PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

PIIF

ANNUAL REPORT 2010

Arif Habib Investments

Pakistan Mutual Funds

An Investment Plan for Everyone

BRANCHES:

Lahore:
Contact Person: Mr. Tanweer Ahmad Haral
16, Block-A, Hali Road, Gulberg II, Lahore.
Tel: (+92-42) 35714958, 35714959
Fax: (+92-42) 35714957
E-mail: lhr.mkt@arifhabib.com.pk

Rawalpindi:
Contact Person: Mr. Zahiruddin Khan
60-A, Canning Road, Rawalpindi-46000.
Tel: (+92-51) 111-468-378 (111-INVEST), 5564093
E-mail: rwp.mkt@arifhabib.com.pk

Islamabad:
Contact Person: Mr. Nadeem Ishtiaq
15 Beverly Centre, 2nd Floor,
Blue Area, Jinnah Avenue, Islamabad.
Tel: (+92-51) 2875939-2814189
Fax: (+92-51) 2814199
E-mail: isl.mkt@arifhabib.com.pk

Multan:
Contact Person: Syed Nawazish Ali Zaidi
143-144, Mall Plaza, Multan Cantt., Multan.
Tel: (+92-61) 111-468-378 (111-INVEST), 4546235, 6014125
Fax: (+92-61) 4546235
E-mail: mul.mkt@arifhabib.com.pk

Peshawar:
Contact Person: Mr. Iltifatullah Khan
1st Floor, State Life Building, 34 The Mall, Peshawar.
Tel: (+92-91) 111-468-378 (111-INVEST), 5287696
Fax: (+92-91) 5287697
E-mail: psw.mkt@arifhabib.com.pk

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

Arif Habib Investments
Pakistan Mutual Funds
An Investment Plan for Everyone

HEAD OFFICE:
Arif Habib Centre,
23 M. T. Khan Road, Karachi-74000, Pakistan.
Tel: (+92-21) 111-468-378 (111-INVEST)
Fax: (+92-21) 32470351, 32470337
E-mail: marketing@arifhabib.com.pk
Website: www.arifhabib.com.pk

CONTENTS

FUND'S INFORMATION

Management Company	Arif Habib Investments Limited Arif Habib Centre, 23 M. T. Khan Road, Karachi-74000.	
Board of Directors of the Management Company	Mr. Muhammad Shafi Malik Mr. Nasim Beg Mr. Sirajuddin Cassim Mr. S. Gulrez Yazdani Mr. Muhammad Akmal Jameel Syed Ajaz Ahmed Mr. Muhammad Kashif	Chairman Chief Executive Director Director Director Director Director
Audit Committee	Mr. Muhammad Shafi Malik Mr. Muhammad Akmal Jameel Mr. Muhammad Kashif Syed Ajaz Ahmed	Chairman Member Member 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, S.M.C.H.S Main Shahrah-e-faisal, Karachi.	
Bankers	. Sumit Bank Limited (formerly Arif Habib Bank Limited) . Bank Alfalah Limited . Bank Al Habib Limited . Al Baraka Islamic Bank . Meezan Bank Limited	
Auditors	KPMG Taseer Hadi & Co. 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.	
Rating	PACRA: 4 Star (Normal) PACRA: AM2 (Positive Outlook) – Management quality rating assigned to Management Company	

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

The Board of Directors of Arif Habib Investments Limited, the Management Company of Pakistan International Element Islamic Fund (PIIF) submits herewith its fifth annual report together with audited Financial Statements for the Financial Year ended 30 June 2010.

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

Pakistan International Element Islamic Fund (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. Board has approved the catagorisation of the Fund as "Shariah Compliant Asset Allocation".

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.

PIIF is a long only Fund and cannot undertake leveraged investments.

Fund Performance during Financial Year Ended 30 June 2010

The Net Assets of the Fund as at 30 June 2010 stood at Rs 410.42 million compared to Rs 606.59 million as of 30 June 2009, registering a decrease of 32.34 %.

The Net Asset Value (NAV) per unit at the end of the year was Rs 45.09 as compared to the NAV per unit of Rs. 42.16 at the beginning of the year, registering an increase of Rs 2.93 per unit during the year.

Further, during the year, PIIF delivered a total return of 6.95% as compared to a return of 30.47% by 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. During the year, KSE-100 index delivered a return of 35.74%

The international portfolio earned a holding period return of 12.25% in the financial year in review.

Income Distribution

The Board in the meeting held on 05 July 2010 declared a distribution in the form of bonus units to A, B and C class units and equivalent cash dividend for D class units at the rate of Rs 7.10 per unit (16.84% on the opening NAV and 14.20% of face value of Rs 50) amounting to Rs 64.62 million for the Financial Year ended 30 June 2010.

Explanation With Regards To Auditor's Qualified Opinion

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

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

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

Corporate Governance

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

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

a) Financial statements present fairly the statement of affairs, the results of operations, Cash flows and Change in unit holders' fund.

b) Proper books of accounts of the Fund have been maintained during the year.

c) Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in Note 2.1.3 to the financial statements to reflect changes introduced by revised "IAS 1".

   Accounting estimates are based on reasonable prudent judgment.

d) Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.

e) The system of internal control is sound in design and has been effectively implemented and monitored.

f) There are no significant doubts upon the Fund's ability to continue as going concern.

g) There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.

h) Key financial data of last five years has been summarized in the financial statements.

i) Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.

j) The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.

k) The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.

l) Statement showing attendance of Board meetings is as under:

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

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

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

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

m) 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	-	1,044.2774	-

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 auditors for the year ending 30 June 2011.

Future Outlook

Domestic

Given the severity of economic damage due to these massive floods, the market has responded by retreating almost 10% in early August. On the basis of earnings multiple and dividend yields, Pakistan remains one of the cheapest emerging market and which has been the major reason for continuous inflows of foreign investment. However, equity risk premium will continue to be high for the country given the broader weak macroeconomic picture especially after the recent floods.

Not surprisingly, overall, domestic demand is expected to shrink in the coming year, which is likely to impact the top line growth and earnings across various sectors.

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

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

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

Acknowledgement

The Board is thankful to its valued investors, the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, the Trustee of the Fund – Central Depository Company of Pakistan Limited and the management of the Karachi, Lahore and Islamabad Stock Exchanges for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company and for the meticulous management of the Fund.

For and on behalf of the Board

Karachi
03 August 2010

Nasim Beg
Chief Executive

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

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 June 2010, PIIF delivered a return of 6.95% compared to 30.47% increase 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). Lower return is largely because of low exposure in the local equity market in the first half of the financial year (when the Index rose sharply), the underperformance (relative to the Index) of key holdings in the portfolio and absence of OGDC which was the major Index driver (constituting 21.2% of the Index as of June 2009) in the second half of the financial year. Amongst the top holdings, Packages, ICI, FFBL, Agriautos, Searle, PPL, PTC underperformed (during their respective holding periods), while FFC, POL, Hubco outperformed the KMI-30 Index.

The international portfolio earned a holding period return of 12.25% in the financial year in review.

NAV Change Analysis and Total Return

	FY2007 – 08	FY2008 – 09	FY2009 – 10
Beginning Net Assets (Rs 000)	1,072,531	984,083	606,589
No. of Units	21,388,967	19,556,040	14,387,759
Beginning NAV (Rs per unit)	50.14	50.11	42.16
Ending Net Assets (Rs 000)	984,083	606,589	410,415
No. of Units	18,974,014	14,387,759	9,101,281
Ending NAV (Rs per unit)	51.86	42.16	45.09
Bonus Distribution (Rs per unit)	1.75	Nil	7.10
Ending NAV (Ex-Dividend) (Rs per unit)	50.11	42.16	37.99
Income Distribution (%)	3.49	Nil	16.84
Capital Growth (%)	(0.06)	(15.87)	-9.89
Total Return (%)	3.43	(15.87)	6.95

CAGR Returns for Last 1, 2 & 3 year periods

Year End	Number of Years	Total Return	Annualised Return (CAGR)
30-Jun-10	1 year	6.95%	6.95%
	2 year	-10.02%	-5.14%
	3 year	-6.93%	-2.37%

Asset allocation and investment Activities during 2010

PIIF started the year with 55.6% exposure in local equities, 27.1% in international markets and 8.1% in domestic bond markets. During the first half of the financial year, domestic equities remained on average 54% of net assets. These were later increased as funds made available from offloading corporate bond and international investment was redirected towards the local equity market. As a result, average equity exposure in the second half of the financial year increased to 76%. As at year end, PIIF had 77.56% exposure in domestic equity market. The increase in exposure was made in fundamentally strong companies, though most of these scrips underperformed in their holding period relative to the KMI-30 Index, hence leading to the underperformance of the Fund.

Equity Portfolio (Domestic)

The domestic equity portfolio covers wide range of economic sectors. Major activity during the year is as follows.

- Oil and Gas: Sector exposure was increased from 14.96% at the beginning of the year, to about 30% in February, before being brought down to close the year at 18.80%. Average exposure in the sector was about 20%. During 2Q, OGDC exposure was offloaded as the stock price rose above fair value, while this exposure was replaced in the relatively undervalued POL and PPL. However, during the second half of the fiscal year, OGDC stock price rose 31%, whereas POL and PPL prices reduced 3% and 1% respectively. Exit from OGDC and subsequent outperformance of the stock led to the major underperformance of the Fund. Holding in PSO was reduced in June on concerns over increased turnover tax as proposed in the Budget for FY2011.

- Chemicals: Overall sector exposure was increased from 11.90% at the beginning to 19.97% at year end. Engro was offloaded early in the year as the company became Shariah non-compliant. Subsequently, sector exposure was further diversified by adding Sitara Chemicals and FFBL in the portfolio. Exposure in ICI was further enhanced while some profits were booked in FFC. FFC and Engro earned positive returns for the Fund, while FFBL, Sitara Chemicals and ICI share prices fell.

- General Industries (Packages Ltd): exposure in Pakcages was gradually increased over the course of the financial year, at lower price levels. Year end exposure in the stock was 11.98%, compared to 6.78% a year earlier. The scrip has been a major underperformer during the financial year, with the share price falling 23%. Despite this underperformance, allocation has been increased considering long term growth as the company starts reaping benefits of the expansion last year.

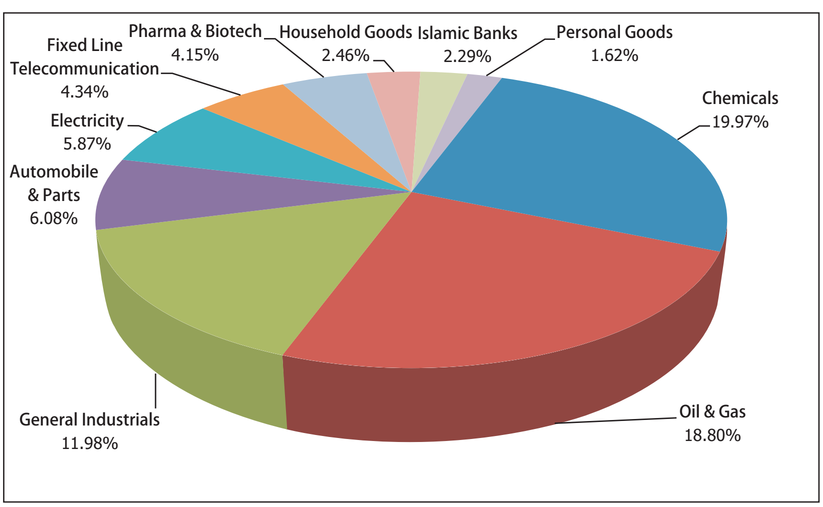
- Automobile and parts: The Fund was invested in this sector through Pak Suzuki which was 2.04% of the net assets at the beginning of the year. During the year, Agriautos has been added in the portfolio, increasing sector allocation to 6.1% of net assets at the end of the year.

- Electricity: The Fund only owns Hubco which was 9.94% of net assets at the beginning of the year. During the year the exposure in HUBCO was trimmed to close the year at 5.87% of the Fund size. Hubco outperformed the KMI-30 Index and was a major return contributor for PIIF.

- Besides the above, the Fund further diversified its exposure in pharmaceuticals (adding Searle), household goods (adding PAEL), Banks (Meezan), personal goods (Thal Ltd), on the basis of long term fundamentals. PIIF offloaded its holdings in cements amidst concerns on sector outlook. The Fund offloaded PTCL completely at higher price levels before re-accumulating it at lower levels.

Portfolio Composition at year end

The composition of the portfolio as at year end 30 June 2010 was as follows:



International Portfolio

At the beginning of the year the Fund was invested in Mayfair Islamic Greater China Fund (MIGC) and HSBC Amanah (Invested in GCC countries), with overall allocation of 27.06% of net assets (out of maximum limit of 30%). In December, the Fund offloaded its investment in HSBC Amanah amidst uncertainty regarding Dubai World debt related issues. In April, the Fund also redeemed its investment in MIGC due to probable monetary tightening and resultant slow down in the Greater China economy. Overall holding period return from these investments was 12.25%. As at year end, no allocation has been made in the international capital markets.

Sukuk Porfolio

The sukuk portfolio was only 2.2% at the end of year. During the year Fund offloaded its holding in Engro Chemical Sukuk. During the last quarter, the Fund added PAEL Sukuk, which was available at attractive yields of 23.0%. PAEL Sukuk (Rating: A+) carries floating rate linked to 3-month KIBOR with premium 1.75% above KIBOR.

Stock market review

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

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

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

Financial Year 2010 in Review

A moderate recovery in the economy has been witnessed despite one of the most serious economic crises in the country's history. GDP growth has begun to seep back into the country; however the biggest concern remains whether this recovery is sustainable. An energy and water shortage, along with the internal security situation and inability to deal with structural issues especially circular debt, poses a considerable hurdle for a more broad based revival of the economy. On the other hand, shortfall in the inflow of external assistance, including from the FoDP combined with the delays in the Coalition Support Fund, has led to high borrowings by the government in the domestic credit market which has resulted in the 'crowding out' of credit to the private sector. An increase in global commodity prices, mainly food has exerted an upward pressure on the domestic inflation where commodities have witnessed a decent increase. Consequently, the State Bank has been unable to use expansionary monetary policy which could potentially add to already significant inflation.

The Real Sector

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

The Monetary Sector

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

Prices

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

The Fiscal Sector

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

The External Sector

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

The year ahead

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

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

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

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

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

Market Outlook

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

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

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

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

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.

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.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com

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, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

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

(i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;

(ii) The 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 Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 29, 2010

REPORT OF THE SHARIAH ADVISORY COUNCIL FOR THE YEAR ENDED 30 JUNE 2010

Alhamdulillah, the year under review was the fourth 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 (AHI), 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 complaint 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, which relate the level of cash, receivable, interest bearing securities and debt to the average market capitalization of the company. As of 30th June 2010, the Fund had none of its Net Assets in international investments.

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 AHI.
- 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 2010 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 Fund 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 Rs 0.4073 million was transferred to the charity account. The total amount of charity payable as of 30th June 2010 is Rs 0.527 million.

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

Karachi
Dated: 30 July 2010

Dr Ejaz Samadani
For and on behalf of Shariah Advisory Council

SHARIAH COMPLIANCE AUDITORS' REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED 30 JUNE 2010

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

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 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 2010.

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 2010.

KPMG Taseer Hadi & Co

Date: 30 SEP 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

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

This statement is being presented by the Board of Directors of Arif Habib Investments Limited, 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year Mr. Salim Chamdia had resigned on 07 September 2009 and was replaced by Mr. S. Gulrez Yazdani on 06 October 2009.

5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.

6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on 30 June 2010, there is no other executive director of the Management Company besides the CE.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.

9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.

10. The Board arranged orientation for the directors of the Management Company during the year to apprise them of their duties and responsibilities.

11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.

12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The Directors, CE and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.

14. The financial statements of the Fund were duly endorsed by CE and CFO of the Management Company before approval of the Board.

15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an audit committee for the Fund. It comprises of four members, all of whom are non-executive directors including the Chairman of the committee. During the year Mr. Salim Chamdia has resigned as Chairman. Mr. Muhammad Shafi Malik has been appointed as Chairman in his place.

17. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.

18. The Board has set up an effective internal audit function headed by the Head of Internal Audit and Compliance. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and is involved in the internal audit function on a full time basis.

19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold 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.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board
Karachi: 03 August 2010

Nasim Beg
Chief Executive

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

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Review report to the Unit holders of Pakistan International Element Islamic Fund ("the Fund") on Statement of compliance with the 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), "the Management Company" in respect of **Pakistan International Element Islamic Fund** to comply with the Listing Regulation no. 35 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 transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the 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 2010.

KPMG Taseer Hadi & Co.

Date: 03 August 2010

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

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

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

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 2010, and the income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year ended 30 June 2010 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 are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

Basis for Qualified Opinion

Through Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies which includes mutual funds. However, the Fund considers that it is not liable to contribute to the workers' welfare fund for reasons as explained in note 14 to the financial statement.

KPMG Taseer Hadi & Co.

However, we have obtained an independent legal opinion on this matter which states that the Fund is required to contribute to the workers' welfare fund. Accordingly, we consider that provision for workers' welfare fund liability amounting to Rs. 1.363 million for the year ended 30 June 2010 should have been made by the Fund. Had the said accrual been made, net assets of the Fund and income of the Fund as of and for the year ended 30 June 2010 would have been lower by Rs. 1.363 million, while the Fund's liability as of 30 June 2010 would have been higher by the same amount. Similarly net assets per unit of the Fund as of 30 June 2010 would have been lower by Rs.0.15 per unit.

Qualified Opinion

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

Other matters

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

KPMG Taseer Hadi & Co.

Date: 03 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2010

	Note	30 June 2010	30 June 2009
		(Rupees in '000)	
Assets			
Bank balances	4	**58,094**	69,046
Receivable against sale of investments		**21,264**	-
Receivable against sale of units		**1,077**	4,258
Investments	5	**327,737**	550,524
Dividend and profit receivable	6	**2,828**	6,638
Advances, deposits, prepayments and other receivables	7	**3,198**	3,446
Preliminary expenses and floatation costs	8	**1,370**	3,020
Total assets		**415,568**	636,932
Liabilities			
Payable to Management Company	9	**874**	1,216
Payable to Central Depository Company of Pakistan Limited - Trustee	10	**69**	99
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	11	**522**	637
Payable against purchase of investments		**2,070**	26,028
Payable on redemption of units		**27**	1,153
Accrued expenses and other liabilities	12	**1,591**	1,210
Total liabilities		**5,153**	30,343
Contingencies and commitments	13	-	-
Net assets		**410,415**	606,589
Unit holders' fund		**410,415**	606,589
		(Number of units)	
Number of units in issue		**9,101,281**	14,387,759
		(Rupees)	
Net asset value per unit		**45.09**	42.16

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

For Arif Habib Investments Limited
Management Company

Chief Executive **Director**

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	Note	30 June 2010	30 June 2009
		(Rupees in '000)	
Income			
Capital gain / (loss) on sale of investments - net		**78,259**	(124,345)
Exchange gain realised on sale of foreign investments		**7,618**	14,794
Profit on saving bank deposits		**4,937**	6,248
Dividend income		**20,214**	23,210
Income from investment in sukuk bonds		**3,349**	10,786
Other income		**-**	704
Unrealised exchange gain on foreign investments		**-**	11,595
Unrealised diminution in the value of investments - net	*5.4*	**(33,075)**	(100,819)
Total income		**81,302**	(157,827)
Expenses			
Remuneration of Management Company	*15*	**15,197**	18,038
Remuneration of Central Depository Company of Pakistan Limited - Trustee	*10.1*	**1,098**	1,308
Annual fee - Securities and Exchange Commission of Pakistan	*11*	**522**	637
Securities transaction cost		**1,710**	1,245
Settlement and bank charges		**1,400**	220
Fees and subscriptions		**148**	253
Auditors' remuneration	*16*	**517**	622
Printing and related cost		**198**	325
Professional charges		**103**	222
Amortisation of preliminary expenses and floatation costs	*8*	**1,650**	1,650
Total expenses		**22,543**	24,520
Net income / (loss) from operating activities		**58,759**	(182,347)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		**9,386**	67,370
Net income / (loss) carried forward for distribution		**68,145**	(114,977)
Earning / (loss) per unit	*17*	-	-

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive | **Director**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	30 June 2010	30 June 2009
	(Rupees in '000)	
Net income / (loss) for the year	**68,145**	(114,977)
Other comprehensive income for the year	**-**	-
Total Comprehensive income / (loss) for the year	**68,145**	(114,977)

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	30 June 2010	30 June 2009
	(Rupees in '000)	
Undistributed (loss) / income brought forward		
- Unrealised losses on remeasurement of investment	**(112,594)**	50,914
- Realised gains / (losses)	**(202)**	(15,528)
	(112,796)	35,386
Final distribution (2009: Rs. Nil per unit 2008: Rs. 1.75 per unit)		
- Bonus units	**-**	(29,385)
- Cash distribution	**-**	(3,820)
Comprehensive income / (loss) for the year	**68,145**	(114,977)
Comprehensive income / (loss) for the year less distribution	**68,145**	(148,182)
Undistributed loss carried forward	**(44,651)**	(112,796)
Unrealised losses carried forward		
- Unrealised losses on remeasurement of investment	**(61,445)**	(112,594)
- Realised gains / (losses)	**16,794**	(202)
	(44,651)	(112,796)

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE YEAR ENDED 30 JUNE 2010

	30 June 2010	30 June 2009
	(Rupees in '000)	
Net assets at the beginning of the year	**606,589**	984,083
Issue of 1,495,968 units (2009: 6,636,972 units)	**68,464**	306,181
Redemption of 6,792,635 units (2009: 11,809,614 units)	**(323,397)**	(497,508)
	(254,933)	(191,327)
Final distribution (2009: Rs. Nil per unit 2008: Rs. 1.75 per unit)		
- Bonus units	**-**	(29,385)
- Cash distribution	**-**	(3,820)
	-	(33,205)
Issue of Nil bonus units for the year ended 30 June 2009 (2008: 586,387 units)	**-**	29,385
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to income statement	**(9,386)**	(67,370)
Capital gain / (loss) on sale of investments (excluding exchange gain)	**78,259**	(124,345)
Net unrealised diminution on investments - net	**(33,075)**	(100,819)
Exchange gain realised on sale of foreign investments	**7,618**	14,794
Unrealised exchange gain on foreign investments	**-**	11,595
Other net income for the year	**15,343**	83,798
	68,145	(114,977)
Net assets as at the end of the year	**410,415**	606,589

	(Rupees)	
Net asset value per unit at the beginning of the year	**42.16**	51.86
Net asset value per unit at the end of the year	**45.09**	42.16

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

CASH FLOWS FROM OPERATING ACTIVITIES	30 June 2010	30 June 2009
	(Rupees in '000)	
Net income / (loss) for the year	**68,145**	(114,977)
Adjustments for		
Dividend income	**(20,214)**	(23,210)
Unrealised exchange loss on foreign investments	**-**	(11,595)
Unrealised diminution in the value of investments	**33,075**	100,819
Amount of additional units issued to class 'C' and 'D' unit holders against the amount of rebate in management fee	**1,804**	2,182
Amortisation of preliminary expenses and floatation costs	**1,650**	1,650
Net element of income and capital gains included in prices of units issued less those in units redeemed	**(9,386)**	(67,370)
	75,074	(112,501)
(Increase) / decrease in assets		
Receivable against sale of units	**3,181**	15,927
Receivable against sale of investments	**(21,264)**	2
Investments	**189,712**	191,551
Profit receivable	**1,861**	2,664
Advances, deposits, prepayments and other receivables	**248**	148
	173,738	210,292
(Decrease) / increase in liabilities		
Payable to Management Company	**(342)**	(1,416)
Payable to Central Depository Company of Pakistan Limited - Trustee	**(30)**	(66)
Payable to Shariah Advisor	**-**	(83)
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	**(115)**	(393)
Payable against purchase of investments	**(23,958)**	26,028
Payable against redemption of units	**(1,126)**	973
Accrued expenses and other liabilities	**381**	(1,839)
	(25,190)	23,204
Dividend received	**22,163**	24,115
Net cash from operating activities	**245,785**	145,110
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	**-**	(3,820)
Net (payments) against sales / redemption of units	**(256,737)**	(193,510)
Net cash used in financing activities	**(256,737)**	(197,330)
Net decrease in cash and cash equivalents during the year	**(10,952)**	(52,220)
Cash and cash equivalents at the beginning of the year	**69,046**	121,266
Cash and cash equivalents at the end of the year	**58,094**	69,046

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

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 as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 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. During the current year, the registered office of the company has been shifted to Arif Habib Centre, 23, M.T. Khan 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 is 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' (Positive Outlook) to the Management Company.

These financial statements comprise of statement of assets and liabilities as at 30 June 2010 and the related income statement, staement of comprehensive income, distribution statement, statement of movement in unit holders' funds, cash flow statement and notes thereto, for the year ended 30 June 2010.

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, 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 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 2008 and the said directives shall prevail.

2.2 Basis of measurement

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

2.3 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.

2.4 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 22 to these financial statements.

2.5 Initial application of a standard or an interpretation

Change in accounting policy

The Company has applied "Revised IAS 1 Presentation of Financial Statements (2007)" which became effective from period beginning after 1 July 2009. This standard required the Company to present in the statement of changes in equity, all owner changes in equity, whereas all non-owner changes in equity are presented in statement of comprehensive income. In addition, the standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present two statements. This presentation has been applied in these financial statements as of and for the year ended 30 June 2010.

Comparative information has been re-presented so that it is in conformity with the revised / new standards as the changes in accounting policies only affects presentation of financial statements.

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

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 July 2010. However, these are not relevant to the Fund except in few cases these may require additional disclosures:

Improvements to IFRSs 2009	**Effective date**
- Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
- Amendments to IFRS 8 - Operating Segments	1 January 2010
- Amendments to IAS 1 - Presentation of Financial Statements	1 January 2010
- Amendments to IAS 7 - Statement of Cash Flows	1 January 2010
- Amendments to IAS 17 - Leases	1 January 2010
- Amendments to IAS 36 - Impairment of Assets	1 January 2010
- Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	1 January 2010
- Amendments to IFRS 2 - Share-based Payment – Group Cash-settled Share-based Payment Transactions	1 January 2010
- Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues	1 January 2010
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

- Amendment to IFRS 1 - First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
Improvements to IFRSs 2010	
- Amendments to IFRS 3 - Business Combinations	1 July 2010
- Amendments to IAS 27 - Consolidated and Separate Financial Statements	1 July 2010
- IAS 24 - Related Party Disclosures (revised 2009) These amendments will result in increase in disclosures in the Fund's financial statements.	1 January 2011
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction	1 January 2011
- Amendments to IFRS 1 - First-time Adoption of IFRSs	1 January 2011
- Amendments to IFRS 7 - Financial Instruments: Disclosures	1 January 2011
- Amendments to IAS 1 - Presentation of Financial Statements	1 January 2011
- Amendments to IAS 34 - Interim Financial Reporting	1 January 2011
- Amendments to IFRIC 13 - Customer Loyalty Programmes	1 January 2011

2.7 Other accounting development

a) *Disclosures pertaining to fair values and liquidity risk for financial instruments*

The Fund has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 21.

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 Security - Sukuk Bonds

Sukuks Bonds (SBs) revalued at rates notified by MUFAP or using limited discretion as allowed under Circular 01 of 2009 dated 6 January 2009. Thinly traded and non traded SB's are revalued by adjusting the yields within the limits as allowed by Circular 01 of 2009. The yields are so adjusted when management assesses that the sector specific risk, issuer specific risk or liquidity risk is not correctly reflected in the revalued amounts of investments.

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.

Impairment of debt securities held by the Fund is determined on the basis of repayment passed due from its contractual maturity. Such provisions are made as per criteria specified in Circular 01 of 2009 and Circular 03 of 2010. Excess provisions are made if circumstances warrant, as per the provisioning policy approved by the Board of the Management Company as per Circular 13 of 2009.

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 30 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

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.

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 recorded.

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.

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 June 2010	30 June 2009
		(Rupees in '000)	
Current accounts		**8,673**	35,333
Deposit accounts	*4.1*	**49,421**	33,713
		58,094	69,046

4.1 These balances in saving bank deposit accounts maintained with various banks carrying profit rates ranging from 5.65% to 10.75% (2009: 5.02% to 10.50%) per annum.

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

	Note	30 June 2010	30 June 2009
Investment in shares listed in Pakistan	*5.1*	**318,378**	337,260
Investment in units of mutual funds outside Pakistan	*5.2*	**-**	164,134
Investment in unlisted Sukuk bond	*5.3*	**9,359**	49,130
		327,737	550,524

5.1 Investment in shares listed in Pakistan

Name of the Investee Company	Number of shares					Balance as at 30 June 2010			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 July 2009	Purchases during the year	Bonus / Right issue	Sales during the year	As at 30 June 2010	Cost	Market Value	(Diminution) / Appreciation			
						(Rupees in '000)					
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise											
Oil and Gas											
Pakistan Oilfields Limited	-	302,700	-	83,537	219,163	47,524	47,317	(207)	11.53	14.44	0.09
National Refinery Limited	-	76,475	-	76,475	-	-	-	-	-	-	-
Oil and Gas Development Company Limited	773,227	-	-	773,227	-	-	-	-	-	-	-
Pakistan Petroleum Limited	-	303,175	-	141,000	162,175	30,620	29,860	(760)	7.28	9.11	0.02
Pakistan State Oil Company Limited	140,100	97,000	-	237,100	-	-	-	-	-	-	-
						78,144	**77,177**	**(967)**			
Chemicals											
Fauji Fertilizer Company Limited	545,187	-	-	304,984	240,203	21,779	24,758	2,979	6.03	7.55	0.01
Fauji Fertilizer Bin Qasim Limited	-	722,868	-	-	722,868	22,493	18,827	(3,666)	4.59	5.74	0.08
ICI Pakistan Limited	149,000	167,915	-	61,000	255,915	40,567	30,341	(10,226)	7.39	9.26	0.18
Sitara Chemical Industries Limited	-	59,508	-	-	59,508	10,528	8,029	(2,499)	1.96	2.45	0.29
Engro Corporation Limited	30,000	-	-	30,000	-	-	-	-	-	-	-
						95,367	**81,955**	**(13,412)**			
General Industrials											
Packages Limited	262,022	152,967	-	-	414,989	67,809	49,176	(18,633)	11.98	15.00	0.49
Thal Limited	-	70,128	-	-	70,128	6,312	6,658	346	1.62	2.03	0.01
						74,121	**55,834**	**(18,287)**			
Automobile and Parts											
Agriauto Industries	-	191,227	-	-	191,227	13,825	13,195	(630)	3.22	4.03	1.33
Pak Suzuki Motor Company Limited	181,900	75,000	-	108,535	148,365	34,321	11,761	(22,560)	2.87	3.59	0.18
						48,146	**24,956**	**(23,190)**			
Household Goods											
Pakistan Elektron Limited	-	708,423	143,569	-	851,992	15,869	10,096	(5,773)	2.46	3.08	0.73
						15,869	**10,096**	**(5,773)**			
Pharma and Bio Tech											
Searle Pakistan Limited	-	288,487	-	-	288,487	16,824	17,021	197	4.15	5.19	0.94
						16,824	**17,021**	**197**			
Electricity											
Hub Power Company Limited	2,225,500	5,749	-	1,477,830	753,419	23,763	24,079	316	5.87	7.35	0.07
						23,763	**24,079**	**316**			
Fixed Line Telecommunications											
Pakistan Telecommunication Company Limited "A"	1,235,400	1,000,000	-	1,235,400	1,000,000	18,396	17,856	(540)	4.35	5.45	0.03
						18,396	**17,856**	**(540)**			
Construction and Materials											
Lucky Cement Limited	525,000	-	-	525,000	-	-	-	-	-	-	-
Attock Cement Pakistan Limited	121,800	-	-	121,800	-	-	-	-	-	-	-
						-	**-**	**-**			
Banks											
Meezan Bank	-	615,554	30,777	-	646,331	9,835	9,404	(431)	2.29	2.87	0.09
						9,835	**9,404**	**(431)**			
TOTAL						**380,465**	**318,378**	**(62,087)**			

5.1.1 Investments includes shares with market value of Rs. 28,264,540 (30 June 2009: Rs. 26,130,185) 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 23 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	Number of units					Balance as at 30 June 2010			Market value as percentage of net assets	Market value as percentage of total investment
	As at 1 July 2009	Purchases during the year	Bonus / right issue	Sales during the year	As at 30 June 2010	Cost	Market value	Appreciation / (diminution)		
						(Rupees in '000)				
Mayfair Islamic Greater China Fund	10,000	-	-	10,000	-	-	-	-	-	-
HSBC - Amanah GCC Equity Fund	543,738	-	-	543,738	-	-	-	-	-	-
Total						-	-	-		

5.3 Investment in unlisted sukuks bonds in Pakistan

Name of the Investee Company	Profit rate %	As at 1 July 2009	Number of certificates			Balance as at 30 June 2010			Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued debt capital
			Purchases during the year	Sales during the year	As at 30 June 2010	Cost	Market value	Appreciation / (diminution)			
						(Rupees in '000)					
Engro Chemical Pakistan Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
Pak Elektron Limited (28 September 2007) (a)	14.04	-	3,000	-	3,000	8,717	9,359	642	2.28	2.86	0.78
Total						8,717	9,359	642			

(a) This unlisted sukuk bond carry floating profit rates equal to 3 month ask side Karachi inter bank offer rate plus 1.75% per annum receivable qaurterly with no floor or cap. These sukuk bonds are secured against floating charge on all of the issuer's present and future fixed assets.

5.4 Unrealised diminution in the value of investments - net

	30 June 2010	30 June 2009
	(Rupees in '000)	
Market value of investments	**327,737**	550,524
Less: Cost of investments	**(389,182)**	(663,118)
	(61,445)	(112,594)
Net unrealised diminution in the value of investment at the end of the year	**112,594**	(62,509)
Realised on disposal during the year	**(84,224)**	74,284
	28,370	11,775
Net unrealised diminution in the value of investment at the end of the year	**(33,075)**	(100,819)

6. DIVIDEND AND PROFIT RECEIVABLE

Dividend receivable	**1,750**	3,699
Profit receivable on deposit accounts with banks	**1,067**	689
Income receivable from Sukuk bonds	**11**	2,250
	2,828	6,638

7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2010	30 June 2009
	(Rupees in '000)	
Advance tax	**498**	498
Deposits with Central Depository Company of Pakistan Limited	**200**	200
Deposits with National Clearing Company of Pakistan Limited	**2,500**	2,500
Other receivables	**-**	248
	3,198	3,446

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

	30 June 2010	30 June 2009
Opening balance	**3,020**	4,670
Amortisation during the year	**(1,650)**	(1,650)
Closing balance	**1,370**	3,020

9. PAYABLE TO MANAGEMENT COMPANY

	Note	30 June 2010	30 June 2009
		(Rupees in '000)	
Management fee	*9.1*	**861**	1,208
Front end load		**13**	8
		874	1,216

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.

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

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

	Note	30 June 2010	30 June 2009
Remuneration payable	*10.1*	**68**	99
CDS charges payable		**1**	-
		69	99

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 30 June 2010 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

NBFC Regulations 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

		30 June 2010	30 June 2009
		(Rupees in '000)	
Auditors' remuneration		**455**	450
Brokerage		**105**	65
Payable to Pakistan Income Fund		**5**	-
Payable to Pakistan Income Enhancement Fund		**5**	-
Withholding tax payable		**-**	6
Zakat payable		**8**	92
Charity / donation payable	*12.1*	**527**	120
Credit rating fee		**100**	100
Professional services charges		**140**	100
Printing and related cost		**227**	270
Other payables		**19**	7
		1,591	1,210

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. CONTRIBUTION TO WORKER WELFARE FUND

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

Labour and Manpower issued a letter which states that mutual funds are not liable for WWF.

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

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

15. MANAGEMENT FEE

	Note	30 June 2010	30 June 2009
		(Rupees in '000)	
Management fee		**13,393**	15,856
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	*15.1*	**1,804**	2,182
		15,197	18,038

15.1 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, 37,865 additional units (30 June 2009: 58,178) amounting to Rs 1.804 million (30 June 2009: Rs 2.182 million) have been issued to these unit holders by the Trustee during the current year.

16. AUDITORS' REMUNERATION

	2010	2009
Annual audit fee	**240**	210
Half yearly review fee	**100**	100
Other certifications and services	**150**	275
Out of pocket expenses	**27**	37
	517	622

17. 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.

18. PATTERN OF UNIT HOLDING

	As at 30 June 2010		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage of investment
Individuals	**2,423**	**212,654**	**51.81%**
Insurance companies	**2**	**4,696**	**1.14%**
Directors	**2**	**557**	**0.14%**
Banks / DFIs	**1**	**91,199**	**22.22%**
NBFCs	**1**	**0.81**	**0.00%**
Retirement funds	**25**	**76,442**	**18.63%**
Public limited companies	**1**	**330**	**0.08%**
Others	**6**	**24,537**	**5.98%**
	2,461	**410,415**	**100%**

	As at 30 June 2009		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage of investment
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%

19. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

All other transactions with connected persons / related parties are carried on agreed terms.

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

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:

		Note	30 June 2010	30 June 2009
			(Rupees in '000)	
19.1	**Transactions during the year with connected persons / related parties**			
	Arif Habib Investments Limited - Management Company			
	Remuneration for the year		**15,197**	18,038
	Front end load for the year		**120**	561
	Back end load for the year		**9**	1,253
	Sale of Sukuk bond to Pakistan Income Fund (Managed by Arif Habib Investments Limited)			
	Engro Chemical Pakistan Limited		**49,194**	-
	Arif Habib Limited - Brokerage House			
	Brokerage	*19.3*	**235**	97
	Central Depository Company Limited - Trustee			
	Remuneration for the year		**1,098**	1,308
	CDS charges		**94**	12
19.2	**Amounts outstanding as at the year end with connected persons / related parties:**			
	Arif Habib Investments Limited - Management Company			
	Remuneration payable		**861**	1,208
	Front end load payable		**13**	8
	Arif Habib Bank Limited			
	Balances as at the year end		**7,683**	33,270
	Central Depository Company Limited - Trustee			
	Security deposit		**200**	200
	Remuneration payable		**68**	99
	Other charges		**1**	-
	Other funds managed by Arif Habib Investments Limited			
	Payable to Pakistan Income Enhancement Fund		**5**	-
	Payable to Pakistan Income Fund		**5**	-

	30 June 2010		30 June 2009	
Units sold to:	**Units**	**(Rupees in '000)**	Units	(Rupees in '000)
Arif Habib Investments Limited - - Management Company	-	-	4,184,983	200,000
Directors and officers	**120,505**	**5,613**	71,365	2,994
Units redeemed by:				
Arif Habib Investments Limited - - Management Company	**2,431**	**111**	4,191,572	176,083
Directors and officers	**132,006**	**6,161**	107,095	4,406
Arif Habib Investments Limited - Employees provident Fund	**68,671**	**3,339**	-	-
Bonus units distributed to:				
Arif Habib Investments Limited - Management Company	-	-	6,672	253
Arif Habib Investments Limited - Employees provident Fund	-	-	2,317	116
Directors and officers	-	-	2,625	132

	30 June 2010	30 June 2009
	-----------(Units)-----------	
Units held by:		
Arif Habib Investments Limited - Management Company	-	2,431
Arif Habib Investments Limited - Employees Provident Fund	-	68,671
Directors and officers	**122,278**	42,066

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. FINANCIAL 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 analyze 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:

market risk
credit risk
liquidity risk
operational risk

20.1 Market risk

Market risk is the risk that the value of the financial instruments 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 the Fund and the Commission has also approved for investment outside Pakistan 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, being the functional currency of the Fund.

At year end, there were no outstanding foreign investments and as a result the fund is not exposed to currency risk. Till last year, the investments were denominated in US Dollar and Saudi Riyal.

(Amount in '000)

	30 June 2010		30 June 2009	
	US$	**SAR**	US$	SAR
Investments	-	-	1,053	3,642

	30 June 2010		30 June 2009	
	US$	**SAR**	US$	SAR
Rate at which investments made	-	-	70.00	21.41 - 21.60
Rate at which redemptions made	-	-	72.50 - 80.75	-
Rate as at balance sheet date	-	-	81.10	22

Sensitivity analysis

A five percent strengthening or weakening of Pakistani Rupee against the foreign currencies at 30 June 2010 would have no impact on the profit or loss as the Fund has no foreign investment at year end. However for the year ended 30 June 2010, the same would have increased/(decreased) the profit or loss by the amounts shown below. This analysis assumes that all variables, in particular interest rates remain constant.

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

	30 June 2010	30 June 2009
	(Rupees in '000)	
US Dollar	-	4,270
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.

At the reporting date, the interest rate profile of Funds' interest-bearing financial instruments is as follows:

		Carrying Amount	
		30 June 2010	30 June 2009
		(Rupees in '000)	
Fixed rate instruments			
Financial assets	*4*	**49,421**	33,713
Variable rate instruments			
Financial assets	*5.3*	**9,359**	49,130

a) Sensitivity analysis for fixed rate instruments

The Fund holds balances with various scheduled banks under deposit accounts. The profit rates on these accounts vary from bank to bank and ranges from 5.65% to 10.75%.

b) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based markup bearing Sukuk bonds that expose the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30 June 2010, with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs 0.09 million (30 June 2009: Rs. 0.02 million).

The composition of the Fund's investment portfolio and change in interest rates are expected to change over time. Accordingly, the sensitivity analysis prepared as at 30 June 2010 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 30 June 2010 can be determined from the following:

	As at 30 June 2010					
	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	5.65 to 10.75	49,421	-	-	8,673	58,094
Receivable against sale of investments		-	-	-	21,264	21,264
Receivable against sale of units		-	-	-	1,077	1,077
Investments	KIBOR +1.75	9,359	-	-	318,378	327,737
Dividend and profit receivable		-	-	-	2,828	2,828
Deposits and other receivables		-	-	-	2,700	2,700
		58,780	-	-	354,920	413,700
Financial liabilities						
Payable to Management Company		-	-	-	874	874
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	69	- 69
Payable to SECP - Annual Fee		-	-	-	522	522
Payable against purchase of investments		-	-	-	2,070	2,070
Payable on redemption of units		-	-	-	27	27
Accrued expenses and other liabilities		-	-	-	1,591	1,591
		-	-	-	5,153	5,153
On-balance sheet gap		**58,780**	**-**	**-**	**349,767**	**408,547**
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-

	As at 30 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	69,046
Receivable against sale of units		-	-	-	4,258	4,258
Investments	KIBOR + 1.5	49,130	-	-	501,394	550,524
Dividend and profit receivable		-	-	-	6,638	6,638
Deposits and other receivables		-	-	-	2,948	2,948
		82,843	-	-	550,571	633,414
Financial liabilities						
Payable to Management Company		-	-	-	1,216	1,216
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	99	99
Payable to SECP - Annual Fee		-	-	-	637	637
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
		-	-	-	30,343	30,343
On-balance sheet gap		82,843	-	-	520,228	603,071
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 Karachi Stock Exchange (KSE) and other 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's 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 risks 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 Manager also manages its exposure to price risk by reviewing portfolio allocation on a continous basis and also by the investment committee on a regular basis in respect of allocation within industry and individual stock within that allocation. The portfolio and individual stock allocation is 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 30 June. The analysis is based on the assumption that KSE-100 index increased by 5% (30 June 2009 : 5%) and decreased by 5% (30 June 2009 : 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 (30 June 2009: 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% (30 June 2009: 5%) if the Indexes where these Funds are invested increased / decreased by 5% (30 June 2009: 5%).

At 30 June 2010, 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	**30 June 2010**	30 June 2009
	(Rupees in '000)	
Domestic equity investments	**15,919**	16,139
Investments in units of mutual funds outside Pakistan	**-**	8,207
	15,919	24,346

The sensitivity analysis presented is based upon the portfolio composition as at 30 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 and other respective market indices, is expected to change over time. Accordingly, the sensitivity analysis prepared as at 30 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 and other respective market indices.

	30 June 2010	30 June 2009
	(Rupees in '000)	
Investments in shares listed in Pakistan	**318,378**	337,260
Investment in units of mutual funds outside Pakistan	**-**	85,366
Mayfair Islamic Greater China Fund	**-**	78,768
HSBC - Amanah GCC Equity Fund	**-**	164,134
	318,378	501,394

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 fulfill 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 Board of Directors. 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 / paid for upon delivery using the National Clearing Company of Pakistan Limited. The risk of default is considered minimal due to inherent systematic measures taken therein.

The maximum exposure to credit risk before any credit enhancements at 30 June 2010 is the carrying amount of the financial assets as set out below:

	30 June 2010	30 June 2009
	(Rupees in '000)	
Bank balances	**58,094**	69,046
Investments in unlisted Sukuk bond	**9,359**	49,130
Receivable against sale of investments	**21,264**	-
Dividend and profit receivable	**2,828**	6,638
Deposits and other receivables	**2,700**	3,446
	94,245	128,260

Difference in the balance as per the Statement of Assets and Liabilities and maximum exposure in investments is due to the fact that investment in equity securities of Rs. 318,378 (2009: Rs.501,394) is not exposed to credit risk.

None of the above financial assets were considered to be past due or impaired as on 30 June 2010 and 30 June 2009.

The analysis below summarizes the credit quality of the Fund's investment in Sukuk bond as at 30 June 2010.

Debt Securities by rating category	**30 June 2010**	30 June 2009
A+	**100%**	-
AA	-	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.

Details of Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	30 June 2010		30 June 2009	
	(Rupees)	**(Percentage)**	(Rupees)	(Percentage)
Commercial banks	**59,161**	**62.77**	69,735	54.37
Chemicals	**-**	**0.00**	51,380	40.06
Household goods	**9,370**	**9.94**	-	0.00
Others	**25,714**	**27.28**	7,145	5.57
	94,245	**100**	128,260	100

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.

For the purpose of making redemptions the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from he borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

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:

	30 June 2010			
On balance sheet financial liabilities and others	**Upto three months**	**More than three months and upto one year**	**More than one year**	**Total**
	----------------------------------(Rupees in '000)--------------------------------			
Payable to Management Company	**874**	**-**	-	**874**
Payable to Central Depository Company of Pakistan Limited - CDC	**69**	**-**	-	**69**
Payable to SECP - Annual Fee	**522**	**-**	-	**522**
Payable against purchase of investments	**2,070**	**-**	-	**2,070**
Payable on redemption of units	**27**	**-**	-	**27**
Accrued expenses and other liabilities	**1,591**	**-**	-	**1,591**
	5,153	**-**	**-**	**5,153**

	30 June 2009			
On balance sheet financial liabilities and others	Upto three months	More than three months and upto one year	More than one year	Total
	---------------------------------(Rupees in '000)-------------------------------			
Payable to Management Company	1,216	-	-	1,216
Payable to Central Depository Company of Pakistan Limited - CDC	99	-	-	99
Payable to SECP - Annual Fee	637	-	-	637
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
	30,343	-	-	30,343

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 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

20.5 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 Fund manages its 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 capital structure depends on the issuance and redemption of units and the Fund is not exposed to the externally imposed minimum Fund maintenance requirement.

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.

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

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

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

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

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

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-------------------- (Rupees in '000)			--------------------
Equity securities	**318,378**	**-**	-	**318,378**
Debt securities	**-**	**-**	**9,359**	**9,359**
	318,378	**-**	**9,359**	**327,737**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	30 June 2010 (Rupees in '000)
Balance as at 1 July 2009	**49,130**
Total gains / (losses) recognized in profit or loss	**642**
Purchase during the period (at cost)	**8,717**
Redemption / sale during the period	**(49,130)**
Balance as at 30 June 2010	**9,359**

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

		30 June 2010 (Percentage)
1	Arif Habib Limited	**18**
2	First Capital Equities Limited	**9**
3	JS Global Capital Limited	**7**
4	Invest Capital and Investment Bank Limited	**6**
5	BMA Capital Management Limited	**5**
6	Invest & Finance Securities	**5**
7	Elixir Securities Pakistan (Private) Limited	**4**
8	Akbarally Cassim	**4**
9	Topline Securities (Private) Limited	**4**
10	KASB Securities	**4**
		66

		30 June 2009 (Percentage)
1	BMA Capital Management Limited	25
2	Elixir Securities Pakistan (Private) Limited	12
3	JS Global Capital Limited	11
4	DJM Securities (Private) Limited	8
5	Invisor Securities (Private) Limited	8
6	Arif Habib Limited	7
7	Taurus Securities Limited	6
8	AKD Securities Limited	6
9	Alfalah Securities (Private) Limited	5
10	H. H. Misbah Securities (Private) Limited	4
		92

24. PARTICULARS OF MEMBERS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

		2010		
		Designation	Qualification	Experience in years
1	Basharat Ullah	Chief Investment Officer	MBA	17
2	Zeeshan	Chief Financial Officer	ACA	7
3	Nazia Nauman	Head of Equity	MBA / CFA	10
4	Muhammed Imran Khan	Head of Research / Fund Manager	MBA	7
5	Zafar Rehman	Head of Debt & Money Market Funds	BCom	18
6	Tariq Hashmi	Head of Marketing	MBA	18

24.1 Muhammed Imran Khan 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 Pension Fund
b) Pakistan Islamic Pension Fund

25. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year; 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd & 73rd Board meetings were held on 06 July 2009, 28 July 2009, 29 July 2009, 22 October 2009, 10 November 2009, 22 February 2010, 22 March 2010, 22 April 2010, 24 April 2010 16 June 2010 & 17 June 2010 respectively.

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

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

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

26. NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on 05 July 2010 has proposed a Rs 7.10 distribution in respect of the year ended 30 June 2010 (30 June 2009: Nil per unit) amounting to Rs 64.62 million (30 June 2009: Rs Nil million) in total. Out of these Rs 14.36 million (30 June 2009: Rs Nil) will be distributed as cash dividend and Rs 50.26 million (30 June 2009: Rs Nil) as bonus units. The financial statements for the year ended 30 June 2010 include the effect of the appropriation for the year ended 30 June 2009.

27. DATE OF AUTHORISATION FOR ISSUE

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

For Arif Habib Investments Limited
(Management Company)

Chief Executive **Director**

DETAILS OF PATTERN OF HOLDING (UNITS)
AS AT 30 JUNE 2010

	Unit Held
Associated Company	
Arif Habib Investments Limited	-
Director and CEO	
Nasim Beg (Chief Executive)	9,370
Muhammad Akmal Jameel (Director)	2,986
Public Limited Companies	7,310
Banks and Financial Institution	2,125,916
Other Corporate Sector Entities	544,171
Individual	4,716,201
Retirement Funds	1,695,326
TOTAL	**9,101,281**

PATTERN OF UNIT HOLDING (BY SIZE)
AS AT 30 JUNE 2010

NO OF UNIT HOLDERS	FROM	TO	TOTAL UNITS HELD	PERCENTAGE
2,262	0	5000	1,870,912	20.56
108	5001	10000	768,317	8.44
35	10001	15000	428,161	4.70
10	15001	20000	183,894	2.02
5	20001	25000	110,602	1.22
4	25001	30000	107,561	1.18
5	30001	35000	160,942	1.77
5	35001	40000	184,547	2.03
2	40001	45000	81,861	0.90
4	45001	50000	193,085	2.12
1	65001	70000	69,424	0.76
1	70001	75000	73,363	0.81
2	75001	80000	156,382	1.72
1	80001	85000	81,814	0.90
1	85001	90000	88,546	0.97
1	90001	95000	91,279	1.00
1	95001	100000	97,242	1.07
1	100001	105000	104,563	1.15
2	105001	110000	212,887	2.34
1	125001	130000	126,683	1.39
1	155001	160000	159,276	1.75
1	185001	190000	185,894	2.04
1	190001	195000	190,714	2.10
1	210001	215000	211,999	2.33
1	255001	260000	257,691	2.83
1	280001	285000	283,873	3.12
1	375001	380000	375,948	4.13
1	505001	510000	505,092	5.55
1	1735001	1740000	1,738,729	19.10
2,461	**TOTAL UNITS**		**9,101,281**	**100.00**

PERFORMANCE TABLE

	2010	2009	2008	2007	2006
Net Assets (Rs'000)	**410,415**	606,589	984,083	1,072,531	1,378,168
Net Income / (loss) (Rs '000)	**68,145**	(114,977)	32,760	227,664	(65,690)
Net asset value per unit (Rs)	**45.09**	42.16	51.86	58.89	47.73
Closing selling price per unit (Rs)	**46.01**	43.02	54.02	60.40	48.95
Closing repurchase price per unit (Rs)	**45.09**	42.16	51.86	58.89	47.73
Highest selling price per unit (Rs)	**51.51**	51.54	60.34	60.52	51.59
Lowest selling price per unit (Rs)	**44.24**	30.49	48.69	46.22	44.25
Highest repurchase price per unit (Rs)	**50.48**	49.48	58.83	59.01	50.30
Lowest repurchase price per unit (Rs)	**43.36**	29.88	47.47	45.07	43.14
Distribution per unit (Rs)	**7.10**	-	1.75	8.75	-
Distribution Date	**05 July 2010**	-	03 July 2008	04 July 2007	-
			-(In percentage)-		
Total return of the Fund	**6.95**	(15.87)	3.43	23.40	(4.54)
Distribution	**16.84**	-	3.49	18.33	-
Capital growth	**(9.89)**	(15.87)	(0.06)	5.07	-
Average annual return of the Fund (CAGR)					
1 Year	**6.95**	(15.87)	3.43	23.40	(4.54)*
2 Year	**(5.14)**	(6.71)	12.96	14.98	-
3 Year (since inception)	**(2.37)**	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.