

Half Year Report
December 31, 2012
(Unaudited)



**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 Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive Officer (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Audit Committee	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
Human Resource Committee	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jehangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & Chief Operating Officer	Mr. Muhammad Saqib Saleem	
Chief Financial Officer	Mr. Umair Ahmed	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	DEUSCHE Bank Limited Mezan Bank Limited Habib Metropolitan Bank Limited Summit Bank Limited Standard Chartered Bank (Pakistan) Limited	
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	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

Dear Investor,

On behalf of the Board of Directors, I am pleased to present Pakistan International Element Islamic Asset Allocation Fund's accounts review for the half year ended December 31st 2012.

ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, CPI inflation continued to maintain its downward trajectory amid lower food inflation and downward adjustments in gas prices with 1H FY13 CPI inflation averaging at 8.3%. Although current account balance remained comfortable during 1H FY13 with a decent surplus of US\$ 250 million courtesy release of two tranches of Coalition Support Fund proceeds by the US worth around US\$ 1.9 billion, weaker financial account coupled with sizeable repayments (including IMF) continued to put significant pressure on the FX reserves, which eventually came down to a level of around US\$ 13.5 billion. On the fiscal front, the government has continued to rely on domestic sources of funding with YTD GoP borrowing from banking system has risen to PKR 644 billion by Dec'28 2012. Despite highlighting concerns on the external and fiscal accounts, the State Bank of Pakistan took comfort from declining inflationary trend and lowered its policy discount rate cumulatively by 250 bps to 9.5% during the period under review.

In the money market, short term market rates remained largely on the higher side amid tight liquidity scenario in the system with few exceptions where the market witnessed floors also. The SBP continued to inject significant amount of liquidity in the system through OMOs during the period. Given a downward trajectory in YoY CPI inflation coupled with SBP monetary easing stance, the yield curve has adjusted significantly downwards during the period. 1 year PKRV adjusted downwards by 267 bps to 9.3%, while longer tenure 10 year PKRV adjusted downwards by 180 bps to 11.5% during the period under review.

EQUITIES MARKET OVERVIEW

The KSE-100 index made an impressive start in FY13 as well and posted a return of 22.5% during the first half of FY13, outperforming most of the regional players. Although the market remained strong as far as returns are concerned, activity remained dull in terms of both volumes and turnover. Foreigners, however, made a strong return to the local market with a cumulative net inflow of around US\$ 157 million during the period under review.

Major interest during the period remained in Construction & Materials, Consumer and Electricity Sectors where strong inherent bottom line growth, healthy payouts and favorable projected impact of fall in interest rates thrived investor interest. Highly levered companies were also remained in the limelight during the period amid aggressive policy rate cut of cumulative 250 bps by the SBP during the period. Strong corporate results as well as healthy payouts by key companies served to keep the positive momentum intact in the market.

FUND PERFORMANCE

During the period under review, the fund delivered a return of 14.6% as against its benchmark return of 19.8%. On the equities front, the overall allocation increased to 63.0% at the end of the period under review. The fund increased its exposure significantly in Oil & Gas, Electricity and Construction & Material sectors while reducing its exposure towards Pharma & Bio Tech sector during the period.

On the fixed income side, the fund slightly increased its allocation towards GoP Ijarah Sukuk to around 29.8% while exposure towards corporate Sukuk, on the other hand, declined to around 0.4%.

The Net Asset of the Fund as at December 31, 2012 stood at Rs.279.34 million as compared to Rs. 294.06 million as at June 30 2012 registering a decrease of 5.01 %

The Net Asset Value (NAV) per unit as at December 31, 2012 was Rs. 45.57 as compared to opening NAV of Rs. 39.75 per unit as at June 30, 2012 registering an increase of Rs. 5.82 per unit.

FUTURE OUTLOOK

Despite receiving another tranche of CSF as well as continued lower range of CPI inflation, we believe that further rate cut would be difficult given deteriorating fiscal and external accounts, significant IMF repayments ahead and alarming monetary growth - while the potential return to the IMF would result in a cycle of monetary tightening by 2Q CY13 in our opinion. The Government bond market, which remained active for last few months on the back of soft inflation numbers and expected monetary easing, has started to become inactive or relatively less active with the anticipation of no rate cut and possible rate hikes in the next 4-6 months. In this backdrop, the activities are expected to be concentrated at short-end papers going forward.

On the equities front, investors are pinning hopes on Dec-end results, expecting strong payout from Commercial Banks, Electricity, Chemicals, and Oil & Gas sectors. However, on the account of mounting political uncertainty and precarious macroeconomic position especially on the external front reflected through depleting FX reserves and steady depreciation of Pak Rupee, the market could correct itself in the shorter term. We therefore prefer to remain vigilant of fading triggers on macro front and potential opportunities arising out of micro dynamics in stock and sector allocation.

ACKNOWLEDGMENT

The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan and the Trustees of the Fund for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

On behalf of Directors,

Yasir Qadri
Chief Executive Officer
February 04, 2013

TRUSTEE REPORT TO THE UNIT HOLDERS

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

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



ISO 27001 Certified

TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND

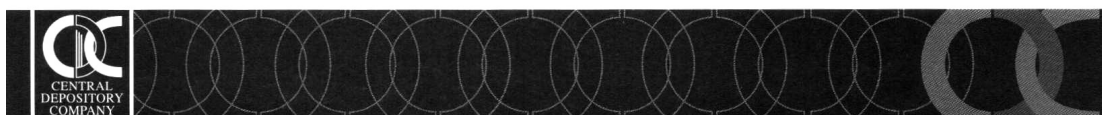
Report of the Trustee pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan International Element Islamic Asset Allocation Fund (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 2012 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: February 22, 2013



AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION



KPMG Taseer Hadi & Co.
Chartered Accountants
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Karachi, 75530 Pakistan

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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 Asset Allocation Fund** ("the Fund") as at 31 December 2012 and the related condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes to the accounts for the six months period then ended (here-in-after referred to as the "condensed interim financial information"). Management Company is responsible for the preparation and presentation of this condensed 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 condensed 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 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 condensed interim financial information as at and for the six months period ended 31 December 2012 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 8 to the condensed interim financial information relating to Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 4.134 million in aggregate is not being maintained by the Fund. Our conclusion is not qualified in respect of this matter.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.

AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION



KPMG Taseer Hadi & Co.

Other matters

The figures for the quarter ended 31 December 2012 and 31 December 2011 in the condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and condensed interim cash flow statement have not been reviewed by us and we do not express a conclusion on them.

The financial statements of the Fund for the year ended 30 June 2012 and condensed interim financial information of the Fund for the six months period ended 31 December 2011 were audited and reviewed respectively by another firm of auditors who expressed unmodified opinion with emphasis of matter paragraph on the financial statements of the Fund for the year ended 30 June 2012 and unmodified conclusion with emphasis of matter paragraph on the condensed interim financial information of the Fund for the six months period ended 31 December 2011 vide their audit and review reports dated 17 September 2012 and 27 January 2012 respectively. The emphasis pertains to non provision of Workers' Welfare Fund for reason explained in the emphasis of matter paragraph above.

Date: 04 February 2013

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2012

	(Unaudited) 31 December 2012	(Audited) 30 June 2012
<i>Note</i>	2012	2012
	(Rupees in '000)	
Assets		
Balances with banks	11,456	56,479
Receivable against sale of investments	1,878	-
Receivable against sale of units	1,478	1,584
Investments	6 262,969	245,906
Dividend and profit receivable	1,099	1,590
Advances and deposits	3,228	3,198
Total Assets	282,108	308,757
Liabilities		
Payable against purchase of investments	-	11,826
Payable against redemption of units	2	-
Payable to Arif Habib Investments Limited - Management Company	459	528
Payable to Central Depository Company of Pakistan Limited - Trustee	59	57
Accrued expenses and other liabilities	2,109	1,993
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	143	290
Total Liabilities	2,772	14,694
Contingencies and commitments	8	
Net Assets	279,336	294,063
Unit holders' funds	279,336	294,063
	(Number of Units)	
Number of units in issue	6,129,597	7,397,111
	(Rupees)	
Net asset value per unit	45.57	39.75

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.


Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)


Director

CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

	Six months period ended		Quarter ended	
	31 December		31 December	
Note	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Income				
Capital gain / (loss) on sale of investments - net	18,731	(7,407)	8,904	(4,311)
Dividend income	10,514	9,700	5,547	6,579
Income from government securities	4,806	1,607	2,185	501
Income from investment in sukuk bonds	-	489		233
Profit on bank deposits	42	206	29	11
Net unrealised appreciation / (diminution) in value of investments at 'fair value through profit or loss'	15,526	(18,579)	1,869	(22,480)
	49,619	(13,984)	18,534	(19,467)
Expenses				
Remuneration of Arif Habib Investments Limited - Management Company	2,942	3,050	1,436	1,481
Sindh sales tax on management fee	412	431	199	210
Remuneration of Central Depository Company of Pakistan Limited - Trustee	353	352	177	175
Annual fee - Securities and Exchange Commission of Pakistan	143	149	70	72
Securities transaction cost	684	670	372	274
Bank charges	145	116	80	58
Printing and related cost	180	372	78	315
Fees and subscription	91	91	45	45
Legal and professional charges	25	25	11	12
Auditors' remuneration	243	284	78	191
Donation expense	177	-	177	-
Provision against non performing exposures	3,343	-	3,343	-
Total expenses	8,738	5,540	6,066	2,833
	40,881	(19,524)	12,468	(22,300)
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed	(5,205)	710	(4,346)	338
Net income / (loss) for the period before taxation	35,676	(18,814)	8,122	(21,962)
Taxation	-	-	-	-
Net income / (loss) for the period after taxation	35,676	(18,814)	8,122	(21,962)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	35,676	(18,814)	8,122	(21,962)
Earnings per unit				

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For Arif Habib Investment Limited
(Management Company)


Chief Executive Officer


Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	(Rupees in '000)			
Accumulated losses brought forward	(75,607)	(48,594)	(44,405)	(95,694)
Net income / (loss) for the period	35,676	(18,814)	8,122	(21,962)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	12,975	1,013	9,327	8,180

Distributions to the unit holders of the Fund:

Final distribution:

Final distribution at the rate of Rs. 5.58 per unit for
the year ended 30 June 2011

- Cash distribution
- Issue of 836,103 bonus units

-	(11,200)	-	-
-	(31,881)	-	-
-	(43,081)	-	-
(26,956)	(109,476)	(26,956)	(109,476)

Accumulated losses carried forward

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.


Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)


Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012**

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Net assets at the beginning of the period	294,063	337,213	307,526	319,307
Issue of 126,182 units (2011: 328,551 units) and 100,817 units (2011: 12,229 units) for the six months and quarter ended respectively	5,600	12,509	4,529	456
Issue of NIL bonus units (2011: 836,103 units)	-	31,881	-	-
Redemption of 1,393,696 units (2011: 1,250,064 units) and 1,013,701 units (2011: 675,542 units) for the six months and quarter ended respectively	(61,208)	(46,944)	(45,187)	(25,409)
	(55,608)	(2,554)	(40,658)	(24,953)
Net element of (loss) / income and capital (losses) / gains included in prices of units sold less those in units redeemed				
- amount representing loss / (income) and realised capital (gains) / losses - transferred to the Income Statement	5,205	(710)	4,346	(338)
- amount representing (income) / loss that forms part of unit holders' fund - transferred to Distribution Statement	(12,975)	(1,013)	(9,327)	(8,180)
	(7,770)	(1,723)	(4,981)	(8,518)
Net element of income/(loss) and capital gains/ (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	12,975	1,013	9,327	8,180
Net income for the period (excluding net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gain / (loss) on sale of investments)	1,419	7,172	(2,651)	4,829
Capital gain / (loss) on sale of investments	18,731	(7,407)	8,904	(4,311)
Net unrealised appreciation / (diminution) in value of investments at fair value through profit or loss'	15,526	(18,579)	1,869	(22,480)
	35,676	(18,814)	8,122	(21,962)
Distributions to the unit holders of the Fund:				
Final distribution at the rate of Rs. 5.58 per unit for the year ended 30 June 2011				
- Cash distribution	-	(11,200)	-	-
- Issue of 836,103 bonus units	-	(31,881)	-	-
	-	(43,081)	-	-
Net assets as at the end of the period	279,336	272,054	279,336	272,054

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.


Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)


Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income / (loss) for the period before taxation	35,676	(18,814)	8,122	(21,962)
<i>Adjustments for non-cash and other items:</i>				
Net unrealised (appreciation)/ diminution in value of investments classified as 'at fair value through profit or loss'	(15,526)	18,579	(1,869)	22,480
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	367	344	367	170
Net element of (income) / loss and capital (gains) / losses in prices of units issued less those in units redeemed	5,205	(710)	4,346	(338)
	25,722	(601)	10,966	350
(Increase) / decrease in assets				
Receivable against sale of investments	(1,878)	(11,296)	2,206	(10,977)
Investments	(1,537)	9,062	27,423	27,630
Dividend and profit receivable	491	1,399	7,421	1,332
Advances and deposits	(30)	(40)	20	2,280
	(2,954)	(875)	37,070	20,265
(Decrease) / increase in liabilities				
Payable against purchase of investments	(11,826)	-	-	-
Payable to Arif Habib Investments Limited - Management Company	(69)	(54)	(46)	(36)
Payable to Central Depository Company of Pakistan Limited - Trustee	2	1	1	1
Accrued expenses and other liabilities	116	175	236	(240)
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(147)	(224)	70	72
	(11,924)	(102)	261	(203)
Net cash generated from / (used in) operating activities	10,844	(1,578)	48,297	20,412
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts from issuance of units	5,706	13,987	1,259	769
Payment on redemption of units	(61,573)	(47,555)	3,270	456
Dividend paid	-	(11,200)	(45,187)	(25,679)
	-	-	-	-
Net cash used in financing activities	(55,867)	(44,768)	(41,917)	(25,223)
Net (decrease) / increase in cash and cash equivalents	(45,023)	(46,346)	6,380	(4,811)
Cash and cash equivalents at beginning of the period	56,479	49,430	5,076	7,895
Cash and cash equivalents at end of the period	11,456	3,084	11,456	3,084

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.


Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)


Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Asset Allocation Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited ("the Management Company", "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 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, in conformity with Circular 7 of 2009 dated March 6, 2009 issued by the SECP.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB-Asset Management Company and Arif Habib Investments Limited (AHIL), the two companies have merged as of 27 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 10 June 2011). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of the State Bank of Pakistan's approval it is a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger the SECP issued an order postponing the effective date of the merger to 30 July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 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. The Honourable Sindh High Court has held 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 Net Asset Value (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 Trustee of the Fund.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned management quality rating of AM2' to the Management Company and 3-star short term and 3-star long term rating to the Fund.

2 BASIS OF PREPARATION

2.1 Statement of compliance

2.1.1 This condensed interim financial information has been prepared in accordance with the requirement of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984, the NBFC Rules and the NBFC Regulations have been followed.

2.1.2 This condensed interim financial information does not include all the information and disclosures required for full annual financial statements and should be read in conjunction with the financial statements for the year ended 30 June 2012.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

2.1.3 This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the functional and presentation currency of the Fund and has been rounded off to the nearest thousand rupees.

2.1.4 This condensed interim financial information is unaudited. However, a limited scope review has been performed by the external auditors of the fund. The Board of Directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund.

2.1.5 The comparatives in the condensed interim statement of assets and liabilities presented in this condensed interim financial information as at 31 December 2012 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2012, where as the comparative in condensed interim income statement, condensed interim distribution, condensed interim statement of movement in unit holders' fund, statement and condensed interim cash flow statement are extracted from unaudited condensed interim financial information for the period ended 31 December 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 The accounting policies adopted for the preparation of this 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 2012.

3.2 Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Fund's operations and did not have any impact on the accounting policies of the Fund.

4. ESTIMATES AND JUDGMENTS

4.1 The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

4.2 In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2012.

5. FINANCIAL RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the Fund as at and for the year ended 30 June 2012.

6 INVESTMENTS			(Unaudited) 31 December 2012	(Audited) 30 June 2012
			(Rupees in '000)	
		<i>'At fair value through profit or loss'</i>		
		Quoted equity securities	6.1 177,677	158,864
		<i>Fixed income and other debt securities</i>		
		Sukuk certificates - unlisted	6.2 1,157	4,500
		Government securities	6.4 84,135	82,542
			<u>262,969</u>	<u>245,906</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

6.1 Quoted Equity Securities - 'at fair value through profit or loss'

Name of the investee company	Number of shares					Balance as at 31 December 2012			Market value		Paid up value of shares held as a percentage of total paid up capital of the investee company	
	As at 1 July 2012	Purchases during the period	Bonus / Right issue during the period	Sales during the period	As at 31 December 2012	Carrying value	Market value	Appreciation/ (Diminution)	As a percentage of total investments	As a percentage of net assets		
Shares of listed companies - Fully paid ordinary shares of Rs 10 each unless stated otherwise						------(Rupees in '000)-----						
Oil and Gas												
Attock Petroleum Limited	-	49,000	-	33,000	16,000	7,878	8,192	314	3.12	2.93		0.02
National Refinery Limited	-	26,000	-	26,000	-	-	-	-	-	-	-	
Oil and Gas Development Company Limited	20,000	150,000	-	170,000	-	-	-	-	-	-	-	
Pakistan Oilfields Limited	68,511	19,000	-	30,900	56,611	21,354	24,770	3,416	9.42	8.87	0.02	
Pakistan Petroleum Limited	147,700	-	28,425	75,500	100,625	15,157	17,789	2,632	6.76	6.37	0.01	
Pakistan State Oil Company Limited	-	47,000	5,000	6,000	46,000	9,881	10,682	801	4.06	3.82	0.02	
						54,270	61,433	7,163				
Chemicals												
Fauji Fertilizer Company Limited	111,199	307,900	-	261,199	157,900	17,994	18,496	502	7.03	6.62	0.01	
Sitara Chemical Industries Limited	-	400	-	-	400	66	72	6	0.03	0.03	0.00	
I.C.I Pakistan Limited	-	71,500	-	71,500	-	-	-	-	-	-	-	
Fauji Fertilizer Bin Qasim Company Limited	-	50,000	-	50,000	-	-	-	-	-	-	-	
Clariant Pakistan Limited	-	30,700	-	-	30,700	7,944	7,927	(17)	3.01	2.84	0.09	
						26,004	26,495	491				
General Industrials												
Tri-Pack Films Limited	29,350	-	-	29,350	-	-	-	-	-	-	-	
Thal Limited	-	26,000	-	-	26,000	2,899	2,779	(120)	1.06	0.99	0.06	
						2,899	2,779	(120)				
Engineering												
Millat Tractors Limited	30,753	7,000	-	25,400	12,353	5,970	6,974	1,004	2.65	2.50	0.03	
						5,970	6,974	1,004				
Food Producers												
Unilever Pakistan Limited (Par value Rs. 50 each)	-	475	-	460	15	148	152	4	0.06	0.05	0.00	
						148	152	4				
Personal Goods												
Nishat Mills Limited	-	200,000	-	33,000	167,000	9,901	10,663	762	4.05	3.82	0.05	
						9,901	10,663	762				
Pharma and Bio Tech												
Abbott Laboratories Pakistan Limited	101,000	-	-	101,000	-	-	-	-	-	-	-	
GlaxoSmithKline Pakistan limited	119,000	21,827	-	140,827	-	-	-	-	-	-	-	
Ferozsons Laboratories Limited	-	9,000	-	9,000	-	-	-	-	-	-	-	
						-	-	-				
Electricity												
The Hub Power Company Limited	490,244	199,000	-	125,000	564,244	24,182	25,526	1,344	9.71	9.14	0.05	
						24,182	25,526	1,344				
Construction and Materials (Cement)												
Attock Cement Limited	115,505	10,000	3,600	125,500	3,605	255	360	105	0.14	0.13	0.00	
D.G. Khan Cement Company Limited	-	276,500	-	173,000	103,500	4,950	5,649	699	2.15	2.02	0.02	
Lucky Cement Limited	120,775	131,900	-	131,100	121,575	15,552	18,422	2,870	7.01	6.59	0.04	
Kohat Cement Limited	-	150,500	-	120,000	30,500	1,943	2,154	211	0.82	0.77	0.02	
Fecto Cement Limited	-	64,500	-	64,500	-	-	-	-	-	-	-	
						22,700	26,585	3,885				
Commercial Banks												
Meezan Bank Limited	204,552	563,500	-	200,000	568,052	16,661	17,070	409	6.49	6.11	0.06	
						16,661	17,070	409				
Total as at 31 December 2012						162,735	177,677	14,942				
Total as at 30 June 2012						148,539	158,864	10,325				

6.1.1 Investments includes shares with market value of Rs. 19,081 million (June 30 2012: 19,646) 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 and Exchange Commission of Pakistan.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

6.2 Sukuk Certificates - unlisted - at fair value through profit or loss

Certificate have a face value of Rs. 5,000 each unless stated otherwise

Name of the investee company	Profit rate %	Number of certificates				Balance as at 31 December 2012			Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued debt capital
		As at 1 July 2012	Purchases during the period	Sales during the period	As at 31 December 2012	Carrying value	Market value	Appreciation/ (diminution)			
----- (Rupees in '000) -----											
Pak Elektron Limited (28 September 2007) (refer note 6.3)	13.70%	3,000	-	-	3,000	5,812	1,157	(4,655)	0.41	0.44	1.25

6.3 Security listed below has been classified as non-performing in accordance with SECP Circular 1 of 2009 and the Fund's provisioning policy for non-performing exposure. Accordingly, the carrying value stated above has been arrived at after taking into account provision as under:

	Outstanding balance	Provision during the period	Provision upto 31 December 2012	Net carrying value
Name of the investee company	----- (Rupees in '000) -----			
Pak Elektron Limited (note 6.3.1) (28 September 2007)	6,683	3,343	5,526	1,157

6.3.1 Owing to continuous default on repayment of coupon by the issuer, the Fund has classified the said investment as non performing debt securities. During the period, the Fund has recognised further provision amounting to Rs. 3.343 million (Rs. 5.526 million in aggregate) against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

6.4 Name of the Investments

Name of the Investments	Profit rate %	Face value				Balance as at 31 December 2012			Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 1 July 2012	Purchases during the period	Sales during the period	As at 31 December 2012	Carrying value	Market value	Appreciation/ (diminution)		
		----- (Rupees in '000) -----								
Government of Pakistan Ijarah Sukuk	11.79%	82,500	1,000	-	83,500	83,550	84,135	(585)	29.82	31.99
Total as at 31 December 2012						83,550	84,135	(585)		

7 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

In accordance with clause (v) of the investment criteria laid down for 'Shariah Compliant Islamic Scheme' in Circular no. 7 of 2009, the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of A- and above). However, as at 31 December 2012, the Fund is non-compliant with the above mentioned requirement in respect of the following investments:

Name of non-compliant investment	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
		----- (Rupees in '000) -----			%	%
Investment in debt securities	Pak Elektron Limited-Sukuk	6,683	5,526	1,157	0.414	0.410

7.1 At the time of purchase, the above security was in compliance of the circular (i.e. investment grade) and was subsequently downgraded to non investment grade by MUFAP on default by respective issuer in repayment of coupons due on respective dates.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

8 CONTINGENCIES AND COMMITMENTS

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an adjudication.

Subsequent to the year ended 30 June 2010, a clarification was 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. However, on 14 December 2010, the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to 30 June 2011, the Honourable 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 and struck them down. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the High Court of Sindh. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in this condensed interim financial information. The aggregate unrecognised amount of WWF as at 31 December 2012 amounted to Rs. 4.134 million. (NAV per unit Re. 0.674).

9 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. The management intends to distribute at least 90% of the income earned by the Fund by the year end to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Accordingly, no provision for taxation has been made in this condensed interim financial information.

10 EARNINGS PER UNIT

Earnings per unit (EPU) has not been disclosed as in the opinion of the management determination of cumulative weighted average number of outstanding units for calculating earnings per unit is not practicable.

11 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons / related parties 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 and other associated undertaking.

The transactions with related parties / connected persons are in the normal course of business and carried out on agreed terms at contracted rates.

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

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012**

**11.1 Details of the transactions with
connected persons are as follows:**

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	(Rupees in '000)			
Arif Habib Investments Limited - Management Company				
Management fee for the period	<u>2,942</u>	<u>3,050</u>	<u>1,436</u>	<u>1,481</u>
Sindh sales tax on management fee	<u>412</u>	<u>431</u>	<u>199</u>	<u>210</u>
Arif Habib Limited - Brokerage House				
Brokerage for the period	<u>36</u>	<u>27</u>	<u>12</u>	<u>4</u>
Next Capital Limited				
Brokerage for the period *	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nishat Mills Limited				
Dividend income	<u>438</u>	<u>907</u>	<u>438</u>	<u>907</u>
D.G Khan Cement Company Limited				
Dividend income	<u>248</u>	<u>-</u>	<u>248</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for the period	<u>353</u>	<u>352</u>	<u>177</u>	<u>175</u>
CDS Charges	<u>9</u>	<u>12</u>	<u>4</u>	<u>9</u>
The Bank of Punjab (10% holding)				
Cash dividend paid	<u>-</u>	<u>11,200</u>	<u>-</u>	<u>-</u>
Issue of 6,556 units (2011: 7,239 units) and 3,347 units (2011: 3,543) for the six months and quarter ended	<u>285</u>	<u>273</u>	<u>149</u>	<u>136</u>
Redemption of 9,774 units (2011: 303,667) Nil (2011: 297,438) for the six months and quarter ended	<u>422</u>	<u>11,244</u>	<u>-</u>	<u>11,005</u>
Directors and executives of the Management Company				
Issue of 20,454 units (2011: 13,559 units) and 18,234 units (2011: 3,265) for the six months and quarter ended	<u>911</u>	<u>511</u>	<u>821</u>	<u>121</u>
Redemption of 25,568 units (2011: 9,733 units) and 24,330 units (2011: 1,351) for the six months and quarter ended	<u>1,142</u>	<u>360</u>	<u>1,088</u>	<u>50</u>
Bonus units issued NIL (2011: 658) and Nil bonus units (2011: Nil) for the six months and quarter ended	<u>-</u>	<u>25</u>	<u>-</u>	<u>-</u>

* 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.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012**

	(Unaudited) 31 December 2012	(Audited) 30 June 2012
	(Rupees in '000)	
11.2 Amounts outstanding as at period / year end :		
Arif Habib Investments Limited - Management Company		
Management fee payable	<u>459</u>	<u>493</u>
Arif Habib Limited - Brokerage House		
Brokerage payable	<u>10</u>	<u>-</u>
Next Capital Limited		
Brokerage payable	<u>6</u>	<u>-</u>
D.G Khan Cement Company Limited		
103,500 shares held (30 June 2012: NIL shares)	<u>5,649</u>	<u>-</u>
Nishat Mills Limited		
167,000 shares held (30 June 2012: NIL)	<u>10,663</u>	<u>-</u>
Summit Bank Limited		
Balances with banks	<u>7,575</u>	<u>55,246</u>
Profit receivable	<u>23</u>	<u>23</u>
MCB Bank Limited		
Balances with banks	<u>-</u>	<u>10</u>
Bank of Punjab (10% holding)		
Units held - 2,006,557 (30 June 2012: 2,009,811 units)	<u>91,439</u>	<u>79,890</u>
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	<u>200</u>	<u>200</u>
Remuneration payable	<u>59</u>	<u>57</u>
Directors and executives of the Management Company		
Units held - 3,925 units (30 June 2012: 9,039 units)	<u>179</u>	<u>359</u>

12 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information has been authorised for issue in the meeting of the Board of Directors of the Management Company held on February 04, 2013.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

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