PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
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PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
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FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha	Chairman(subject to the approval of SECP)
	Mr. Nasim Beg	Executive Vice Chairman
	Mr. Yasir Qadri	Chief Executive (subject to the approval of SECP)
	Syed Salman Ali Shah	Director (subject to the approval of SECP)
	Mr. Haroun Rashid	Director (subject to the approval of SECP)
	Mr. Ahmed Jahangir	Director (subject to the approval of SECP)
	Mr. Samad A. Habib	Director
	Mr. Mirza Mahmood Ahmad	Director (subject to the approval of SECP)
Company Secretary & CFO of the Management Company	Mr. Muhammad Saqib Saleem	
Audit Committee	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	Bank AL Habib Limited Summit Bank Limited (formerly :Arif Habib Bank Limited) Meezan Bank Limited Bank Alfalah Limited Al-Baraka Islamic Bank	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Registrar	Gangjees Registrar Services (Pvt.) Limited. Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton, Karachi.	
Rating	AM2 (Positive Outlook) – Management Quality Rating assigned by PACRA	

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

The Board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan International Element Islamic Asset Allocation Fund (PIEIF), is pleased to present the Annual Report on the affairs of PIEIF for the year ending June 30th, 2011.

Economy & Money Market Overview and Outlook

Despite continued macro-economic challenges throughout the period, the year under review (July '10-June '11) was not as turbulent as it was expected to be due to concerns over payments from foreign donor agencies and devastation caused by floods throughout the country. Record-high levels of remittances and cotton prices saved the day and kept external account position under control.

During the year, exports rose to US$ 25.4 billion, 29% higher on a YoY basis, reducing the trade deficit to around US$ 10.3 billion, 11% lower YoY. In addition to contained trade deficit, record-high level of workers' remittances flow has taken the current account balance to a surplus of US$ 437 million, for the first time after FY04. Despite meager financial account flows, country's balance of payment position improved significantly during the year by around US$ 2.5 billion - taking the FX reserves to a record level of US$ 18.2 billion, consequently keeping PKR-USD exchange rate largely stable during the year.

Post-flood, inflationary pressures have risen significantly amidst supply-side issues as well as phasing out of power subsidies, CPI inflation averaged higher at around 14.6% during 1H FY11. Due to relatively lower food inflation as well as no major electricity pass-through during the latter half, CPI inflation averaged at a lower level of 13.3% - taking the average FY11 inflation to 13.9%. Real economy, however, did not have much to show with Real GDP growth stood at a paltry 2.4%, much lower than the target. Loss in agriculture produce because of floods caused a major dent towards country's economic growth during the period under review. Services sector, however, was able to provide some support with a growth of 4.1%, bringing the overall GDP growth to 2.4%.

Fiscal indiscipline has remained a cause of concern for the economic managers as the country is expected to witness yet again a deficit of over 6% of the GDP during FY11. Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 783 billion, 4.3% of the revised GDP. Slower growth in revenue collection coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Citing the deteriorating macroeconomic fundamentals during the 1H FY11 mainly in the backdrop of floods, the SBP raised its policy discount rate cumulatively by 150 bps to 14.0%. However, gradual improvement towards external account through remittances and increased textile exports as well as lower levels of government borrowing from SBP has compelled the central bank to keep its policy DR unchanged for the next 3 policies during 2H FY11. Due to an overall higher interest rate environment, 1 year PKRV averaged at around 13.4% during FY11, much higher than the average 12.2% a year ago.

During FY11, key monetary indicators have also been better as compared to that of last year with money supply (M2) posting a strong growth of 15.9%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY growth of 43% in Net Foreign Assets (NFA) has been commendable - also reflecting strong BOP position.

In absence of foreign donor payments coming through, government's need to borrow continues to be a barrier in way of significant drop in interest rates or growth in credit. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs commanded improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS) has also emerged as an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during the year in both primary as well as secondary markets.

Citing contained inflationary pressures, strong external account position and lower levels of government borrowing from SBP, the central bank decided to lower its policy discount rate by 50 bps to 13.5% in its Jul'11 monetary policy review.

We believe that the materialization of sizeable foreign inflows will continue to be the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. Going forward, liquidity and interest rate direction will be largely dependent on the magnitude and sources of fiscal funding. In the absence of foreign flows, greater reliance will be on domestic sources - which could rebound inflation and interest rates. In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

Equities Market Overview and Outlook

Equities recorded second consecutive year of stellar performance with the KSE-100 index rising by about 29% in FY11 on top of 36% return posted in FY10. Pakistan equity market also remained the 3rd best performing market in the region after Indonesia and Thailand which posted 33% and 31% returns respectively.

KSE -100 Index made the fresh start with 76 points plus at 9,740 on its 1st day and closed the first month in same zeal at +8.2%. However the momentum halted abruptly as severe floods hit across provinces causing substantial damages and losses. Economic gloom pulled the index in the negative territory making a low of 9,488 on August 17, 2010. However persistent foreign inflow amounting to USD 105 m in the first quarter, turned the sentiment at KSE positive and second quarter proved to be the best performing period of the year and about 74% of the total annual performance could be attributed to this period. With the exception of initial period, market remained lackluster during most part of the 2nd half of the year where major dampeners included the political unrest in MENA region and highly volatile US-Pak diplomatic relationship. KSE-100 index closed the year at 12,496, down 2.1% from its year high of 12,768 made on Jan 17, 2011;overall 29% up YoY.

While returns remained impressive, volumes were unprecedentedly low. In its first year, post imposition of CGT, retail investors remained largely inactive as foreign investors and local institutions including Banks, Corporates and Mutual Funds demonstrated marginal interest. During the year, average daily turnover declined significantly to about 95 million shares, down 40% on YoY basis. KSE Management attempted to enthuse the market by introducing leverage products including Margin Trading System and Market Financing System and made few modifications in futures market, but to no avail.

Macro-economic factors challenging the KSE performance included strong detriments like capital gains tax, a cumulative 150 basis points increase in discount rate in an already high interest rate environment, economic loss due to floods and higher Oil prices and lower foreign flows. Some of the positives that propelled KSE in positive territory included strong external account position on the back of increased textile exports, flood-related foreign aids, coalition support fund and record-high remittances ultimately translating in a relatively stable exchange rate and record FX reserves. Moreover, strong liquidity from booming rural economy and persistent foreign interest in domestic equities, which continued to trade at a discount of around 35~40% despite strong dividend yield (near 7%)and corporate earnings growth (+20% YoY) helped the market to exhibit strong performance.

Sector wise, Food Producers, Metals and Mining, Beverages and Chemicals outperformed the KSE-100 index while the major sectors and index heavy weights including Banks and Oil & Gas Sectors remained among the underperformers while best performing stocks included Nestle, FFC, FFBL, POL and LOTPTA.

We believe that the global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. An unexpected 50 bps DR cut by the SBP during the early part of FY12 bodes well for the market, however, a ballooning fiscal deficit would continue to 'crowd out' domestic capital markets. Strong earnings growth, sizeable discount to regional markets, high dividend yields and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

Fund's Performance

The investment objective of the fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally. The fund is benchmarked against a composite based on 70% KMI-30 Index and 30% DJIM World Index. The fund generated a return of 15.1% during the year as against its benchmark return of 40.6%. The major reason behind a significant under-performance was due to fund's exposure towards selected stocks within OMC and Paper & Board, which have significantly under-performed the market, hence affecting the returns of the fund. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

On the fixed income side, the fund continued to maintain a marginal exposure in corporate sukuks while placing the rest in bank deposits.

The Fund yields for the period under review remained as follows:

Performance Information (%)	PIEIF	Benchmark
Last twelve Months Return	15.1%	40.6%
Since Inception	26.1%	N/A

During the year your fund earned net income of Rs 60.676 Million. The Board in the meeting held on 4th July, 2011 has declared final distribution amounting to Rs. 43.081 million (i.e. Rs.5.58 per unit).

During the period, units worth Rs.122.010 Million (including Rs. 50.259 million worth of bonus units) were issued and units with a value of Rs. 190.064 Million were redeemed. As on 30th June 2011 the NAV of the Fund was Rs. 43.72 per unit.

Update on Workers' Welfare Fund

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

In view of the afore mentioned developments, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. However the auditor of the Fund because of pending adjudication of the Constitutional petition in Honourable Sindh High Court and included a emphasis of matter paragraph in auditor' report highlighting the said issue.

The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs.2.58 million.

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.

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 as required by the Code of Corporate Governance 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. As per note 1 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011. Statement showing attendence of Board Meeting is as under:-

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REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

Attendance of Board Meeting from 1st July 2010 to 30th June 2011.

S.#	Name	Designation	Meetings			
			Total	Attended	Eligible to Attend	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	15	15	15	-
2.	Mr. Nasim Beg **	E. Vice Chairman	15	15	15	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	15	15	15	-
4.	Mr. Muhammad Kashif *	Former Director	15	11	15	4
5.	Syed Ajaz Ahmed *	Former Director	15	13	15	2
6.	Mr. Sirajuddin Cassim *	Former Director	15	4	15	11
7.	Mr. S. Gulrez Yazdani *	Former Director	15	13	15	2
8.	Mr. Samad A. Habib ***	Director	15	5	5	-
9.	Mian Mohammad Mansha ****	Chairman	15	1	1	-
10.	Mr. Yasir Qadri ****	Chief Executive	15	1	1	-
11.	Syed Salman Ali Shah ****	Director	15	1	1	-
12.	Mr. Haroun Rashid ****	Director	15	1	1	-
13.	Mr. Ahmed Jahangir ****	Director	15	1	1	-
14.	Mr. Mirza Mahmood Ahmad ****	Director	15	1	1	-

* Resigned on 27th June, 2011
** Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.
*** Mr. Samad A. Habib was elected as director on 7th February, 2011 and his appointment approved by SECP on 31st March, 2011.
****Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

m. The trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary of the management company and their spouses and minor children, as are under:-

S. #	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Baig	Executive Vice Chairman	-	11,121.52	1,751.23
2.	Mr. Muhammad Akmal Jameel	Former Director	-	3,372.39	558.04

External Auditors

The fund's external auditors, Messers KPMG Taseer Hadi & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Due to completion of maximum time allowed under Trust Deed of the Fund, they are not eligible for reappointment. The audit committee of the Board has recommended appointment of A.F. Ferguson & Co., Chartered Accountants (who have given consent to such appointment) as auditors for the year ending June 30, 2012.

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in Arif Habib Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Karachi, Lahore and Islamabad Stock Exchanges for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board

Yasir Qadri
Chief Executive

Karachi: September 20, 2011

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED JUNE 30, 2011

Fund Type and Category

Pakistan International Element Islamic Asset Allocation Fund (PIEIF) is an Open-End Shariah Compliant Asset Allocation Scheme.

Fund Benchmark

The benchmark for PIEIF is a composite of KMI-30 Index and DJIM-World Index in a proportion of 70% and 30% respectively.

Investment 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.

Investment Strategy

Pakistan International Element Islamic Asset Allocation 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 allocation towards different asset classes. The investment process is driven by fundamental research. The domestic portfolio of the Fund primarily invests in fundamentally strong Shariah compliant equities, high quality Sukuks and other Shariah compliant instruments. For equities, 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.

Manager's Review

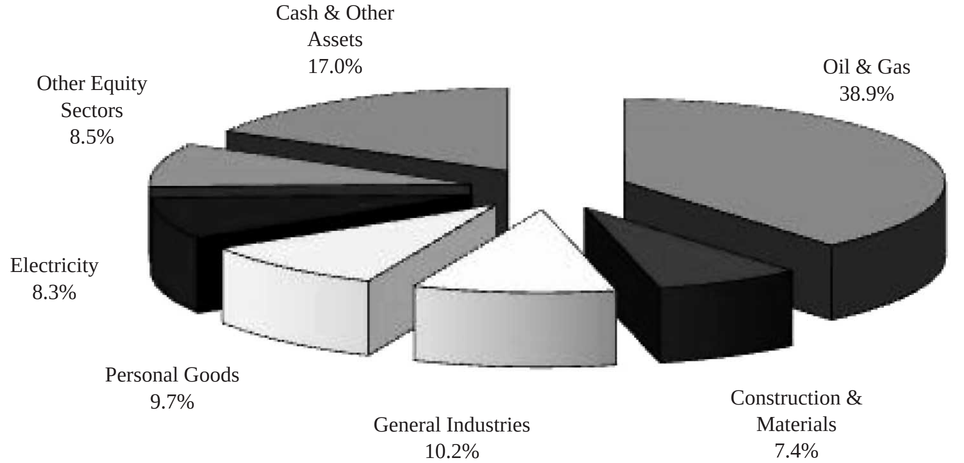
During the year under review, the NAV per unit of PIIF has increased by 15.1% as compared to the benchmark Index return of 40.6%, resulting in an under performance of 25.5% by the fund.

The fund started the year with an equity allocation of 78% which was gradually reduced and average allocation for the first half of the year was remained around 73%. Fund's return during the first half was 16.4% against the benchmark's return of 29.3%, an under-performance of 12.9%. Average equity allocation of the fund during the second half was around 86.7% with exposure was mainly taken towards defensive stocks.

The fund increased its allocation during the period under review in PSO, POL, NML, HUBCO, LUCK and FFC on the back of strong financial fundamentals while reduced its allocation in PPL, PKGS, AGIL, ICI, PTC, FFBL, and SEARL. The overall fund increased its equity allocation from 78% to 81% during the year.

Since inception return of the fund was 26.1%. The fund's Net Assets reduced from PKR 410 Million at the beginning of the year to PKR 337 Million as on June 30, 2011.
On the fixed income side, the fund's exposure towards corporate Sukuks was reduced from 2.3% last year to 1.6% by the end of June 2011, while the exposure towards cash and bank deposits remained largely unchanged at around 14.5% by year-end.

Asset Allocation as on June 30, 2011 (% of total assets)



Mr. Kashif Rafi
Fund Manager

Karachi: September 20, 2011

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)

TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011

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 Asset Allocation 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, 2011 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: October 26, 2011

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
REPORT OF THE SHARIAH ADVISORY COUNCIL
FOR THE YEAR ENDED JUNE 30, 2011

Alhamdulillah, the year under review was the fifth full year of operations of Pakistan International Element Islamic Asset Allocation Fund (formerly 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 2011, 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 2011 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 0.317 million was transferred to the charity account. The total amount of charity payable as of 30th June 2011 is Rs 0.317 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: September 27, 2011

Dr Ejaz Samadani
Shariah Advisor

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of **Pakistan International Element Islamic Asset Allocation Fund** ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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 on its Board of Directors. At present the Board includes three independent non-executive directors out of a total strength of eight directors.

2. The directors 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. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company, on the same day due to merger as fully explained in note 1 to the financial statements.

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

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

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive (CE) has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.

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 Company has planned to conduct an orientation course for its directors, in the near future to appraise 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 CEO 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 Management Company. It comprises of four members, out of which two are non-executive directors.

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 Company has an effective internal audit function which was headed by the Head of Internal Audit who resigned on amalgamation. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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 shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by 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.

For and on behalf of the board

Yasir Qadri
Chief Executive

Karachi: September 20, 2011

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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

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

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

Further, sub-regulation (xiii-a) of Listing Regulations 35 notified by the Exchanges of Pakistan 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 under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2011.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi
Dated: September 20, 2011

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Pakistan International Element Islamic Asset Allocation Fund** *(Formerly Pakistan International Element Islamic Fund) ("the Fund")*, which comprise the statement of assets and liabilities as at 30 June, 2011, and the income statement, statement of comprehensive income, distribution statement, statement of cash flow, statement of movement in unit holders' fund for the year ended 30 June 2011 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan, and for such internal control as Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's the affairs as at 30 June 2011, and of its financial performance, cash flows and transactions for the year ended 30 June 2011, in accordance with the approved accounting standards as applicable in Pakistan.

Emphasis of matter

We draw attention to note 13 to the financial statements relating to provision for Worker's Welfare Fund, (WWF) which refers to the pending outcome of litigation regarding contribution of WWF in Honourable Sindh High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 2.58 million is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

Other matters

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

Dated: September 20, 2011	**KPMG Taseer Hadi & Co.**
Karachi	**Chartered Accountants**

FINANCIAL STATEMENTS

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2011

	Note	2011	2010
		(Rupees in '000)	
Assets			
Bank balances	4	**49,430**	58,094
Receivable against sale of investments		**-**	21,264
Receivable against sale of units		**2,323**	1,077
Investments	5	**283,387**	327,737
Dividend and profit receivable	6	**2,125**	2,828
Advances, deposits, prepayments and other receivables	7	**3,198**	3,198
Preliminary expenses and floatation costs	8	**-**	1,370
Total assets		**340,463**	415,568
Liabilities			
Payable to Management Company	9	**534**	874
Payable to Central Depository Company of Pakistan Limited - Trustee	10	**58**	69
Payable to Securities and Exchange Commission of Pakistan - Annual fee	11	**373**	522
Payable against purchase of investments		**-**	2,070
Payable on redemption of units		**881**	27
Accrued expenses and other liabilities	12	**1,404**	1,591
Total liabilities		**3,250**	5,153
Contingencies			
Net assets		**337,213**	410,415
Unit holders' fund (as per statement attached)		**337,213**	410,415
		(Number of Units)	
Number of units in issue (face value of units is Rs. 50 each)		**7,713,855**	9,101,281
		(Rupees)	
Net asset value per unit		**43.72**	45.09

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive | Director

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011

	Note	30 June, 2011	30 June, 2010
		(Rupees in '000)	
Income			
Gain on sale of investments - net		**33,350**	78,259
Exchange gain realised on sale of foreign investments		**-**	7,618
Profit on saving bank deposits		**4,341**	4,937
Dividend income		**21,429**	20,214
Income from investment in sukuk bonds		**1,580**	3,349
Income from investment in ijarah finance		**1,584**	-
Unrealised appreciation / (diminution) in the value of investments - net	5.3	**12,826**	(33,075)
Total income		**75,110**	81,302
Expenses			
Remuneration of Management Company	9	**10,841**	15,197
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10	**786**	1,098
Annual fee - Securities and Exchange Commission of Pakistan	11	**373**	522
Securities transaction cost		**1,098**	1,710
Settlement and bank charges		**218**	1,400
Fees and subscriptions		**248**	148
Auditors' remuneration	15	**383**	517
Printing and related cost		**214**	198
Professional charges		**52**	103
Amortisation of preliminary expenses and floatation costs	8	**1,370**	1,650
Other expenses		**56**	-
Total expenses		**15,639**	22,543
Net income from operating activities		**59,471**	58,759
Net element of income and capital gains included in prices of units issued less those in units redeemed		**1,205**	9,386
Net income carried forward for distribution		**60,676**	68,145

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive   Director

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2011

	30 June, 2011	30 June, 2010
	(Rupees in '000)	
Net income for the year	**60,676**	68,145
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**60,676**	68,145

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive Director

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011

	30 June, 2011	**30 June, 2010**
	(Rupees in '000)	
Undistributed (loss) / income brought forward		
- Unrealised losses on remeasurement of investment	**(61,445)**	(112,594)
- Realised gains / (losses)	**16,794**	(202)
	(44,651)	(112,796)
Final distribution (2010: Rs. 7.10 per unit (2009: Rs. Nil per unit))		
- Bonus units	**(50,259)**	-
- Cash distribution	**(14,360)**	-
Comprehensive income for the year	**60,676**	68,145
	(3,943)	68,145
Undistributed loss carried forward	**(48,594)**	(44,651)
Undistributed loss carried forward		
- Unrealised losses on remeasurement of investment	**(4,767)**	(61,445)
- Realised (losses) / gains	**(43,827)**	16,794
	(48,594)	(44,651)

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive Director

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2011

	30 June, 2011	30 June, 2010
	(Rupees in '000)	
Net assets at the beginning of the year	**410,415**	606,589
Issue of 1,679,344 units (2010: 1,495,968 units)	**71,751**	68,464
Redemption of 4,389,713 units (2010: 6,792,635 units)	**(190,064)**	(323,397)
	(118,313)	(254,933)
Final distribution (2010: Rs. 7.10 per unit (2009: Rs. Nil per unit))		
- Bonus units	**(50,259)**	-
- Cash distribution	**(14,360)**	-
	(64,619)	-
Issue of 1,322,943 bonus units for the year ended 30 June 2010 (2009: Nil units)	**50,259**	-
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed		
- transferred to income statement	**(1,205)**	(9,386)
Capital gain on sale of investments (excluding exchange gain)	**33,350**	78,259
Net unrealised diminution on investments - net	**12,826**	(33,075)
Exchange gain realised on sale of foreign investments	**-**	7,618
Other net income for the year	**14,500**	15,343
	60,676	68,145
Net assets as at the end of the year	**337,213**	410,415
	(Rupees)	
Net asset value per unit at the beginning of the year	**45.09**	42.16
Net asset value per unit at the end of the year	**43.72**	45.09

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive Director

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	Note	30 June, 2011	30 June, 2010
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		**60,676**	68,145
Adjustments for:			
Dividend income		**(21,429)**	(20,214)
Unrealised diminution in the value of investments		**(12,826)**	33,075
Amount of additional units issued to class 'C' and 'D' unit holders against the amount of rebate in management fee		**1,357**	1,804
Amortisation of preliminary expenses and floatation costs		**1,370**	1,650
Net element of income and capital gains included in prices of units issued less those in units redeemed		**(1,205)**	(9,386)
		27,943	75,074
(Increase) / decrease in assets			
Receivable against sale of units		**(1,246)**	3,181
Receivable against sale of investments		**21,264**	(21,264)
Receivable against redeemption of investments		**-**	-
Investments		**57,176**	189,712
Profit receivable		**(75)**	1,861
Advances, deposits, prepayments and other receivables		**-**	248
		77,119	173,738
(Decrease) / increase in liabilities			
Payable to Management Company		**(340)**	(342)
Payable to Central Depository Company of Pakistan Limited - Trustee		**(11)**	(30)
Payable to Securities and Exchange Commission of Pakistan - Annual fee		**(149)**	(115)
Payable against purchase of investments		**(2,070)**	(23,958)
Payable against redemption of units		**854**	(1,126)
Accrued expenses and other liabilities		**(187)**	381
		(1,903)	(25,190)
Dividend received		**22,207**	22,163
Net cash from operating activities		**125,366**	245,785
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(14,360)**	-
Net payments against sales / redemption of units		**(119,670)**	(256,737)
Net cash used in financing activities		**(134,030)**	(256,737)
Net decrease in cash and cash equivalents during the year		**(8,664)**	(10,952)
Cash and cash equivalents at the beginning of the year	4	**58,094**	69,046
Cash and cash equivalents at the end of the year		**49,430**	58,094

The annexed notes 1 to 25 form an integral part of these financial statements.

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive　　　　　　　　Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Asset Allocation Fund (formerly 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 name of the Fund was changed via fourth supplemental Trust Deed dated 11 May 2011 and it was categorized as Shariah Compliant Asset Allocation Scheme.

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 Management Company has been shifted to 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies have merged as of 27th June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated June 10, 2011). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank. However subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to 30th July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated June 27, 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable Sindh High Court (SHC). The honourable Sindh High Court (SHC) has held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

All the activities of the Fund are undertaken in accordance with the Islamic Shariah rules and principles. The management company has appointed a Shariah Supervisory Council whose advice is followed to ensure that activities of the Fund are in compliance with Shariah.

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 and 3 star/2 star rating to the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, requirements of Trust Deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC rules and regulations). In case, the requirements differ, the provisions or directives of the Companies Ordinance, 1984, the requirements of the Trust Deed and Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments are measured 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. All financial information presented in Pak Rupees has been rounded off to the 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.

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

— Classification and valuation of investments (Note 3.1, 3.11 and 20)
— Workers welfare fund liability (Note 13)
— Taxation (Note 3.8)
— Other assets - Judgment is involved in assessing the realisability of other assets balances.

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

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below:

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

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

— Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). These amendments add an explicit statement that qualitative disclosure should be made in the contact of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

— Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011) These amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

Apart from above certain other standards, amendments to published standards and interpretations of accounting standards became effective for accounting periods beginning on or after 1 January 2011, however, they do not affect the Fund's financial statements.

2.6 Changes in accounting policies

There were no changes in accounting policies of the Fund during the year.

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 upon initial recognition 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.

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 cost (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.

Basis of valuation of equity securities

The fair value of quoted equity securities is based on their price quoted on the Karachi Stock Exchange at the balance sheet date.

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.

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.

Derivatives Financial Instruments

These are measured at fair value. The fair value of a derivative is based on quoted bid price of Stock Exchange ruling at the balance sheet date. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the balance sheet. The resultant gains and losses are included in the income currently. Gain or loss on remeasurement of value of derivative financial instrument is recognised in income statement.

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 (if any), 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 is recognised in the unit holders' fund account.

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. Provision are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

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 approved by the Securities and Exchange Commission of Pakistan.

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 90% of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

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. (subject to para 3.4)

— Dividend income is recognised when the right to receive the dividend is established.

3,11 Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. This objective evidence of impairment is determined in accordance with the provisioning criteria for non performing debt securities specified by the Securities and Exchange Commission of Pakistan (SECP) vide its circular no. 1 of 2009 dated 06 January 2009, circular no.3 of 2010 dated 20 January 2010 and the provisioning criteria / policy for non performing exposures approved by the Board of Directors of the management company in accordance with the requirements of SECP vide its Circular no. 13 of 2009 dated 4 May 2009. Amount of impairment is the higher of the amount determined under the above provisioning criteria.

The Fund's policy for provision against impaired debt securities essentially is the same as prescribed by the Securities and Exchange Commission of Pakistan (SECP). However in respect of Pre-IPO investments and the advances, it shall follow the time bands prescribed by the SECP for provision against impaired debt securities and the investment committee shall also consider additional provision keeping in view the information available of the borrower relating the financial statements, periodic announcements, etc.

In respect of other financial assets, at each balance sheet date an assessment is carried out to determine whether there is any objective evidence of impairment. The Financial assets are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the income statement currently.

3.12 Expenses

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

3.13 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of balances with the banks and deposits with bank having original maturities of three months or less.

3.14 Dividend (including bonus units)

Dividend (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which they are approved.

3.15 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 the income statement.

3.16 Other assets

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

4. BANK BALANCES

	Note	2011	2010
		(Rupees in ‘000)	
Current accounts		**1,697**	8,673
Deposit accounts	4.1	**47,733**	49,421
		49,430	58,094

4.1 These balances in saving bank deposit accounts maintained with various banks carrying profit rates ranging from 5% to 10.75% (2010:5.65% to 10.75%) per annum.

5.

INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS' (held for trading)

	Note	2011	2010
Investment in shares listed in Pakistan	5.1	**277,028**	318,378
Investment in unlisted Sukuk bond	5.2	**6,359**	9,359
		283,387	327,737

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
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5.1 Investment in shares listed in Pakistan

Name of the Investee company	As at 1 July 2010	Purchases during the year	Bonus / Right Issue	Sales during the year	As at 30 June 2011	Balance as at 30 June 2011			Market value as percentage of net assets	Market value as percentage of investments	Par value as percentage of issued capital of the investee company
						Cost	Carrying / Market value	(Diminution) / Appreciation			
	(------------------Number of certificates	------------------)				------(Rupees in ‘000)------					
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise											
Oil and Gas (note 5.1.2)											
Pakistan Oilfields Limited	219,163	-	-	76,152	143,011	31,011	51,342	20,331	15.23%	18.12%	0.06%
Pakistan Petroleum Limited	162,175	89,000	41,295	98,106	194,364	31,247	40,247	9,000	11.94%	14.20%	0.02%
Pakistan State Oil Company Limited	-	188,000	-	33,921	154,079	43,431	40,766	(2,665)	12.09%	14.39%	0.09%
						105,689	**132,355**	**26,666**	**39.25%**	**46.70%**	
Chemicals											
Fauji Fertilizer Company Limited	240,203	-	23,006	195,679	67,530	4,898	10,153	5,255	3.01%	3.58%	0.00%
Fauji Fertilizer Bin Qasim Limited	772,868	-	-	772,868	-	-	-	-	-	-	-
ICI Pakistan Limited	255,915	80,000	-	335,915	-	-	-	-	-	-	-
Sitara Chemical Industries Limited	59,508	-	2,975	-	62,483	10,528	6,236	(4,291)	1.85%	2.20%	0.31%
						15,426	**16,389**	**963**	**4.86%**	**5.78%**	
General Industrials											
Thal Limited	70,128	-	-	70,128	-	-	-	-	-	-	-
Packages Limited	414,989	-	-	100,915	314,074	51,320	34,548	(16,772)	10.25%	12.19%	0.37%
						51,320	**34,548**	**(16,772)**	**10.25%**	**12.19%**	
Household Goods											
Pakistan Elektron Limited	851,992	779,889	-	546,870	1,085,011	17,881	7,194	(10,687)	2.13%	2.54%	0.92%
						17,881	**7,194**	**(10,687)**	**2.13%**	**2.54%**	
Automobile and Parts											
Al Ghazi Tractors	-	32,001	-	32,001	-	-	-	-	-	-	-
Pak suzuki Motor Company Limited	148,365	-	-	148,365	-	-	-	-	-	-	-
Agri Auto Industries	191,227	-	-	191,227	-	-	-	-	-	-	-
						-	**-**	**-**	**-**	**-**	

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
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Name of the Investee company	As at 1 July 2010	Purchases during the year	Bonus / Right Issue	Sales during the year	As at 30 June 2011	Balance as at 30 June 2011			Market value as percentage of net assets	Market value as percentage of investments	Par value as percentage of issued capital of the investee company
						Cost	Carrying / Market value	(Diminution) / Appreciation			
	(------------------Number of certificates------------------)					------(Rupees in '000)------					
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise											
Pharma and Bio Tech											
Searl Pakistan Limited	288,487	91,296	-	379,783	-	-	-	-	-	-	-
						-	-	-	-	-	
Personal Goods											
Nishat Mills Limited	-	775,000	-	117,660	657,340	43,065	33,091	(9,975)	9.81%	11.68%	0.56%
						43,065	**33,091**	**(9,975)**	**9.81%**	**11.68%**	
Electricity											
Hub Power Company Limited	753,419	-	-	-	753,419	23,763	28,253	4,490	8.38%	9.97%	0.07%
						23,763	**28,253**	**4,490**	**8.38%**	**9.97%**	
Fixed Line Telecommunications											
Pakistan telecommunication Company Limited "A"	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
						-	-	-	-	-	
Construction and Materials											
Lucky Cement Limited	-	355,700	-	-	355,700	25,096	25,198	102	7.47%	8.89%	0.11%
						25,096	**25,198**	**102**	**7.47%**	**8.89%**	
Banks											
Meezan Bank Limited	646,331	-	-	646,331	-	-	-	-	-	-	-
						-	-	-	-	-	
TOTAL						**282,240**	**277,028**	**(5,212)**	**82.15%**	**97.76%**	

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
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5.1.1 Investments includes shares with market value of Rs. 22,991,250 (30 June 2010: Rs. 28,264,540) 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.

5.1.2 Up to 30 June 2011, the Fund's investment in the Oil and Gas sector was 39.25% of the net assets of the Fund. As per the NBFC Regulations 2008, the Fund is permitted to invest upto 35% in a KSE index sector, which however can be regularised within 90 days. Subsequent to th year end, the Fund's investment was within the limit.

Name of the Investee company	Profit Rate %	As at 1 July 2010	Purchases during the year	Sales during the year	As at 30 June 2011	Balance as at 30 June 2011			Market value as percentage of net assets	Market value as percentage of investments	Outstandin principal value as a percentage of issued debt capital
						Cost	Carrying / Market value	(Diminution) / Appreciation			
		(------------------Number of certificates------------------)				------(Rupees in '000)------					
Pak Elektron Limited											
(28 September 2007) (a)	15.26	3,000	-	-	3,000	5,914	6,359	445	1.89%	2.24%	1.25%
Ijarah Sukuk - V											
(of Government of Pakistan)	-	-	12,000	12,000	-	-	-	-	-	-	-
Total						**5,914**	**6,359**	**445**			

(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 and have been rated as A+. Trade rate of this instrument is quoted by MUFAP.

Coupon payment due on 28 June 2011, (comprising the principal of Rs. 1,071,420 and mark-up of Rs. 247,266) was not received on the due date. As per the requirements of the Circular 1 of 2009 of SECP, the accrual of mark up with effect from 28 June 2011 was suspended. Subsequent to the year end, the issuer paid the amount of interest due up to 28 June 2011 and the TFC payment structure was re scheduled, under which, the principal repayments will be due from June 2013 onwards, however, profit payments shall be made on quarterly basis.

5.3 Unrealised diminution in the value of investments - net (investments given in note 5.1 and 5.2)

		30 June 2011	30 June 2010
		(Rupees in '000)	
Market value of investments		**283,387**	327,737
Less: Cost of investments		**(288,154)**	(389,182)
		(4,767)	(61,445)
Net unrealised diminution in the value of investment at the end of last year		**61,445**	112,594
Realised on disposal during the year		**(43,852)**	(84,224)
		17,593	28,370
Net unrealised diminution in the value of investment for the year		**12,826**	(33,075)

6. DIVIDEND AND PROFIT RECEIVABLE

Dividend receivable		**972**	1,750
Profit receivable on deposit accounts with banks		**906**	1,067
Income receivable on Sukuk bonds		**247**	11
		2,125	2,828

7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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
		3,198	3,198

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

Opening balance		**1,370**	3,020
Amortisation during the year		**(1,370)**	(1,650)
Closing balance		**-**	1,370

9. PAYABLE TO MANAGEMENT COMPANY

Management fee	9.1	**503**	861
Front end load		**31**	13
		534	874

9.1 For class A and class B units, management fee is calculated at 2% (3% up to 29 April 2011) 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 at 1.33% (2% up to 29 April 2011) 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. (Refer note 14.1 also).

For units which were originally issued to the core investors, management fee is calculated at 1% (1.5% up to 29 April 2011) 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 monthly paid to the Management Company in arrears. The rates of management fees were revised during the year on completion of five year of the Fund on 29 April 2011.

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

		30 June 2011	30 June 2010
		(Rupees in '000)	
Remuneration payable	10.1	**58**	68
CDS charges payable		**-**	1
		58	69

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 2011 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

This represents annual fee payable to SECP in accordance with the NBFC Regulations, whereby the Fund is required to pay SECP fee at the rate of 0.095% of the average daily net assets of the fund in accordance with regulation 62 of NBFC Regulations, 2008.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

		30 June 2011	30 June 2010
		(Rupees in '000)	
Auditors' remuneration		**355**	455
Brokerage		**16**	105
Payable to Pakistan Income Fund		**-**	5
Payable to Pakistan Income Enhancement Fund		**-**	5
Zakat payable		**159**	8
Charity / donation payable	12.1	**317**	527
Capital gain tax payable		**106**	-
Credit rating fee		**100**	100
Professional services charges		**125**	140
Printing and related cost		**211**	227
Other payables		**15**	19
		1,404	1,591

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

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 honourable 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 (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law ibid."

There have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds for the recovery of WWF. On December 14, 2010, the Ministry filed its response contesting the said petition. The legal proceedings in respect of the aforementioned petition are currently in progress.

Based on the advice of the legal counsel handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence no provision of Rs. 2.58 million (Rs 0.33 per unit) has been made in respect of WWF.

Recently, the Lahore High Court in a petition filed by an industrial establishment has declared the amendment introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as unconstitutional and have therefore stroke them down. The Management Company is evaluating the implications of the above developments.

14. MANAGEMENT FEE

		30 June 2011	30 June 2010
		(Rupees in '000)	
Management fee		**9,484**	13,393
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	15.1	**1,357**	1,804
		10,841	15,197

14.1 The Management Company has announced different units (C and D class units) to which reduced levels of management fee are applicable. This reduction in management fee is passed on to such unit holders under a specific mechanism set out in the Trust Deed. In this connection, the amount of reduction in management fee is deemed to be reinvested in the Fund on behalf of eligible unit holders and additional units (at the prevailing NAV of the Fund) are issued by the Trustee to such unit holders on a daily basis. Consequently, under the mechanism, 32,441 additional units (30 June 2010: 37,685) amounting to Rs.1.357 million (30 June 2010: Rs 1.804 million) have been issued to these unit holders by the Trustee during the current year.

15. AUDITORS' REMUNERATION

	30 June 2011	30 June 2010
	(Rupees in '000)	
Annual audit fee	**210**	240
Half yearly review fee	**100**	100
Other certifications and services	**45**	150
Out of pocket expenses	**28**	27
	383	517

16. PATTERN OF UNIT HOLDING

	As at 30 June 2011		
	Number of Unit Holders	Investment amount	Percentage of investment
	--------------(Rupees in '000)--------------		
Individuals	**2,050**	**179,914**	**53.35%**
Insurance companies	**1**	**1,757**	**0.52%**
Directors	**-**	**-**	**-**
Banks / DFIs	**1**	**87,703**	**26.01%**
NBFCs	**-**	**-**	**0.00%**
Retirement funds	**20**	**38,606**	**11.45%**
Public limited companies	**1**	**1**	**0.00%**
Others	**7**	**29,232**	**8.67%**
	2,080	**337,213**	**100%**

	As at 30 June 2010		
	Number of Unit Holders	Investment amount	Percentage of investment
	--------------(Rupees in '000)--------------		
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%

17. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the period to the unit holders in the manner explained above, no provision for taxation has been made in these financial statements.

18. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertaking and investors holding 10% or more of units of the Fund.

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. Transactions with connected persons are in the normal course of business and at contracted rates.

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:

18.1 Transactions during the year with connected persons / related parties

	Note	30 June 2011	30 June 2010
		(Rupees in '000)	
Arif Habib Investments Limited - Management Company			
Remuneration for the year		**10,841**	15,197
Front end load for the year		**211**	120
Back end load for the year		**-**	9
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	18.3	**171**	235
Central Depository Company Limited - Trustee			
Remuneration for the year		**786**	1,098
CDS charges		**88**	94

18.2 Amounts outstanding as at the year end with connected persons / related parties:

	30 June 2011	30 June 2010
Arif Habib Investments Limited - Management Company		
Remuneration payable	**503**	861
Front end load payable	**31**	13
Summit Bank Limited (formerly Arif Habib Bank Limited)		
Balances as at the year end	**1,531**	7,683
Central Depository Company Limited - Trustee		
Security deposit	**200**	200
Remuneration payable	**58**	68
Other charges	**15**	1
Other funds managed by Arif Habib Investments Limited		
Payable to Pakistan Income Enhancement Fund	**-**	5
Payable to Pakistan Income Fund	**-**	5

	30 June 2011		30 June 2010	
Units sold to:	Units	(Rupees in '000)	Units	(Rupees in '000)
Directors and officers	**48,005**	**2,090**	120,505	5,613
Units redeemed by:				
Arif Habib Investments Limited - - Management Company	**-**	**-**	2,431	111
Directors and officers	**137,162**	**6,055**	132,006	6,161
Arif Habib Investments Limited - Employees provident Fund	**-**	**-**	68,671	3,339
Bank of Punjab More than 10% unit holder	**415,769**	**17,956**	63,693	3,017,137

	30 June 2011		30 June 2010	
	Units	**(Rupees in '000)**	**Units**	**(Rupees in '000)**
Bonus units distributed to:				
Arif Habib Investments Limited -				
- Management Company	-	-	-	-
Bank of Punjab				
- More than 10% unit holder	**378,007**	**14,360**	-	-
Directors and officers	**22,853**	**868**	-	-

	30 June 2011	30 June 2010
	---------(Units)---------	
Units held by:		
Arif Habib Investments Limited - Management Company	-	-
Arif Habib Investments Limited - Employees Provident Fund	-	-
Directors and officers	**55,977**	122,278
Bank of Punjab - more than 10% unit holder	**2,006,229**	2,022,604

18.3 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.

19. 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

19.1 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 SECP has also approved 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 was not exposed to currency risk.

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 was as follows:

		Carrying Amount	
		30 June 2011	**30 June 2010**
		(Rupees in '000)	
Fixed rate instruments			
Financial assets		-	-
Variable rate instruments			
Financial assets	4 & 5.3	**54,092**	**58,780**

None of the financial liabilities carry any interest rate. In addition, none of the other financial assets bear variable interest rate.

a) **Sensitivity analysis for fixed rate instruments**

None of the fixed rate instruments are carried at fair value. Therefore a change in the interest rate at the reporting date would not effect the income statement and unit holder's fund.

b) **Sensitivity analysis for variable rate instruments**

Presently, the Fund holds KIBOR based mark-up 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 2011, with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs. 0.02 million (30 June 2010: Rs. 0.09 million). Besides above sukuk bonds, variable rate financial instruments represent bank balances carrying profit rates ranging between 5.52% to 10.75% per annum. These are withdrawable as demanded.

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 2011 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 based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments based on settlement date at the year end is as follows:

	Effective rate of mark-up / return (%)	30 June 2011			
		Exposed to yield / interest rate risk		Not exposed to interest rate risk	Total
		Up to three months	Above three months		
On-balance sheet financial instruments		---(Rupees in '000)---			
Financial assets					
Bank balances	**5.52 to 10.75**	**47,733**	-	**1,697**	**49,430**
Receivable against sale of units		-	-	**2,323**	**2,323**
Investments	**KIBOR +1.75**	**6,359**	-	**277,028**	**277,028**
Dividend and profit receivable		-	-	**2,125**	**2,125**
Deposits and other receivables		-	-	**2,700**	**2,700**
		54,092	-	**285,873**	**333,606**
Financial liabilities					
Payable to Management Company		-	-	**534**	**534**
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	**58**	**58**
Payable to SECP - Annual Fee		-	-	**373**	**373**
Payable against purchase of investments		-	-	-	-
Payable on redemption of units		-	-	**881**	**881**
Accrued expenses and other liabilities		-	-	**1,404**	**1,404**
		-	-	**3,250**	**3,250**
On-balance sheet gap		**54,092**	-	**282,623**	**330,356**
Off-balance sheet financial instruments		-	-	-	-
Off-balance sheet gap		-	-	-	-

	Effective rate of mark-up / return (%)	30 June 2010			
		Exposed to yield / interest rate risk		Not exposed to interest rate risk	Total
		Up to three months	Above three months		
On-balance sheet financial instruments		---(Rupees in '000)---			
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	**KIBOR +1.5**	-	-	1,077	1,077
Investments		9,359	-	318,378	318,378
Dividend and profit receivable		-	-	2,828	2,828
Deposits and other receivables		-	-	2,700	2,700
		58,780	-	354,920	404,341
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	399,188
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 lower of 15% of net assets value of Fund or issued capital of that investee company with overall limit of higher of 35% of net assets of Fund or index weight, subject to maximum of 40%, to a single industry sector. The Fund Manager also manages its exposure to price risk by reviewing portfolio allocation on a continuous 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 2010 : 5%) and decreased by 5% (30 June 2010 : 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.

At 30 June 2011, the fair value of equity securities exposed to price risk is disclosed in note 5.1.

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

	30 June 2011	**30 June 2010**
	(Rupees in '000)	
Effect on income statement, net assets attributable to unit holders and equity investments due to increase / decrease in the index	**15,536**	15,919

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.

19.2 ***Credit risk***

Credit risk management

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

Management of credit risk

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.

Exposure to credit risk

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk as at 30 June 2011 and 30 June 2010 is as follows:

	30 June 2011		30 June 2010	
	Statement of Asset and Liabilities	**Maximum Exposure**	**Statement of Asset and Liabilities**	**Maximum Exposure**
	----------------------------(Rupees in '000)----------------------------			
Bank balances (including profit receivable)	**50,336**	**50,336**	59,161	59,161
Investments (including profit receivable)	**283,387**	**6,359**	327,737	9,359
Receivable against sale of investments	-	-	21,264	21,264
Dividend receivable	**2,125**	**2,125**	2,828	2,828
Deposits	**2,700**	**2,700**	2,700	2,700
	338,548	**61,520**	413,690	95,312

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. 277.028 million (2010: Rs.318.378 million) is not exposed to credit risk.

None of the above financial assets were considered to be past due or impaired as on 30 June 2011 and 30 June 2010. However please see note 5.2 also.

Details of the credit ratings of Sukuk certificates, balances with banks, deposits and other receivables as at 30 June 2011 are as follows:

	30 June 2011	30 June 2010
Rating		
AA	**0.86%**	4.68%
A+	**10.60%**	9.93%
A	**2.69%**	8.25%
AA-	**27.93%**	21.42%
A-	**49.80%**	26.22%
Others	**8.12%**	29.50%
	100%	100%

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

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 2011		30 June 2010	
	(Rupees in '000)	**(Perentage)**	**(Rupees in '000)**	**(Perentage)**
Commercial banks	**50,336**	**81.82**	59,161	62.07
Household goods	**6,606**	**10.74**	9,370	9.83
Others	**4,578**	**7.44**	25,714	26.98
	61,520	**100**	95,312	98.880

Settlement risk

The Fund’s activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

19.3 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 the 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 2011	**Carrying value**	**Less than one months**	**One to three months**
	--------(Rupees in ‘000)--------		
Non-derivative liabilities			
Payable to Management Company	**534**	**534**	**-**
Payable to Central Depository Company of Pakistan Limited - CDC	**58**	**58**	**-**
Payable to SECP - Annual Fees	**373**	**-**	**373**
Payable on redemption of units	**881**	**881**	**-**
Accrued expenses and other liabilities	**1,404**	**1,404**	**-**
	3,250	**2,877**	**373**

30 June 2010	**Carrying value**	**Less than one months**	**One to three months**
	--------(Rupees in ‘000)--------		
Non-derivative liabilities			
Payable to Management Company	874	874	-
Payable to Central Depository Company of Pakistan Limited - CDC	69	69	-
Payable to SECP - Annual Fees	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	4,631	522

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.

19.4 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 behaviour. 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.

19.5 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.

20. 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:

Financial assets at fair value through profit or loss	30 June 2011			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Equity securities	**277,028**	**-**	**-**	**277,028**
Debt securities	**-**	**-**	**6,359**	**6,359**
	277,028	**-**	**6,359**	**283,387**

Financial assets at fair value through profit or loss	30 June 2010			
	Level 1	Level 2	Level 3	Total
	(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 2011	30 June 2010
	(Rupees in '000)	
Balance as at 1 July 2010	**9,359**	49,130
Total gains / (losses) recognized in profit or loss	**(862)**	642
Purchase during the period (at cost)	**60,000**	8,717
Redemption / sale during the period	**(62,138)**	(49,130)
Balance as at 30 June 2011	**6,359**	9,359

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

		30 June 2011 (Percentage)
1	Arif Habib Limited	**18**
2	Invest & Finance Securities Limited	**11**
3	BMA Capital Management Limited	**7**
4	KASB Securities Limited	**7**
5	Invisor Securities (Private) Limited	**6**
6	D.J.M Securities (Private) Limited	**5**
7	Topline Securities (Private) Limited	**5**
8	Cassim Investments (Private) Limited	**5**
9	Al Hoqani Securities (Private) Limited	**4**
10	Foundation Securities (Private) Limited	**4**
		73

		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

22. PARTICULARS OF MEMBERS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of investment committee of the fund upto 27 June 2011 are as follows:

	Name	Designation	Qualification	Experience in years
1	Mr. Basharat Ullah	Chief Investment Officer	MBA	18
2	Mr. Zeeshan	Chief Financial Officer	ACA	8
3	Mr. Ahsan Mehanti	Director Wealth Management	CPA, ACA, ACMA	14
4	Mr. Muhammad Imran Khan	Head of Research	MBA	9
5	Mr. Zafar Rehman	Head of Debt and Money Market Funds	B.COM	19
6	Mr. Tariq Hashmi	Head of Marketing	MBA	19
7	Ms. Nazia Nauman	Head of Equity Funds	MBA / CFA	11

On 27 June 2011, owing to merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited, the Investment Committee has been reconstituted and recomposed effective from 11 July 2011 as follows:

	Name	Designation	Qualification	Experience in years
1	Mr. Yasir Qadri	Chief Executive Officer	MBA	**16**
2	Mr. Ahsan Mehanti	Director Wealth Management	CPA,ACA,ACMA	**14**
3	Mr. Kashif Rafi	Fund Manager	MBA, CFA (Level 1)	**10**
4	Mr. Muhammad Asim	Fund Manager	MBA & CFA	**8**
5	Mr. Syed Akbar Ali	Senior Research Analyst	MBA & CFA	**6**
6	Mr. Mohsin Pervez	Senior Research Analyst	MBA	**10**

22.1 Syed Akbar Ali is the Manager of the Fund. He is CFA Qualified. Other Funds being managed by the fund manager are as follows:

a) MCB Islamic Income Fund
b) Pakistan Stock Market Fund
c) Pakistan Islamic Pension Fund (Voluntary Pension Scheme)

Before the merger, Muhammed Imran Khan was the Manager of the Fund. He has obtained a Masters degree in Business Administration. Other Funds being managed by the fund manager were as follows:

a) Pakistan Pension Fund
b) Pakistan Islamic Pension Fund

During the period from 27 June 2011 to 11 July 2011, the earlier investment committee continued to operate.

23. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year; 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th & 88th Board meetings were held on 05 July 2010, 03 August 2010, 04 August 2010, 22 October 2010, 25 October 2010, 12 November 2010, 20 December 2010, 30 December 2010, 17 February 2011, 19 February 2011, 16 April 2011, 21 April 2011, 23 April 2011, 15 June 2011 & 27 June 2011 respectively.

Name of Director		Number of Meetings			
		Held	Attended	Leave Granted	Meeting not attended
1	Mr. Shafi Malik *	15	15	-	
2	Mr. Nasim Beg	15	15	-	
3	Mr. Muhammad Akmal Jameel *	15	15	-	
4	Mr. Muhammad Kashif *	15	11	4	74th, 77th, 87th and 88th meeting
5	Mr. Syed Ajaz Ahmed *	15	13	2	74th and 88th meeting
6	Mr. Sirajuddin Cassim *	15	4	11	74th to 83rd and 88th meeting
7	Mr. S. Gulrez Yazdani *	15	13	2	75th, and 76th meeting
8	Mr. Samad A Habib **	5	5	-	
9	Mr. Mian Mohammad Mansha ***	1	1	--	
10	Mr. Yasir Qadri ***	1	1	-	
11	Mr. Syed Salman Ali Shah ***	1	1	-	
12	Mr. Haroun Rashid ***	1	1	-	
13	Mr. Ahmed Jahangir ***	1	1	-	
14	Mr. Mirza Mahmood Ahmad ***	1	1	-	

* The above directors retired in the 88th meeting held on 27 June 2011.

** Mr. Samad A Habib was appointed as director during the year in the extraordinary general meeting held on 7 February 2011 and approved by SECP on 31 March 2011.

*** The above directors have been appointed in place of the retiring directors in the 88th meeting held on 27 June 2011.

24. NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on 04 July 2011 has approved a Rs 5.58 per unit distribution in respect for the year ended 30 June 2011 (30 June 2010: Rs. 7.10 per unit) amounting to Rs. 43.081 Million (30 June 2010: Rs 64.62 million) in total. Out of these Rs. 11.20 million (30 June 2010: Rs. 14.36 million) will be distributed as cash dividend and Rs. 31.881 million (30 June 2010: Rs. 50.26 million) as bonus units. The financial statements for the year ended 30 June 2011 include the effect of the appropriation for the year ended 30 June 2010.

25. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 20, 2011 by the Board of Directors of the Management Company.

For Arif Habib Investments Limited
(Mangement Company)

Chief Executive | Director

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2011

Catergory	No. of Unit Holders	Units
Associated Company, Undertakings, and Related Parties		
Arif Habib Investments Limited		
Summit Bank Limited	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	2	2,046,428
Trust	20	883,130
Corporate	1	21
Individuals	2,050	4,115,582
Others	7	668,694
	2,080	**7,713,855**

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)

PATTERN OF UNIT HOLDING (SIZE)
AS AT JUNE 30, 2011

No. of Unit Holders	Units Holdings	Total Units Held
1988	1 - 10000	2,150,709
83	10001 - 100000	1,935,073
8	100001 - 1000000	1,621,844
1	1000001 - onwards	2,006,229
2,080		**7,713,855**

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND
(FORMERLY PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND)
PERFORMANCE TABLE

Performance Information	2011	2010	2009	2008	2007	2006
	(Rupees in '000)					
Net Assets	337,213	410,415	606,589	984,083	1,072,531	1,378,168
Net Income / (loss)	60,676	68,145	(114,977)	32,760	227,664	(65,690)
Net Asset Value per Unit	43.72	45.09	42.16	51.86	58.89	47.73
Closing selling price per unit	44.61	46.01	43.02	54.02	60.40	48.95
Closing repurchase price per unit	43.72	45.09	42.16	51.86	58.89	47.73
	(Rupees)					
Highest selling price per unit	48.34	51.51	51.54	60.34	60.52	51.59
Lowest selling price per unit	38.37	44.24	30.49	48.69	46.22	44.25
Highest repurchase price per unit	47.37	50.48	49.48	58.83	59.01	50.30
Lowest repurchase price per unit	37.60	43.36	29.88	47.47	45.07	43.14
Dividend distribution - Final	5.58	7.10	-	1.75	8.75	-
Date of Distribution	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	-
	Percentage					
Total return of the Fund	15.08	6.95	(15.87)	3.43	23.40	(4.54)
Income Distribution	14.69	16.84	-	3.49	18.33	-
Capital growth	0.39	(9.89)	(15.87)	(0.06)	5.07	-
Average return of the fund						
One Year	15.08	6.95	(15.87)	3.43	23.40	(4.54)*
Two Year	23.08	(5.14)	(6.71)	12.96	14.98	-
Three Year (Since inception)	3.60	(2.37)	2.40	9.50	-	-

*Total return for the period (not CAGR)

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.