fair value measurement principles

The fair value of quoted equity securities is based on their price quoted on the Karachi Stock Exchange at the balance sheet date without any deduction for estimated future selling costs.

Basis of valuation of Debt Securities

The SECP vide its circular number 1 / 2009 dated 06th January 2009 has changed the methodology for valuation of debt securities. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. The circular also specifies the criteria for the provisioning of non-performing debt securities. Accordingly, investment in sukuk bond (SB) have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular. Prior to the issuance of the said directive investment in SB was valued as follows:

- (i) With effect from 05th November 2008 to 09th January 2009, at the lower of discounted redeemable face value of SB and the market value as determined using rates notified by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the SECP circular number 26 / 2008 dated 05th November 2008
- (ii) Prior to 05th November 2008, at the rates notified by MUFAP in accordance with the requirements of Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulation, 2007.

Had the SB been valued on the basis of rates notified by MUFAP, the net assets value of the Fund calculated during the period would have been different and consequently the number of units issued / redeemed during the period as well as element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was impracticable to do so.

Impairment

Financial assets not carried at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists an impairment loss is recognised in Income Statement.

However, the decrease in impairment loss on equity securities classified as available-for-sale is recognised in unit holders' fund and for debt securities classified as available-for-sale is recognised in Income Statement.

Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments; Recognition and Measurement.

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

3.2 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

3.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company of the Fund for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

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

3.4 Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units redeemed

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

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) relating to available-for-sale investments held by the Fund is recorded in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders.

3.5 Provisions

A provision is recognised in the balance sheet when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 30th April 2006 as per the Trust Deed of the Fund.

3.7 Net asset value per unit

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

3.8 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of part I of the second schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits. However, the Fund intends to avail the tax exemption by distributing at least ninety percent of its accounting income as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no tax liability and deferred tax has been recognised in these financial statements.

3.9 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities 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.

3.10 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of securities classified as 'fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Unrealised gains / (losses) arising on revaluation of derivatives to fair value are taken to the Income Statement in the period in which they arise.
- Income on sukuk bonds, term deposits receipts, bank deposits and placements is recognised on a time proportionate basis using effective yield method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.
- Dividend income is recognised when the right to receive the dividend is established.

3.11 Expenses

All expenses including Management Fee and Trustee Fee are recognised in the Income Statement on an accrual basis.

3.12 Cash and cash equivalents

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

3.13 Dividend distribution and appropriations

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

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

3.14 Foreign currency translation

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date 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 recognized in income statement. Translation differences on non-monetary financial assets and liabilities such as fair value through profit or loss are recognized in the Income Statement within the fair value net gain or loss.

4. BANK BALANCES	Note	30 th June 2009	30 th June 2008
(Rupees in '000)			
Current accounts		35,333	20,981
Deposit accounts	4.1	33,713	100,285
		<u>69,046</u>	<u>121,266</u>

4.1 These balances in saving bank deposits accounts maintained with various banks carrying profit rates ranging from of 5.02% to 10.50% (30th June 2008: 4.97% to 10.0%) per annum.

5. INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS'

Investment in shares listed in Pakistan	5.1	337,260	575,995
Investment in units of mutual funds outside Pakistan	5.2	164,134	173,568
Investment in unlisted sukuk bond in Pakistan	5.3	49,130	81,736
		<u>550,524</u>	<u>831,299</u>

5.1 Investment in shares listed in Pakistan

Name of the investee company	Number of shares				Balance as at 30 th June 2009			Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of investee company
	As at 1 st July 2008	Purchases during the year	Bonus / right issue	Sales during the year	As at 30 th June 2009	Cost	Market value			
----- (Rupees in '000) -----										
SHARES OF LISTED COMPANIES										
- Fully paid ordinary shares of Rs. 10 each unless stated otherwise										
Textile composite										
Nishat Mills Limited	187,400	-	93,700	281,100	-	-	-	-	-	-
Cement										
Lucky Cement Limited	-	525,000	-	-	525,000	30,303	30,728	425	5.07	5.58
Attock Cement Pakistan Limited	121,800	-	-	-	121,800	13,110	8,553	(4,557)	1.41	1.55
						<u>43,413</u>	<u>39,281</u>	<u>(4,132)</u>		
Chemicals										
ICI Pakistan Limited	311,600	-	-	162,600	149,000	24,644	20,897	(3,747)	3.45	3.80
						<u>24,644</u>	<u>20,897</u>	<u>(3,747)</u>		
Paper and board										
Packages Limited	262,022	-	-	-	262,022	46,153	41,148	(5,005)	6.78	7.47
						<u>46,153</u>	<u>41,148</u>	<u>(5,005)</u>		
Automobile assemblers										
Pak Suzuki Motor Company Limited	151,900	30,000	-	-	181,900	54,333	12,351	(41,982)	2.04	2.24
						<u>54,333</u>	<u>12,351</u>	<u>(41,982)</u>		
Power generation and distribution										
Hub Power Company Limited	2,410,500	-	-	185,000	2,225,500	70,191	60,289	(9,902)	9.94	10.95
						<u>70,191</u>	<u>60,289</u>	<u>(9,902)</u>		
Oil and gas marketing companies										
Pakistan State Oil Company Limited	115,000	232,700	-	207,600	140,100	31,267	29,932	(1,335)	4.93	5.44
						<u>31,267</u>	<u>29,932</u>	<u>(1,335)</u>		
Oil and gas exploration companies										
Pakistan Oilfields Limited	-	140,000	-	140,000	-	-	-	-	-	-
Oil and Gas Development Company Limited	713,927	70,000	-	10,700	773,227	92,382	60,807	(31,575)	10.02	11.05
Pakistan Petroleum Limited	120,000	242,000	27,000	389,000	-	-	-	-	-	-
						<u>92,382</u>	<u>60,807</u>	<u>(31,575)</u>		
Technology and communication										
Pakistan Telecommunication Company Limited "A"	1,235,400	-	-	-	1,235,400	53,372	21,298	(32,074)	3.51	3.87
						<u>53,372</u>	<u>21,298</u>	<u>(32,074)</u>		
Fertilizer										
Fauji Fertilizer Company Limited	496,500	-	148,687	100,000	545,187	49,431	47,404	(2,027)	7.81	8.61
Engro Chemical Pakistan Limited	239,849	30,000	-	239,849	30,000	3,836	3,853	17	0.64	0.70
						<u>53,267</u>	<u>51,257</u>	<u>(2,010)</u>		
Total						<u>469,022</u>	<u>337,260</u>	<u>(131,762)</u>		

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

5.1.1 Investments include shares with market value of Rs. 26,130,185 (30th June 2008: Rs. 14,745,495) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in term of Circular number 11 dated 23rd October 2007 issued by the Securities & Exchange Commission of Pakistan.

5.2 Investment in units of mutual funds outside Pakistan

Name of the mutual fund	Note	Number of units					Balance as at 30 th June 2009			Market value as percentage of net assets	Market value as percentage of total investment
		As at 1 st July 2008	Purchases during the year	Bonus / right issue	Sales during the year	As at 30 th June 2009	Cost	Market value	Appreciation/ (diminution)		
----- (Rupees in '000) -----											
Al Fanar Europe Limited	5.2.1	515	-	-	515	-	-	-	-	-	
Al Fanar Asia Limited	5.2.2	863	-	-	863	-	-	-	-	-	
Mayfair Islamic Greater China Fund	5.2.3	-	10,000	-	-	10,000	70,000	85,366	15,366	14.07	
HSBC - Amanah GCC Equity Fund	5.2.4	-	543,738	-	-	543,738	74,096	78,768	4,672	12.99	
Total							<u>144,096</u>	<u>164,134</u>	<u>20,038</u>		

5.2.1 This represent investment in Class 'A' units of Al Fanar Europe Limited incorporated in British Virgin Islands. Al Fanar Europe Limited invests in European equities, in accordance with the Islamic investment guidelines

5.2.2 This represent investment in Class 'A' units of Al Fanar Asia Limited incorporated in British Virgin Islands. Al Fanar Asia Limited invests in Asian equities, in accordance with the Islamic investment guidelines.

5.2.3 This represent investment in Mayfair Islamic Greater China Fund incorporated in Cayman Islands. Mayfair Islamic Greater China Segregated Portfolio invests in Greater China Region equities, in accordance with the Islamic investment guidelines.

5.2.4 This represent investment in HSBC - Amanah GCC Equity Fund incorporated in Saudi Arabia. HSBC - Amanah GCC Equity Fund invests in well-diversified portfolio of investment in the GCC equity markets, in accordance with the Islamic investment guidelines.

5.3 Investment in unlisted sukuk bond in Pakistan

Name of the investee company	Profit rate %	Number of certificates				Balance as at 30 th June 2009			Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued debt capital
		As at 1 st July 2008	Purchases during the year	Sales during the year	As at 30 th June 2009	Cost	Market value	Appreciation / (diminution)			
----- (Rupees in '000) -----											
Unlisted sukuk bond of Rs 5,000 unless stated otherwise											
Engro Chemical Pakistan Limited (06 th September 2007) (a)	14.04	16,000	-	6,000	10,000	50,000	49,130	(870)	8.10	8.92	2.50
Total						<u>50,000</u>	<u>49,130</u>	<u>(870)</u>			

(a) This unlisted sukuk bond carry floating profit rates equal to 6 month ask side Karachi inter bank offer rate plus 1.50% per annum receivable semi annually with no floor or cap. These sukuk bonds are secured against floating charge on all of the issuer's present and future fixed assets

Grand total

663,118 550,524 (112,594)

5.4 Unrealised diminution in the value of investments at fair value through profit or loss - net

30th June 2009 30th June 2008
(Rupees in '000)

Market value of investments	550,524	831,299
Less: Cost of investments	(663,118)	(780,385)
	<u>(112,594)</u>	<u>50,914</u>

Net unrealised diminution in the value of investments 'at fair value through profit or loss' at the beginning of the year	(50,914)	(108,138)
Realised on disposal during the year	74,284	41,765
	<u>23,370</u>	<u>(66,373)</u>
Reversal of gain on letter of rights	-	(8,531)
Net unrealised diminution in the value of investments at fair value through profit or loss at the end of the year	<u>(89,224)</u>	<u>(23,990)</u>

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	Note	30 th June 2009	30 th June 2008
6. DIVIDEND AND PROFIT RECEIVABLE			
(Rupees in '000)			
Dividend receivable		3,699	4,604
Profit receivable on deposit accounts with banks		689	2,587
Income receivable from Sukuk		<u>2,250</u>	<u>3,016</u>
		<u>6,638</u>	<u>10,207</u>
7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advance tax		498	480
Receivable from Pakistan Stock Market Fund		-	185
Prepaid expenses		-	13
Receivable from Arif Habib Investments Limited - Management Company		-	216
Deposits with Central Depository Company of Pakistan Limited		200	200
Deposit with National Clearing Company of Pakistan Limited		2,500	2,500
Other receivables		<u>248</u>	<u>-</u>
		<u>3,446</u>	<u>3,594</u>
8. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Opening balance		4,670	6,320
Amortisation during the year		<u>(1,650)</u>	<u>(1,650)</u>
Closing balance		<u>3,020</u>	<u>4,670</u>
9. PAYABLE TO MANAGEMENT COMPANY			
Management fee	9.1	1,208	1,965
Front end load		8	666
Back end load		-	1
		<u>1,216</u>	<u>2,632</u>

9.1 For class A and class B units, management fee is calculated as follows:

- 3% of the average annual net assets of the Fund attributable to class A and class B units as reduced by 25 percent of the management fee on the amount of foreign investments attributable to class A and class B units.

For class C and class D units, management fee is calculated as follows:

- 2% of the average annual net assets of the Fund attributable to class C and class D units as reduced by 25 percent of the management fee on the amount of foreign investments attributable to class C and class D units.

For units which were originally issued to the core investors, management fee is calculated as follows:

- 1.5% of the average annual net assets of the Fund attributable to the units originally issued to the core investors as reduced by 25% of the management fee on the amount of foreign investments attributable to the units originally issued to the core investors.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

The management fee is paid to the Management Company monthly in arrears.

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		30th June 2009	30th June 2008
(Rupees in '000)			
Remuneration payable	10.1	99	163
CDS charges payable		-	2
		<u>99</u>	<u>165</u>

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 30th June 2009 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee monthly in arrears.

11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

Under the provisions of NBFC Regulations 2007, an open ended scheme was required to pay an annual fee to the SECP, an amount equal to one-tenth of one percent of the average annual net assets of the Fund.

However, with effect from 21st November 2008, NBFC Regulations 2008 requires that annual fee is payable at an amount equal to 0.095% of the average annual net assets of the Fund.

12. ACCRUED EXPENSES AND OTHER LIABILITIES	Note	30th June 2009	30th June 2008
(Rupees in '000)			
Auditors' remuneration		450	420
Brokerage		65	136
Payable to Pakistan Income Fund		-	317
Withholding Tax payable		6	-
Zakat Payable		92	112
Charity / donation payable	12.1	120	1,668
Credit rating fee		100	100
Professional services charges		100	50
Printing and related cost		270	234
Other payables		7	13
		<u>1,210</u>	<u>3,050</u>

12.1 According to the instructions of the Shariah Board, any income earned by the Fund from investments whereby a portion of investment of such investee has been made in non-shariah compliant avenues, such portion of the income of the Fund from that investee should be donated for charitable purposes directly by the Fund.

13. CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments as at the year end.

14. MANAGEMENT FEE

Note	30th June	30th June
	2009	2008
	(Rupees in '000)	

Management Fee		15,856	22,505
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	14.1	<u>2,182</u>	<u>5,969</u>
		<u>18,038</u>	<u>28,474</u>

14.1 The Management Company has announced different units (C and D class units) to which reduced levels of management fee are applicable. This reduction in management fee is passed on to such unit holders under a specific mechanism set out in the Trust Deed. In this connection, the amount of reduction in management fee is deemed to be reinvested in the Fund on behalf of eligible unit holders and additional units (at the prevailing NAV of the Fund) are issued by the Trustee to such unit holders on a daily basis. Consequently, under the mechanism, 58,178 units (30th June 2008: 111,258) additional units amounting to Rs 2.182 million (30th June 2008: Rs 5.969 million) have been issued to these unit holders by the Trustee during the current year.

15. AUDITORS' REMUNERATION

30th June	30th June
2009	2008
(Rupees in '000)	

Annual audit fee		210	175
Half yearly review fee		100	80
Other certifications and services		275	505
Out of pocket expenses		<u>37</u>	<u>9</u>
		<u>622</u>	<u>769</u>

16. EARNINGS / (LOSS) PER UNIT

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

17. UNDISTRIBUTED INCOME BROUGHT FORWARD / CARRIED FORWARD

As per schedule V to the NBFC Regulations 2008, undistributed income brought forward / carried forward needs to be bifurcated into realized and unrealized gains. However, it has not been bifurcated as it is impracticable to do so.

18. PATTERN OF UNITHOLDING

As at 30 th June 2009			
	Number of unit holders	Investment amount	Percentage of investment
(Rupees in '000)			
Individuals	3,079	281,970	46.48%
Insurance companies	3	6,917	1.14%
Directors	2	565	0.09%
Banks / DFIs	2	102,966	16.97%
NBFCs	1	102	0.02%
Retirement funds	43	156,679	25.83%
Public limited companies	10	56,932	9.39%
Others	5	458	0.08%
	3,145	606,589	100.00%

As at 30 th June 2008			
	Number of unit holders	Investment amount	Percentage of investment
(Rupees in '000)			
Individuals	3,621	508,517	51.68%
Associated companies	1	122	0.01%
Insurance companies	2	3,543	0.36%
Directors	2	220	2.00%
Banks / DFIs	6	216,110	21.96%
NBFCs	1	1	0.00%
Retirement funds	48	175,018	17.79%
Public limited companies	2	6,233	0.63%
Others	17	74,319	7.55%
	3,700	984,083	100.00%

19. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons / related parties include Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited) being the Management Company, Arif Habib Bank Limited, Arif Habib Securities Limited, Arif Habib Limited, and Arif Habib Investments Limited - Employees Provident Fund being companies under common management, 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 / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provision of the NBFC Rules 2003, the NBFC Regulations 2007, the NBFC Regulations 2008 and Trust Deed respectively.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

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

19.1 Transactions during the year with connected persons / related parties

30th June 2009 30th June 2008
(Rupees in '000)

Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited) - Management Company

Remuneration for the year	18,038	28,474
Front end load for the year	561	5,986
Back end load for the year	1,253	1,448

Arif Habib Bank Limited

Mark-up for the year	-	106
Bank charges	-	1

Arif Habib Limited - Brokerage House

Brokerage	19.3 97	235
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Central Depository Company Limited - Trustee

Remuneration for the year	1,308	2,019
CDS charges	12	35

19.2 Amounts outstanding as at the period end with connected persons / related parties:

Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited) - Management Company

Remuneration payable	1,208	1,965
Front end load payable	8	666
Back end load payable	-	1

Arif Habib Bank Limited

Balances as at the year end	33,270	15,430
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Central Depository Company Limited - Trustee

Security deposit	200	200
Remuneration payable	99	165

Other Funds managed by Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited)

Receivable from Pakistan Stock Market Fund	-	185
Payable to Pakistan Income Fund	-	317

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	30 th June 2009		30 th June 2008	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units sold to:				
Arif Habib Investments Limited - (formerly Arif Habib Investment Management Limited) - Management Company	<u>4,184,983</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Directors and officers	<u>71,365</u>	<u>2,994</u>	<u>307,909</u>	<u>16,240</u>
Arif Habib Investments Limited - Employees provident Fund	<u>-</u>	<u>-</u>	<u>66,353</u>	<u>3,620</u>
Units redeemed by:				
Arif Habib Investments Limited - (formerly Arif Habib Investment Management Limited) - Management Company	<u>4,191,572</u>	<u>176,083</u>	<u>-</u>	<u>-</u>
Directors and officers	<u>107,095</u>	<u>4,406</u>	<u>261,570</u>	<u>14,740</u>
Bonus units distributed to:				
Arif Habib Investments Limited - Management Company	<u>6,672</u>	<u>253</u>	<u>349</u>	<u>18</u>
Arif Habib Investments Limited - Employees provident Fund	<u>2,317</u>	<u>116</u>	<u>-</u>	<u>-</u>
Directors and officers	<u>2,625</u>	<u>132</u>	<u>6,755</u>	<u>339</u>
			30th June 2009	30th June 2008
			-----Units-----	
Units held by:				
Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited) - Management Company			<u>2,431</u>	<u>2,349</u>
Arif Habib Investments Limited - Employees Provident Fund			<u>68,671</u>	<u>66,353</u>
Directors and officers			<u>42,066</u>	<u>75,170</u>

19.3 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.

20. RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund primarily invests in equity securities of listed companies, sukuk bonds, and units of mutual funds outside Pakistan. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

20.1 Market risk

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

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 Investment Committee and regulations laid down by the SECP.

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

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 State Bank of Pakistan has allowed and the Commission has endorsed foreign investment upto 30% of the net assets, subject to a cap of US\$ 10 million. The Fund is exposed to foreign currency risk with regard to investments made outside Pakistan, as these investments are in currencies other than the Pakistani Rupee, the functional currency. The currencies in which these transactions are primarily denominated are US Dollar and Saudi Riyal.

	(Amount in '000)			
	30 th June 2009		30 th June 2008	
	US\$	SAR	US\$	SAR
Investments - 'at fair value through profit or loss'	1,053	3,642	2,549	-
	30 th June 2009		30 th June 2008	
	US\$	SAR	US\$	SAR
Rate at which investments made	70.00	21.41 - 21.60	-	-
Rate at which redemptions made	72.50 - 80.75	-	62.50	-
Rate as at balance sheet date	81.10	21.63	68.10	-

Sensitivity analysis

A five percent strengthening of Pakistani Rupee against the following currencies at 30th June 2009 would have increased the profit or loss by the amount shown below. Weakening of Pakistani Rupee by the same percentage would have a vice versa impact. This analysis assumes that all variables, in particular interest rates remain constant. The analysis is performed on the same basis for the comparative year.

Impact on profit or loss due to change in exchange rate is as follows:

	30th June 2009	30th June 2008
	(Rupees in '000)	
US Dollar	4,270	8,679
Saudi Riyal	3,939	-

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.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Sukuk bonds that expose the Fund to cash flow interest rate risk. Fund's investment in variable rate instruments amounts to Rs. 49.130 million (30th June 2008: Rs. 81.74 million). In case of 100 basis points increase / decrease in KIBOR, the net assets of the Fund would have been higher / lower by Rs 0.02 million (30th June 2008: Rs. 0.03 million).

b) Sensitivity analysis for fixed rate instruments

Presently, the Fund does not hold any fixed rate instruments as at 30th June 2009 which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk.

The composition of the Fund's investment portfolio, change in interest rates are expected to change over time. Accordingly, the sensitivity analysis prepared as at 30th June 2009 is not necessarily indicative of the fact on the Funds' net assets of future movement 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 settlement date.

The Fund's market rate of return sensitivity related to financial assets and financial liabilities as at 30th June 2008 can be determined from the following:

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

As at 30 th June 2009					
Effective rate of mark-up / return %	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----					
On-balance sheet financial instruments					
Financial assets					
Bank balances	5.02 to 10.50	33,713	-	-	35,333
Receivable against sale of investments		-	-	-	-
Receivable against sale of units		-	-	-	4,258
Investments - 'at fair value through profit or loss'	KIBOR + 1.5	49,130	-	-	501,394
Dividend and profit receivable		-	-	-	6,638
Deposits and other receivables		-	-	-	2,948
		82,843	-	-	550,571
Financial liabilities					
Payable to Management Company		-	-	-	1,216
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	99
Payable to Shariah Advisor		-	-	-	-
Payable against purchase of investments		-	-	-	26,028
Payable on redemption of units		-	-	-	1,153
Accrued expenses and other liabilities		-	-	-	1,210
		-	-	-	29,706
On-balance sheet gap		82,843	-	-	520,865
Off-balance sheet financial instruments					
		-	-	-	-
Off-balance sheet gap		-	-	-	-

As at 30 th June 2008					
Effective rate of mark-up / return %	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----					
On-balance sheet financial instruments					
Financial assets					
Bank balances	4.97 to 10	100,285	-	-	20,981
Receivable against sale of investments		-	-	-	2
Receivable against sale of units		-	-	-	20,185
Investments - 'at fair value through profit or loss'	KIBOR + 1.5	81,736	-	-	749,563
Dividend and profit receivable		-	-	-	10,207
Deposits and other receivables		-	-	-	3,101
		182,021	-	-	804,039
Financial liabilities					
Payable to Management Company		-	-	-	2,632
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	165
Payable to Shariah Advisor		-	-	-	83
Payable against purchase of investments		-	-	-	-
Payable on redemption of units		-	-	-	180
Accrued expenses and other liabilities		-	-	-	3,050
		-	-	-	6,110
On-balance sheet gap		182,021	-	-	797,929
Off-balance sheet financial instruments					
		-	-	-	-
Off-balance sheet gap		-	-	-	-

Other price risk

Other price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of KSE / respective market indices and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund policy is to manage price risk through diversification and selection of securities within specified limits set by internal risk management guidelines.

The Fund manages those risk arising from local investments by limiting exposure to any single investee company to the extent of 15% of issued capital of that investee company with overall limit of 30% to a single industry sector. The Fund also manages its exposure to price risk by reviewing portfolio allocation as frequently as necessary and at least once a quarter from the aspect of allocation within industry and individual stock within that allocation. The portfolio and individual stock allocation shall also be reviewed in the event of major moves in the market (more than a 10% move since last review) or any abnormal activity in any stock in the portfolio.

A summary analysis of local investments by industry sector, the percentage in relation to Fund's own net assets and the issued capital of the investee company is presented in note 5.1.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 30th June. The analysis is based on the assumption that KSE-100 index increased by 5% (30th June 2008 : 5%) and decreased by 5% (30th June 2008 : 5%), with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE-100 index, having regard to the historical volatility of index of past three years (30th June 2008: two years).

Whereas, for foreign investments made in mutual funds, the analysis is based on the assumption that the NAVs of the mutual funds would increase / decrease by 5% (30th June 2008: 5%) if the Indexes where these Funds are invested increased / decreased by 5% (30th June 2008: 5%).

At 30th June 2009, the fair value of equity securities exposed to price risk were disclosed in note 5.1 and 5.2.

The impact below arises from the reasonable possible change in the fair value of listed equity securities.

Effect on income statement, net assets attributable to unit holders of an increase / decrease in the index	30th June 2009	30 th June 2008
	(Rupees in '000)	
Domestic equity investments	16,139	26,903
Investments in units of mutual funds outside Pakistan	8,207	8,678

The sensitivity analysis presented is based upon the portfolio composition as at 30th June and the historical correlation of the securities comprising the portfolio to the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE / respective market indices, is expected to change over time. Accordingly, the sensitivity analysis prepared as at 30th June is not necessarily indicative of the effect on the Fund's net assets attributed to unit holders of future movements in the level of the KSE / respective market indices.

	30 th June 2009	30 th June 2008
Investments in shares listed in Pakistan	337,260	575,955

Investment in units of mutual funds outside Pakistan

Alfanar Europe Limited

Alfanar Asia Limited

Mayfair Islamic Greater China Fund

HSBC - Amanah GCC Equity Fund

-	97,811
-	75,757
85,366	-
78,768	-
164,134	173,568
501,394	749,523

20.2 Credit risk

Credit risk management

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of placements or other arrangements to fulfil their obligations. There is a possibility of default by participants and of failure of the financial markets, the depositories, the settlements or clearing system etc.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, credit risk is also minimised due to the fact that the Fund invests only in high quality financial assets, majority of which have been rated by a reputable rating agency. All transactions in listed securities are settled using central clearing company. The risk of default in such transactions is considered minimal, as delivery of securities is guaranteed by the stock exchange. The Fund does not expect to incur material credit losses on its financial assets.

The maximum exposure to credit risk before any credit enhancements at 30th June 2009 is the carrying amount of the financial assets as set out below:

	30 th June 2009	30 th June 2008
Bank balances	69,046	121,266
Investments in unlisted sukuk bond	49,130	81,736
Receivable against sale of investments	-	2
Dividend and profit receivables	6,638	10,207
Deposits and other receivables	3,446	3,594
	128,260	216,805

None of the above financial assets were considered to be past due or impaired as on 30th June 2009 and 30th June 2008.

The analysis below summarizes the credit quality of the Fund's investment in sukuk bond as at 30th June 2009.

Debt Securities by rating category	30th June 2009	30th June 2008
AA	100%	100%

All the deposits with the banks and Central Depository Company of Pakistan Limited - CDC are highly rated and risk of default is considered minimal.

None of these assets are impaired nor past due but not impaired.

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.

20.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund is exposed to daily cash redemptions, if any. 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.

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold daily redemption request in excess of ten percent of the units in issue and such requests would be treated as redemption request qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The Fund did not withhold any redemptions during the year except for the period from 6th October 2008 to 4th January 2009 due to the introduction of a 'floor' on the equity prices at the stock exchanges and to protect the interest of the unit holders, SECP issued circular No. 23 of 2008 dated 7th October 2008 directing all asset management companies managing open end schemes with direct exposure to equity securities to suspend pricing, issuance and redemption of units till third business day after the floor is removed at the stock exchanges. The Management Company, in compliance with the said circular, suspended the pricing, issuance and redemption of units of the Fund with effect from 7th October 2008.

The Board of Directors of the Management Company, in exercise of the powers conferred by the NBFC Regulations, 2008 (NBFC Regulations) and the Trust Deed, decided to continue the suspension due to persistent inadequate trading volumes and lack of price discovery in the equity markets.

The Management Company has withdrawn the suspension effective from 5th January 2009 as a result of restoration of price discovery and adequate volumes in the stock market and has settled the request of issuance, redemption and conversion at the net asset value (NAV) of the Fund prevailing on that date of withdrawal of suspension.

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.

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

On balance sheet financial liabilities and others	30 th June 2009			Total
	Upto three months	More than three months and upto one year	More than one year	
------(Rupees in '000)-----				
Payable to Management Company	1,216	-	-	1,216
Payable to Central Depository Company of Pakistan Limited - CDC	99	-	-	99
Payable against purchase of investments	26,028	-	-	26,028
Payable on redemption of units	1,153	-	-	1,153
Accrued expenses and other liabilities	1,210	-	-	1,210
	<u>29,706</u>	<u>-</u>	<u>-</u>	<u>29,706</u>
On balance sheet financial liabilities and others	30 th June 2008			Total
	Upto three months	More than three months and upto one year	More than one year	
------(Rupees in '000)-----				
Payable to Management Company	2,632	-	-	2,632
Payable to Central Depository Company of Pakistan Limited - CDC	165	-	-	165
Payable to Shariah Advisor	83	-	-	83
Payable on redemption of units	180	-	-	180
Accrued expenses and other liabilities	3,050	-	-	3,050
	<u>6,110</u>	<u>-</u>	<u>-</u>	<u>6,110</u>

Units of the Fund are redeemable on demand at the holder's option. However, holders of these instruments typically retain them for the medium to long term.

20.4 Unit Holders' Fund risk management

Management's objective when managing unit holders' funds is to safe guard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Management Company manages fund's investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The unit holders' funds structure depends on the issuance and redemption of units.

The capital of the Fund is represented by the net assets attributable to unit holders. The amount of net asset attributable to the unit holders can change significantly on a daily basis as the Fund is subject to daily issuance, redemptions and conversions at the discretion of the unit holder. The Fund's objective when managing the unit holder's fund is to safeguard the Fund's ability to continue as a going concern in order to provide returns for the unit holders and benefits for other stakeholders and to maintain a strong asset base to support the development of the investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund's policy is to perform the following:

- a) Monitors the level of daily subscriptions and redemptions relative to the liquid assets.
- b) Redeem and issue new units in accordance with the constitutional documents of the Fund.

The Board of Directors and the management of the Asset Management Company monitor capital on the basis of the value of net assets attributable to the unit holders as well as return earned on the net assets and ensure to maintain a strong capital so as to maintain investor and other stake holders confidence and to sustain future development of the business.

Unit holders having type A, B & C units will be entitled to get bonus units or cash dividend as decided by the Management Company; whereas unit holders having type D units will be entitled for cash dividend only.

As discussed in note 9.1, for different types of unit holders separate rate of management fee is charged.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

22. ACCOUNTING ESTIMATES AND JUDGMENTS

The Management Company makes estimates and assumptions that effect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Investment stated at fair value and derivative financial instruments

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, etc.) and therefore, cannot be determined with precision.

Other assets

Judgement is also involved in assessing the realisability of the assets balances.

23. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

**30th June
2009**

1	BMA Capital Management Limited	24.54%
2	Elixir Securities Pakistan (Private) Limited	11.59%
3	JS Global Capital Limited	10.66%
4	DJM Securities (Private) Limited	8.24%
5	Invisor Securities (Private) Limited	7.86%
6	Arif Habib Limited	7.20%
7	Taurus Securities Limited	6.47%
8	AKD Securities Limited	5.71%
9	Alfalah Securities (Private) Limited	5.49%
10	H. H. Misbah Securities (Private) Limited	4.24%

30th June
2008

1	Arif Habib Limited	11.35%
2	JS Global Capital Limited	8.38%
3	Taurus Securities Limited	7.87%
4	DJM Securities (Private) Limited	7.78%
5	Global Securities Pakistan Limited	6.76%
6	Invest Capital and Investment Bank Limited	6.38%
7	AKD Securities Limited	5.74%
8	H. H. Misbah Securities (Private) Limited	5.60%
9	BMA Capital Management Limited	5.35%
10	Shehzad Chamdia Securities (Private) Limited	4.68%

24. PARTICULARS OF MEMBERS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Designation	2009		
		Qualification	Experience in years	
1	Basharat Ullah	Chief Investment Officer	MBA	16
2	Zeeshan Quddus	Chief Financial Officer	ACA	6
3	Nazia Nauman	Head of Equity	MBA / CFA	9
4	Zafar Rehman	Head of Debt	B.com	17
5	Jawad Haleem	Head of Research	MSC Economics	5
6	Faisal Khatri	Fund Manager	MBA	4
7	Adnan Siddiqui	Deputy Chief Executive	MBA	19

24.1 Faisal Khatri is the Manager of the Fund. He has obtained a Masters degree in Business Administration. Other Funds being managed by the fund manager are as follows:

- a) Pakistan Strategic Allocation Fund
- b) Pakistan Islamic Pension Fund

25. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 52nd, 53rd, 54th, 55th, 56th, 57th, 58th, 59th, 60th, 61st & 62nd Board meetings were held on 3rd July 2008, 25th July 2008, 25th August 2008, 16th September 2008, 30th September 2008, 17th October 2008, 24th October 2008, 23rd February 2009, 23rd April 2009, 24th April 2009 and 29th May 2009 respectively.

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

Name of directors	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
1 Mr. Salim Chamdia	11	9	2	52 nd & 58 th meeting
2 Mr. Nasim Beg	11	10	1	58 th meeting
3 Mr. Muhammad Akmal Jameel	11	9	2	54 th & 61 st meeting
4 Mr. Muhammad Shafi Malik	11	10	1	56 th meeting
5 Mr. Mirza Qamer Beg	1	1	-	-
6 Mr. Muhammad Kashif	11	7	4	55 th , 60 th , 61 st & 62 nd meeting
7 Syed Ajaz Ahmed	4	4	-	-
8 Mr. Sirajuddin Cassim	11	3	8	52 nd to 55 th & 59 th to 62 nd meeting
9 Mr. Yaqoob Memon	2	2	-	-

26. NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on 06th July 2009 has proposed a Nil distribution in respect of the year ended 30th June 2009 (30th June 2008: Rs. 1.75 per unit) amounting to Rs Nil (30th June 2008: Rs 33.205 million) in total. Out of these Rs Nil (30th June 2008: Rs 3.821 million) will be distributed as cash dividend and Rs Nil (30th June 2008: Rs 29.384 million) as bonus units. The financial statements for the year ended 30th June 2009 include the effect of the appropriation for the year ended 30th June 2008.

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 28th July 2009 by the Board of Directors of the Management Company.

For Arif Habib Investments Limited
(formerly: Arif Habib Investment Management Limited)
(Management Company)


Chief Executive


Director

**DETAILS OF PATTERN OF HOLDING (UNITS)
AS AT 30TH JUNE 2009**

	Unit Held
Associated Company	
Arif Habib Investments Limited (Formerly Arif Habib Investment Management Limited)	2,431
Director and CEO	
Nasim Beg (Chief Executive)	10,415
Muhammad Akmal Jameel (Director)	2,986
Public Limited Companies	-
Banks and Financial Institution	3,177,459
Other Corporate Sector Entities	987,948
Individual	6,490,244
Retirement Funds	3,716,276
TOTAL	<u><u>14,387,759</u></u>

**PATTERN OF UNIT HOLDING (BY SIZE)
AS AT 30TH JUNE 2009**

NO OF UNIT HOLDERS	FROM	TO	TOTAL UNITS HELD	PERCENTAGE
303	1	100	16,912	0.12
1156	101	500	291,108	2.02
510	501	1000	354,477	2.46
883	1001	5000	1,917,295	13.33
146	5001	10000	1,034,349	7.19
49	10001	15000	597,407	4.15
17	15001	20000	310,758	2.16
9	20001	25000	205,883	1.43
6	25001	30000	161,470	1.12
4	30001	35000	128,868	0.90
7	35001	40000	258,596	1.80
5	40001	45000	208,396	1.45
6	45001	50000	290,696	2.02
2	50001	55000	103,528	0.72
1	55001	60000	58,103	0.40
1	60001	65000	60,776	0.42
2	65001	70000	138,094	0.96
2	70001	75000	146,033	1.01
4	75001	80000	311,179	2.16
1	80001	85000	81,814	0.57
2	90001	95000	182,655	1.27
1	95001	100000	97,242	0.68
1	100001	105000	104,563	0.73
4	105001	110000	432,010	3.00
1	120001	125000	122,607	0.85
6	125001	130000	632,379	4.40
1	130001	135000	132,858	0.92
1	140001	145000	144,951	1.01
1	155001	160000	159,276	1.11
2	180001	185000	184,215	1.28
1	190001	195000	190,714	1.33
1	205001	210000	209,124	1.45
1	250001	255000	254,196	1.77
1	255001	260000	259,918	1.81
1	265001	270000	266,157	1.85
1	280001	285000	280,024	1.95
1	370001	375000	372,553	2.59
1	375001	380000	375,624	2.61
1	495001	500000	498,193	3.46
1	505001	510000	505,092	3.51
1	520001	525000	521,212	3.62
1	1785001	1790000	1,786,432	12.42
3,146	TOTAL UNITS		14,387,739	100.00

PERFORMANCE TABLE

	2009	2008	2007	2006
Net assets (Rs '000)	606,589	984,083	1,072,531	1,378,168
Net Income / (loss) (Rs '000)	(114,977)	32,760	227,664	(65,690)
Net asset value per unit (Rs)	42.16	51.86	58.89	47.73
Closing selling price per unit (Rs)	43.02	54.02	60.40	48.95
Closing repurchase price per unit (Rs)	42.16	51.86	58.89	47.73
Highest selling price per unit (Rs)	51.54	60.34	60.52	51.59
Lowest selling price per unit (Rs)	30.49	48.69	46.22	44.25
Highest repurchase price per unit (Rs)	49.48	58.83	59.01	50.30
Lowest repurchase price per unit (Rs)	29.88	47.47	45.07	43.14
Distribution per unit (Rs)	-	1.75	8.75	-
Distribution dates	-	3 rd July 2008	4 th July 2007	-
	----- (In percentage) -----			
Total return of the Fund	(15.87)	3.43	23.40	(4.54)
Distribution	-	3.49	18.33	-
Capital growth	(15.87)	(0.06)	5.07	-
Average annual return of the Fund (CAGR)				
1 Year	(15.87)	3.43	23.40	(4.54) *
2 Year	(6.71)	12.96	14.98	-
3 Year (since inception)	2.40	9.50	-	-

* Total return for the period (not CAGR).

Disclaimer

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