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FUND'S INFORMATION

Management Company	Arif Habib Investments Limited Arif Habib Centre, 23 T. Khan Road, Karachi-74000.	
Board of Directors of the Management Company	Mr. Muhammad Shafi Malik Mr. Nasim Beg Syed Ajaz Ahmed Mr. Sirajuddin Cassim Mr. Muhammad Akmal Jameel Mr. Muhammad Kashif Habib Mr. S. Gulrez Yazdani Mr. Samad A. Habib	Chairman Chief Executive Director Director Director Director Director Director (Subject to the approval of SECP)
Audit Committee	Mr. Muhammad Shafi Malik Syed Aj az Ahmed Mr. Muhammad Akmal Jameel Mr. Samad A. Habib	Chairman Member Member Director (Subject to the approval of SECP)
Company Secretary & CFO of the Management Company	Mr. Zeeshan	
Trustee	Central Depository Company of Pakistan Limited (CDC) CDC House, 99-B, S.M.C.H.S Main Shahrah-e-faisal, Karachi.	
Bankers	<ul style="list-style-type: none">• 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 Adviser	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	PACRA: 3 Star (Normal) PACRA: 2 Star (Long Term) PACKRA AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company	



REPORT OF THE FUND MANAGER FOR THE HALF YEAR ENDED 31 DECEMBER 2010

Fund Objective

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

Fund Profile

PIIF is an Open-End Fund, which seek to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic allocations towards different asset classes. The Board has approved the categorisation of the Fund as “Shariah Compliant Asset Allocation Scheme”.

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

Fund Performance during Quarter ended 31 December 2010

During quarter under review, PIIF NAV grew 13.82% as compared to its benchmark performance of 18.03%. The benchmark is the 70:30 weighted average combinations of KMI 30 and DJIM world respectively. Underperformance was contributed by the below par performance of few key holdings in domestic portfolio. Among major holdings POL, PPL, ICI and Packages outperformed during the quarter while searle pharmaceuticals, PAEL, Hubco and PSO underperformed.

Month	Fund	Benchmark	KMI-30
Oct’10	3.04%	5.55%	6.58%
Nov’10	5.02%	5.09%	7.68%
Dec’10	5.18%	6.38%	5.96%

Asset allocation and activity during 2Q

Domestic Equity

Equity exposure in the fund was enhanced to 82% from 68.6% at the beginning of the quarter. Major activities of the fund are as follows.

- Fresh exposure was taken in PSO upto 9.0% of net assets after the reduction in turnover tax to 0.5% from 1.0%.
- Exposure in ICI was increased to 11.23% from 7.12% at the beginning on expectations of strong growth in PSF segment and overall company earnings in full year results.
- PAEL’s exposure was increased in the portfolio to 4.2% of net assets from 3.0%. The stock price had underperformed in the recent past and was trading at substantial discount to fair value and earnings multiple.
- Fund offloaded its holding entirely from Agri-autos (3.40% at beginning of the quarter). The decision was made due to negative outlook on automobile and parts industry.

By the quarter end, major equity holdings of the fund were in Oil & Gas (32.51%), Chemical (18.15%) and General Industries sector (12.4%). PE of the fund was 9.1x as compared to market PE of 11.34x.

Fixed Income

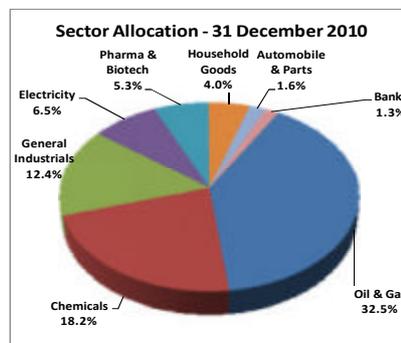
To diversify exposure, the fund added Government Ijara Sukuk (GIS), increasing its exposure to 15.63% from 2.63% a quarter earlier. GIS offers yield of 13.10%.

International Exposure

Due to the attractive opportunities available domestically, the fund did not invest in international markets. However, new avenues have been identified and as opportunity arises, the Fund assets may be invested international capital markets.

Top 10 holdings as on 31 December 2010

Pakistan Oilfields	12.8%
Packages Ltd.	12.4%
ICI Pakistan	11.3%
Pakistan Petroleum Ltd.	10.7%
Pakistan State Oil	9.0%
Hub Power Co.	6.5%
Searle Pakistan	5.3%
Pak Elektron	4.0%
Fauji Fertilizer Co.	2.7%
Fauji Fertilizer Bin Qasim	2.4%



Equity Market Review

The KMI30 index gained 21.61% in the second quarter of this fiscal year, with overall 30.86% gain in the first half ended December 2010. The rally in domestic equity market has coincided with strong gains in global equities and most importantly emerging market equities. The equities have defied the negative developments on the macroeconomic front with focus turning towards relatively attractive domestic equity valuations. Given the 50% average lower earnings multiples and higher dividend yields, foreigners have been aggressively bidding up the prices, by making net investments of USD 144 million in the second quarter compared to USD 106 million in the preceding quarter. Oil and gas sectors have been at the forefront of strong market performance, with all leading stocks in the exploration, refinery and oil marketing sub sectors showing strong gains. This sector outperformed amidst rising oil prices and better production prospects. Fertilizer stocks recorded strong gains amid expectations of improvement in manufacturers' margins and higher profits as fertilizer demand picked up following heavy floods in August. During the quarter, average daily turnover increased to 124 million compared to that of 62 million in the first quarter of FY11. Volumes have been gradually on the rise, with activity in the month of December picking up amid expectations of introduction of new margin trading system in the near future.

Economic review

1HFY11 continued to bring some key challenges for the restoration of a stable economy; continued rising government expenditure amid falling tax/GDP ratio and high inflation in a soaring interest rate scenario. SBP has responded by using a tight monetary policy, thus raising the discount rate by 150 bps to 14% in the last three consecutive Monetary Policy Statements (MPS).

Fiscal Side

Fiscal account figures released by the Finance Ministry for July – September 2010 posted a deficit of 1.6% (Rs 276 billion) of GDP against a full year target of 4.7%. Given the persistent high government borrowing due to shortfall in revenue collection and higher expenditures on account of floods and electricity sector subsidies, we could see fiscal deficit for FY11 crossing 6.5% of GDP. Tax collection figures for July – November, 2010 showed a growth of 8.8% to Rs 500.07 billion over the corresponding period of last year which is way below the revised target of Rs1604 billion for the full FY11. The delay in the implementation of RGST has reduced the prospects of meeting the revenue targets for the current fiscal year. Furthermore, government has been unable to pass on the rise in international oil prices due to political pressure, which has adversely affected the petroleum levy account of the government. According to some official sources, the subsidy elimination on power of 2% monthly has also been delayed for an indefinite period of time which will result in further slippage of an already fragile fiscal account.

Monetary Sector

Money supply (M2) for 1HFY11 has grown compared to the same period last year, but this expansion is majorly due to high government borrowing from the SBP. M2 expanded by Rs550 billion as compared to an increase of Rs300 billion in 1HFY10. Net Foreign Assets (NFA) of the banking system increased by Rs131 billion on the back of better external account position. Net Domestic Assets (NDA) also increased by Rs419 billion from July – December 2010 against an increase of Rs295 billion in the same period of



preceding year. This growth was merely due to elevated government borrowing which contributed Rs291 billion to NDA.

Inflation

CPI inflation, after starting off at 12.34%, climbed up to 15.46% YoY in December, 2010 due to high government borrowing and structural adjustments (subsidy elimination). The economy also witnessed serious supply side issues due to destruction of crop and infrastructure amid flood crisis. On the other hand Non-food Non-Energy (NFNE) inflation has been consistent at 9.5% which is 80 bps lower than what it was in July, 2010(10.3%). Going forward, inflation is expected to be persistent due to high government borrowing, elevated prices of agriculture commodities and higher international oil prices. With CPI inflation range of 15%-16% for FY 2011 along with higher fiscal deficit up to 6.5%, interest rates are expected to remain high and a possible further monetary tightening in the form of hike in the discount rate by 100 bps from the existing 14%.

Real Sector

Growth in large scale manufacturing sectors was negative 2.3% in the first five months of this fiscal year compared to the corresponding period of last year mainly due to devastating floods in August 2010. Cement production fell by 11.2%, followed by a negative 10.6% production in petroleum products, -10.1% in textile sector and lastly 5.0% contraction in fertilizer sector, while automobile sector enjoyed a positive growth of 12.9% along with Chemicals sector which produced 1.8% more over the same period of previous year. Overall domestic demand is likely to improve in the coming months due to two factors; first rehabilitation/reconstruction in flood affected areas and second, improvement in agriculture and rural income on account of expected higher wheat and other agriculture outputs/prices. However, prevailing inflationary pressures (15%+), higher interest rates (lending rates in excess of 16%) along with crippling electricity/gas shortages amid increasing tariffs are hurting the prospects of a significant rebound in manufacturing sector growth in the near future.

External Side

External side has seen marked improvement during the first half of this fiscal year, with current account position showing a surplus of US\$26 million (against a deficit of US\$2570 million in the same period last year) mainly on account of reduction in trade deficit and higher remittances. Exports have increased by 21% to US\$11.071 billion on the back of strong performance of textiles exports. At the same time, imports have increased by 20% to US\$19.149 billion mostly due to higher international oil prices. Estimates for total exports and remittances have been revised upward to US\$22 billion and US\$10 billion respectively for the fiscal year ending June 2011. Overall, Pakistan's foreign exchange reserves increased from US\$16.48 billion to US\$ 17.197 billion from July – January FY11. While external side is expected to be comfortable in the near term, Pakistan still requires to remain under the umbrella of IMF funding support given the weak fiscal position, declining direct foreign investments and vulnerability on account of high external debt.

IMF support and RGST implementation

IMF has stopped the disbursement of last two tranches of US\$3.4 billion as the Government of Pakistan reneged on its commitment to implement the reformed general sales tax amid strong opposition from the coalition partners of the government and opposition parties. Given the severity of fiscal situation, the government has no choice but to increase the tax revenue base and therefore, political consensus is likely to be achieved for the implementation of RGST not later than next annual budget of the government. Overall we expect that IMF will disburse the last tranches of the existing Standby arrangement (SBA) and Pakistan will negotiate for another SBA post FY 11.

Future outlook

At present local equities are trading at an average PE of 9.8x, lower than the emerging market PE that is in the range of 14.2x – 23.8x. Therefore, foreign liquidity driven rally may continue in the near future given the relatively lower valuations of Pakistani stocks in general. However, there are lingering serious macroeconomic concerns most particularly rising budget deficit, higher inflation/interest rates, electricity shortages and slow manufacturing sector growth. As a result, equity risk premium for Pakistani equities is expected to remain high compared to other emerging markets. Furthermore, interest rates are expected to increase further during the next quarter amid high inflation numbers, heavy government borrowing and fiscal imbalances.



TRUSTEE REPORT TO THE UNIT HOLDERS

Report of the Trustee pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

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

In our opinion, the Management Company has in all material respects managed the Fund during the six months period ended December 31, 2010 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the management company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

Muhammad Hanif Jakhura

Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: 23 February, 2011



INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION TO THE UNIT HOLDERS

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of Pakistan International Element Islamic Fund ("the Fund") as at 31 December 2010 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes to the condensed interim financial information for the six months period then ended (here-in-after referred to as the "interim financial information"). Management Company is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

Emphasis of matter

We draw attention to note 6 to the condensed interim financial information which describes the uncertainties relating to pending outcome of the litigation regarding contribution to Worker's Welfare Fund. In view of the matters more fully discussed in the above note, provision against WWF amounting to Rs. 2.42 million is not being maintained by the Fund. Our conclusion is not qualified in respect of this matter.

Other matters

The figures for the quarter ended 31 December 2010 in the condensed interim financial information have not been reviewed and we do not express a conclusion thereon.

Date: 19 February, 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES
AS AT 31 DECEMBER 2010**

	<i>Note</i>	31 December 2010 (Unaudited)	30 June 2010 (Audited)
(Rupees in '000)			
Assets			
Bank balances		8,438	58,094
Receivable against sale of investments		-	21,264
Receivable against sale of units		264	1,077
Investments	5	421,191	327,737
Dividend and profit receivable		2,002	2,828
Advances, deposits, prepayments and other receivables		3,271	3,198
Preliminary expenses and floatation costs		538	1,370
Total assets		435,704	415,568
Liabilities			
Payable to the Management Company		907	874
Payable to Central Depository Company - Trustee		72	69
Payable to Securities and Exchange Commission of Pakistan - Annual Fees		196	522
Payable against purchase of investments		2,124	2,070
Payable on redemption of units		-	27
Accrued expenses and other liabilities		1,134	1,591
Total liabilities		4,433	5,153
Contingencies and commitments	6		
Net assets		431,271	410,415
Unit holders' funds		431,271	410,415
(Number of units)			
Number of units in issue	7	9,751,172	9,101,281
(Rupees)			
Net asset value per unit		44.23	45.09

The annexed notes 1 to 11 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Note	Six months ended 31 December		Quarter ended 31 December	
		2010	2009	2010	2009
		(Rupees in '000)		(Rupees in '000)	
Income					
Capital gain on sale of investments - net		6,302	50,551	1,700	29,535
Exchange gain realised on sale of foreign investment		-	2,851	-	2,851
Profit on saving bank deposits		3,374	2,398	1,523	1,149
Dividend income		9,920	11,067	4,956	2,055
Income from investment in sukuk bonds		654	2,982	312	1,212
Income from government ijarah sukuk		1,013	-	1,013	-
Other income		206	-	103	-
Unrealised exchange gain / (loss) on foreign investment		-	3,003	-	(828)
Unrealised appreciation / (diminution) in the value of investments - net		50,077	28,918	47,898	(31,567)
Total income		71,546	101,770	57,505	4,407
Expenses					
Remuneration of the Management Company		5,983	8,554	3,015	4,092
Remuneration of Trustee		412	629	207	302
Annual fee - Securities and Exchange Commission of Pakistan		196	299	99	144
Securities transaction cost		460	812	215	477
Settlement and bank charges		110	563	53	479
Fees and subscriptions		124	125	87	63
Auditor's remuneration		262	265	141	122
Professional charges		25	50	11	25
Donation expense		56	-	-	-
Printing and related cost		101	84	43	26
Amortisation of preliminary expenses and floatation costs		832	832	416	416
Total expenses		8,561	12,213	4,287	6,146
Net income / (loss) from operating activities		62,985	89,557	53,218	(1,739)
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(10,111)	6,357	3,437	2,988
Net income carried forward for distribution		52,874	95,914	56,655	1,249
Earnings / (loss) per unit	8	-	-	-	-

The annexed notes 1 to 11 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	(Rupees in '000)		(Rupees in '000)	
Net income for the period	52,874	95,914	56,655	1,249
Other comprehensive income for the period	-	-	-	
Total Comprehensive income for the period	52,874	95,914	56,655	1,249

The annexed notes 1 to 11 form an integral part of these condensed interim financial statements.

For Arif Habib Investments Limited
(Management Company)

Chief Executive

Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	(Rupees in '000)		(Rupees in '000)	
Undistributed (loss) brought forward	(44,651)	(112,796)	(113,051)	(18,131)
Final distribution for the year ended.				
- Issue of 1,322,943 bonus units for the year ended 30 June 2010 @ Rs 7.10 per unit, 05 July 2010 (2009: Nil bonus units)	(50,259)	-	-	-
- Cash distribution	(14,360)	-	-	-
Comprehensive income for the period	52,874	95,914	56,655	1,249
	(11,745)	95,914	56,655	1,249
Unrealised losses carried forward	(56,396)	(16,882)	(56,396)	(16,882)

The annexed notes 1 to 11 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
(UNAUDITED)
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	<u>Six months</u> <u>ended 31 December</u>		<u>Quarter</u> <u>ended 31 December</u>	
	2010	2009	2010	2009
	(Rupees in '000)		(Rupees in '000)	
Net assets at the beginning of the period	410,415	606,589	393,972	642,830
Issue of 685,804 units (2009: 1,026,176 units) and 251,550 units (2009: 197,686 units) for the six months and quarter respectively	27,211	46,061	10,637	9,519
Redemption of 1,358,857 units (2009: 3,835,053 units) and 638,692 units (2009: 1,838,086 units) for the six months and quarter respectively	(54,980)	(180,153)	(26,556)	(88,556)
	(27,769)	(134,092)	(15,919)	(79,037)
Final distribution:				
- Issue of 1,322,943 bonus units for the year ended 30 June 2010 @ Rs 7.10 per unit, 05 July 2010 (2009: Nil 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	-	-	-
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to the income statement	10,111	(6,357)	(3,437)	(2,988)
Capital gain on sale of investments - net	6,302	50,551	1,700	29,535
Net unrealised diminution in the value of investments - net	50,077	28,918	47,898	(31,567)
Other net income for the period	(3,505)	16,445	7,057	3,281
	52,874	95,914	56,655	1,249
Net (loss) / income for the period less distributions	(11,745)	95,914	56,655	1,249
Net assets at the end of the period	431,271	562,054	431,271	562,054

The annexed notes 1 to 11 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE SIX MONTHS AND QUARTER ENDED 31 DECEMBER 2010**

	Six months ended		Quarter ended	
	31 December		31 December	
	2010	2009	2010	2009
	------(Rupees in '000)-----			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	52,874	95,914	56,655	1,249
Adjustments				
Dividend income	(9,920)	(11,067)	(4,956)	(2,055)
Unrealised exchange (loss) / gain on foreign investment	-	(3,003)	-	828
Unrealised diminution in the value of investments - net	(50,077)	(28,918)	(47,898)	31,567
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	798	959	413	464
Amortisation of preliminary expenses and floatation costs	832	832	416	416
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed	10,111	(6,357)	(3,437)	(2,988)
	4,618	48,360	1,193	29,481
(Increase) / decrease in assets				
Receivable against sale of units	813	4,124	(105)	216
Receivable against sale of investments	21,264	-	-	-
Investments - 'at fair value through profit or loss'	(43,377)	180,513	(94,640)	129,724
Profit receivable	(924)	1,997	(143)	643
Advances, deposits, prepayments and other receivables	(73)	175	37	81
	(22,297)	186,809	(94,850)	130,664
Increase / (decrease) in liabilities				
Payable to the Management Company	33	(908)	79	305
Payable to Central Depository Company of Pakistan Limited - Trustee	3	(3)	6	(13)
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(326)	(338)	99	144
Payable against purchase of investments	54	(13,462)	2,124	4,555
Payable on redemption of units	(27)	1,214	(1,128)	(271)
Accrued expenses and other liabilities	(457)	261	(158)	(26)
	(720)	(13,236)	1,023	4,694
Dividend received	11,670	13,640	9,279	6,744
Net cash (used in) / from operating activities	(6,729)	235,573	(83,355)	171,583
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid	(14,360)	-	-	-
Net (payments) against issuance / redemption of units	(28,567)	(135,051)	(16,334)	(79,501)
Net cash used in financing activities	(42,927)	(135,051)	(16,334)	(79,501)
Net (decrease) / increase in cash and cash equivalents during the period	(49,656)	100,522	(99,689)	92,082
Cash and cash equivalents at the beginning of the period	58,094	69,046	108,126	77,486
Cash and cash equivalents at the end of the period	8,438	169,568	8,438	169,568

The annexed notes 1 to 11 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited - AHIL 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 2003).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at Arif Habib Centre, 23 M.T. Khan Road, Karachi, Pakistan.

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

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

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2' (Positive Outlook) to the Management Company and '3 Star Normal' and '2 Star Long Term' rating to the Fund.

These condensed interim financial statements comprise of condensed interim statement of assets and liabilities as at 31 December 2010 and the related condensed interim income statement, condensed interim comprehensive income statement, condensed interim distribution statement, condensed interim movement in unit holders' funds, condensed interim statement of cash flows and notes thereto.

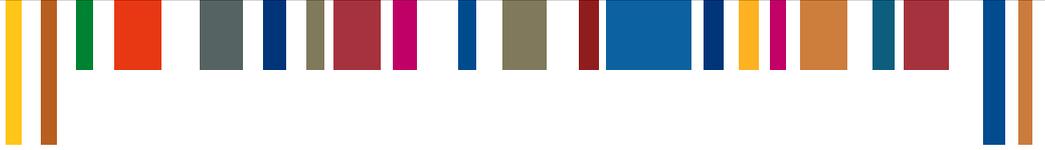
2. BASIS OF PRESENTATION

2.1 Statement of compliance

These condensed interim financial information have been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. The disclosures in the condensed interim financial information do not include the information reported for full annual financial statements and should therefore be read in conjunction with the financial statements for the year ended 30 June 2010.

These condensed interim financial information comprise of condensed interim statement of assets and liabilities as at 31 December 2010 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement, and notes thereto, for the six months period ended 31 December 2010.

These condensed interim financial information are being submitted to the unit holders as required under Regulation 38 (g) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). However, a limited scope review has been carried out by the auditors in accordance with the requirements of clause (xxi) of the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan.



2.2 Use of estimates and judgments

The preparation of condensed interim financial statements requires the Management Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by the Management in applying accounting policies and the key sources of estimating uncertainty were the same as those that applied to financial statements as at and for the year ended 30 June 2010.

2.3 Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed interim financial statements are same as those applied in the preparation of the financial statements of the Fund for the year ended 30 June 2010.

4. RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 30 June 2010.

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

		Unaudited 31 December 2010	Audited 30 June 2010
		(Rupees '000)	
Investment in shares listed in Pakistan	5.1	353,649	318,378
Investment in unlisted Sukuk bond	5.2	7,392	9,359
Investment in Government Ijarah Sukuk	5.3	60,150	-
		421,191	327,737

5.1 Investment in shares listed in Pakistan

Name of the Investee Company	Number of shares				Balance as at 31 December 2010			Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of investee	
	As at 1 July 2010	Purchases during the period	Bonus / Right issue	Sales during the period	As at 31 December 2010	Cost	Market Value				(Diminution) / Appreciation
(Rupees in '000)											
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise											
Oil and Gas											
Pakistan Oilfields Limited	219,163	-	-	33,200	185,963	40,325	55,038	14,713	12.76%	13.07%	0.08%
Pakistan State Oil	-	132,000	-	-	132,000	37,856	38,964	1,108	9.03%	9.25%	0.08%
Pakistan Petroleum Limited	162,175	89,000	41,295	79,700	212,770	34,206	46,203	11,997	10.71%	10.97%	0.02%
						112,387	140,205	27,818			
Chemicals											
Fauji Fertilizer Company Limited	240,203	-	-	148,179	92,024	8,344	11,582	3,238	2.69%	2.75%	0.01%
Fauji Fertilizer Bin Qasim Limited	722,868	-	-	435,996	286,872	8,925	10,250	1,325	2.38%	2.43%	0.03%
ICI Pakistan Limited	255,915	80,000	-	-	335,915	52,011	48,452	(3,559)	11.23%	11.50%	0.24%
Sitara Chemical Industries Limited	59,508	-	2,975	-	62,483	10,528	7,982	(2,546)	1.85%	1.90%	0.29%
						79,808	78,266	(1,542)			
General Industrials											
Packages Limited	414,989	-	-	-	414,989	67,809	53,372	(14,437)	12.38%	12.67%	0.49%
Thal Limited	70,128	-	-	70,128	-	-	-	-	-	-	-
						67,809	53,372	(14,437)			
Industrial Engineering											
Alghazi Tractors	-	32,001	-	32,001	-	-	-	-	-	-	-
						-	-	-			
Automobile and Parts											
Agrianto Industries	191,227	-	-	191,227	-	-	-	-	-	-	-
Pak Suzuki Motor Company Limited	148,365	-	-	50,000	98,365	22,755	6,868	(15,887)	1.59%	1.63%	0.12%
						22,755	6,868	(15,887)			
Household Goods											
Pakistan Elektron Limited	851,992	437,810	-	-	1,289,802	22,069	18,109	(3,960)	4.20%	4.30%	1.10%
						22,069	18,109	(3,960)			
Pharma and Bio Tech											
Searle Pakistan Limited	288,487	91,296	-	-	379,783	22,512	22,791	279	5.28%	5.41%	1.24%
						22,512	22,791	279			
Electricity											
Hub Power Company Limited	753,419	-	-	-	753,419	23,764	28,185	4,421	6.54%	6.69%	0.07%
						23,764	28,185	4,421			
Fixed Line Telecommunications											
Pakistan Telecommunication Company Limited "A"	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
						-	-	-			
Banks											
Meezan Bank	646,331	-	-	300,000	346,331	5,270	5,853	583	1.36%	1.39%	0.05%
						5,270	5,853	583			
TOTAL						356,374	353,649	(2,725)			

5.1.1 Investments includes shares with market value of Rs. 28,468,680 (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 No. 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

5.2 Investment in unlisted sukuk bonds in Pakistan

Name of the Investee Company	Profit rate %	Number of certificates				Balance as at 31 December 2010			Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued
		As at 1 July 2010	Purchases during the period	Sales during the period	As at 31 December 2010	Cost	Market value	Appreciation / (diminution)			
(Rupees in '000)											
Unlisted Sukuk bonds of Rs 5,000 unless stated otherwise											
Pak Elektron Limited (28 September 2007)	15.18	3,000	-	-	3,000	6,780	7,392	612	1.57%	1.76%	0.62%
Total						6,780	7,392	612			

5.3 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 quarterly with no floor or cap. These sukuk bonds are secured against floating charge on all of the issuer's present and future fixed assets.

Name of Investments	As at 1 July 2010	Purchases during the period	Sales during the period	As at 31 December 2010	Cost	Market Value	Appreciation /	Market value as percentage of
Government Ijarah Sukuk	-	12,000	-	12,000	60,000	60,150	150	13.91%
Total					60,000	60,150	150	
Grand total					423,154	421,191	(1,963)	

5.4 Unrealised diminution in the value of investments - net

	31 December 2010	30 June 2010
(Rupees in '000)		
Market value of investments	421,191	327,737
Less: Cost of investments	(423,154)	(389,182)
	(1,963)	(61,445)
Less: Unrealised diminution in the value of investment at fair value through profit or loss at the beginning of the period / year	61,445	112,594
Less: Realised on disposal during the period / year	(9,405)	(84,224)
	52,040	28,370
	50,077	(33,075)

6. CONTINGENCIES AND COMMITMENTS

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower (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 Re 0.26 per unit has been made in respect of WWF.

7. NUMBER OF UNITS IN ISSUE

	2010	2010
	(Number of Units)	

The units in issue in each class were as follows:

Classes	2010	2010
A & B	6,080,920	5,792,116
C & D	3,670,252	3,309,165
	<u>9,751,172</u>	<u>9,101,281</u>

8. EARNINGS / (LOSS) PER UNIT

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

9. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

Remuneration to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Rules 2003, NBFC Regulations 2008 and Trust Deed respectively. All other transactions with connected persons / related parties are in the normal course of business and are carried on agreed terms.

Details of the transactions with connected persons / related parties for the period ended 31 December 2010 and balances with them at the period end other than those disclosed elsewhere in the condensed interim financial statements are as follows:

9.1 Transactions during the period with connected persons / related parties:

	Six months ended 31 December		Quarter ended 31 December	
	2010	2009	2010	2009
	(Rupees in '000)		(Rupees in '000)	
Arif Habib Investments Limited - Management Company				
Remuneration for the period	<u>5,983</u>	<u>8,554</u>	<u>3,015</u>	<u>4,092</u>
Units redeemed - Nil units and Nil units for the six months and quarter ended 31 December 2010 respectively (2009: 2,431 units and Nil units)	<u>-</u>	<u>111</u>	<u>-</u>	<u>-</u>
Arif Habib Limited				
Brokerage for the period	<u>70</u>	<u>116</u>	<u>40</u>	<u>60</u>
Arif Habib Investments Limited - Employees Provident Fund				
Units issued - Nil units for the six months and quarter ended 31 December 2009 respectively (2009: 68,671 units)	<u>-</u>	<u>3,339</u>	<u>-</u>	<u>-</u>
Pakistan Income Fund (Managed by Arif Habib Investments Limited)				
Capital loss on sale of sukuk bond	<u>-</u>	<u>1,630</u>	<u>-</u>	<u>1,630</u>
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for the period	<u>412</u>	<u>629</u>	<u>207</u>	<u>302</u>
CDS Charges	<u>9</u>	<u>12</u>	<u>3</u>	<u>6</u>
CDS eligibility fee	<u>34</u>	<u>34</u>	<u>17</u>	<u>17</u>
Sale of Sukuk Bond to Pakistan Income Fund (Managed by Arif Habib Investments Limited)				
Engro Chemical Pakistan Limited	<u>-</u>	<u>49,194</u>	<u>-</u>	<u>49,194</u>
Directors and executives of the Management Company				
Units issued - 14,245 units and 8,522 units for the six months and quarter ended 31 December 2010 respectively (2009: 64,415 units and 10,780 units)	<u>577</u>	<u>2,980</u>	<u>354</u>	<u>521</u>
Units redeemed - 23,738 units and 5,954 units for the six months and quarter ended 31 December 2010 respectively (2009: 71,443 units and 14,053 units)	<u>923</u>	<u>3,321</u>	<u>245</u>	<u>681</u>
Bonus units distributed - 19,134 units and Nil units for the six months and quarter ended 31 December 2010 respectively (2009: Nil and Nil units)	<u>727</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Arif Habib Investments Limited - Management Company

Remuneration payable
Front-end load payable

31 December 2010 **30 June 2010**
(Unaudited) **(Audited)**
(Rupees in '000)

904 828
3 13

Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)
Brokerage payable

14 -

Summit Bank Limited (formerly: Arif Habib Bank Limited)
Balances as at the period end

7,544 7,683

Arif Habib Investments Limited - Employees Provident Fund
Units held - Nil units (30 June 2010: 68,671 units)

- 3,339

Central Depository Company of Pakistan Limited - Trustee
Security deposit
Prepaid CDS eligibility charges
Remuneration payable

200 200
34 -
72 69

Directors and executives of the Management Company
Units held - 116,712 units (30 June 2010: 122,278 units)

5,162 5,514

10. DATE OF AUTHORISATION FOR ISSUE

These condensed financial statements were authorised for issue on 19 February 2011 by the Board of Directors of the Management Company.

11. GENERAL

11.1 For better presentation, "donation expense has been shown separately on the face of the income statement. Previously, it was shown as part of professional charges.

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

Chief Executive

Director