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FUND'S INFORMATION

Management Company

Arif Habib Investment Management Limited.

2 / I, R.Y. 16, Old Queens Road,
Karachi-74000.

Board of Directors of the Management Company

Mr. John W. Kirkham	Chairman
Mr. Salim Chamdia	Vice Chairman
Mr. Nasim Beg	Chief Executive
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Shafi Malik	Director
Mr. Muhammad Kashif Habib	Director
Mr. Sirajuddin Cassim	Director

Company Secretary & CFO of the Management Company

Syed Ajaz Ahmed

Audit Committee

Mr. Salim Chamdia	Chairman
Mr. Muhammad Shafi Malik	Member
Mr. Akmal Jameel	Member

Trustee

Central Depository Company of Pakistan Limited (CDC)
Progressive Plaza, Suit # M-13-16,
Mezzanine Floor, Beaumont Road, Karachi.

Bankers

- Bank Alfalah Islamic Banking
- Bank AL Habib Limited
- Deutsche Bank
- Bank Islami Pakistan Limited
- Al Baraka Islamic Bank
- Prime Commerical Bank Limited

Auditors

A. F. Ferguson & Co. - Chartered Accountants
State Life Building No. 1-C,
I.I. Chundrigar Road, Karachi-74000.

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.

Distributors

- Arif Habib Investment Management Limited
- Arif Habib Rupali Bank Limited
- Arif Habib Securities Limited
- Bank AL Habib Limited
- Bank of Punjab
- IGI Investment Bank

MISSION STATEMENT

To provide investors with quality returns which conform to the Islamic Shariah by taking exposure in high yield and growth investment opportunities in local as well as international capital markets.

**REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED 30 JUNE 2007**

The Board of Directors of Arif Habib Investment Management Limited (AHIML), the Management Company of Pakistan International Element Islamic Fund (PIEIF) is pleased to present the Second Annual Report on the affairs of PIEIF along with the Audited Accounts, Report of the Trustee and Auditors' Report to the Unit Holders for the financial year ended 30 June 2007.

Profile

PIEIF is an open-end fund, which is Shariah Compliant, and is able to invest in both domestic and international capital markets. The Fund seeks to optimize total returns within the parameters of Shariah compliance, primarily from Pakistan's growing capital markets while having the ability to avail opportunities in international markets as well.

Fund Performance during 2007

Being an open-end mutual fund the primary method of measuring performance is the total return-changes in Net Asset Value (NAV) over time. PIEIF delivered a total return of 23.38% during FY2007 as compared to the Dow Jones JS Islamic Pakistan index which rose by 17.17%. As a policy, PIEIF invests 70% of its fund size in the local market and up to 30% in the international market. As of 30 June 2007, the Fund was invested 64.62% of net assets in local equities and 19.69% of net assets in Shariah-Compliant Mutual Funds outside Pakistan. The international portfolio gave a total return of 11.83% (in PKR terms) during the year.

The Fund earned a total income of Rs. 250 million during the year. Major components were capital gain of Rs. 87 million on sale of investment, dividend income of Rs. 42 million and unrealized capital gains of Rs. 137 million.

As at 30 June 2007 net assets under management were Rs. 1.07 billion, compared to 1.38 billion a year ago, with net redemption of Rs. 0.56 billion from the fund during the year.

(Mutual funds' performance is measured on the basis of total return-that is changes in Net Asset Value (NAV) over time or the percentage increase or decrease in the NAV)

Income Distribution

The Board of Directors of the Management Company in their meeting held on 04 July 2007 has already declared distribution in the form of bonus units to A, B and C class units and equivalent cash dividend for D class units at the rate of Rs. 8.75 per unit. The bonus of Rs. 8.75 per unit is 18.33% on the opening NAV for the FY 2007.

Corporate Governance

The Fund being listed on all three Stock Exchanges, the Management Company is committed to observe the Code of Corporate Governance prescribed for listed companies. The Financial Statements, prepared by the Management Company present fairly the state of affairs of the Fund and results of its operations, Cash Flows and Movement in the Unit holders' fund. Proper books of account of the Fund have been maintained and

S. No.	Name	Meetings		
		Total	Attended	Leave Granted
1.	Mr. John W. Kirkham	6	2	4
2.	Mr. Salim Chamdia	6	5	1
3.	Mr. Nasim Beg	6	6	-
4.	Mr. Muhammad Akmal Jamil	6	4	2
5.	Mr. Muhammad Shafi Malik	1	1	-
6.	Mr. Muhammad Kashif Habib	1	1	-
7.	Mr. Sirajudin Cassim	6	-	6
8.	Mr. Arif Habib	6	5	1
9.	Mr. Samad A. Habib	5	4	1
10.	Mr. Mohammad Yousuf	5	5	-

During the year three directors resigned from the Board. On 27 January 2007 Mr. Samad A. Habib and Mr. Mohammad Yousuf resigned and were replaced by Mr. Muhammad Kashif Habib and Mr. Shafi Malik respectively on the same date. On 14 June 2007 Mr. Arif Habib, Chairman of the Board resigned. Mr. John W. Kirkham was elected as the Chairman of the Board 04 July 2007.

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

S. No.	Name	Designation	<i>Investment</i>	<i>Redemption</i>
			<i>(No. of Units)</i>	
1.	Mr. Nasim Beg	Chief Executive	12,469	16,940

External Auditors

As recommended by the Audit Committee, the Board of Directors of the Management Company has reappointed M/s. A. F. Fergusons & Co., Chartered Accountants as the Fund's auditors for the year ending 30 June 2008.

Outlook

Building upon a successful year for the fund in which both the domestic segment and the international segment performed as expected, we continue to have a positive outlook for equities on what we see as sustainable domestic and international growth trends. On the Pakistan front, we continue to see value in Pakistan stocks and remain positive on the basis of relative attractive valuations given the continuing double-digit earnings growth, and discount of market prices compared to their respective fair values. However, unsettled domestic politics may have some negative impact in the short term. Similarly, the environment for international equity markets has been positive with majority of the emerging markets trading at record highs due to positive global liquidity and higher corporate earnings growth. However, this calls for a cautious stance.

Commitment

The Management Company is committed towards devoting all its skills, resources and experience, to enhance returns for the investors, while remaining conservative and watchful of market and systemic risks.

Acknowledgement

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

For and on behalf of the Board

Karachi
21 July 2007

Nasim Beg
Chief Executive

**REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED 30 JUNE 2007**

Asset allocation and Investment Activities during 2007

Domestic portfolio

As a policy Pakistan International Element Islamic Fund (PIEIF) invests 70% of its assets in domestic capital markets. The total number of Shariah Compliant eligible stocks was around 45, out of which the fund was invested in around 15 stocks during the year. With the exception of a few profit-taking opportunities and compliance related issues, PIEIF has been successful in its buy-and-hold strategy, that has clearly been beneficial for our investors. Allocations were made on the basis of attractiveness of share prices relative to their fair value and fundamental outlook. As at 30 June 2007, exposure in the Pakistan equity market was 64.62% of net assets. During the year, average exposure in major sectors was as follows: Fertilizers 22%, Oil & Gas Exploration 17%, Paper 7%, Textiles 7% and Autos 3%. Major contribution in the total return has come from Fertilizer, Paper and Textile sectors.

International portfolio

As of end June, the international portfolio was 19.69% of fund size (out of the 30% maximum allowed). PIEIF made its first investment abroad in July 2006, in three Islamic mutual funds, namely the Alfanar US Large Cap Ltd, Alfanar Europe Ltd and Alfanar Asia Ltd. Subsequent investments into these funds were made in September '06, January '07 and February '07. The US Fund invests in blue chip companies, including the likes of Pepsi Co., Proctor & Gamble, Kellogg, etc. The European Fund is largely invested in the UK, with diversification into the Austria, Sweden, Switzerland and Norway markets. The Asian Fund, emphasizes on selecting under-researched, small and mid-cap companies with high growth potential.

Market Performance

Strong gains across the broader market

During FY2007, the KSE-100 index was up 37.87%. Most of this gain has come in the last quarter of the year with a 22% rise (since January 2007 the market is up 37%). Banking stocks were the top performers, contributing almost 46% of the total return of the index. Top three contributing sectors in the rise of the index were: Banks 17.7%, Telecom 3.1% and Insurance 2.7%. In terms of price appreciation, top three sectors were insurance 156%, securities 145% and tobacco 128%. Oil and Gas Exploration, which was the highest market capitalization sector earlier during the year, had a dismal performance with only 1.3% price appreciation. Other leading sectors, which underperformed the market, were Oil Marketing Companies, Cement and Fertilizer.

Record inflows from foreign portfolio investment

During the year, the Pakistan stock market attracted \$861 million from foreign portfolio investors, which is a record inflow for a single year. Foreign investors now own over \$4.5 billion (25% of the free float and 6% of the total market capitalization) of Pakistan equities. In addition, \$1,448 million was raised through three GDR issues; OGD \$738 million, MCB \$150 million and UBL \$560 million. By including foreign investment of \$983 million in debt securities, the country achieved \$3,292 million in total foreign portfolio investment compared to \$965 million in 2006.

Investors confident of sustainable long-term GDP growth

On the economic front, major positives are: the pick-up in GDP growth to 7% in FY07 as compared to 6.6% growth in the previous year, driven by a strong recovery in agriculture sector growth and over 8% growth in services and industrial sectors. Foreign direct investment has gained momentum, as confidence in the Pakistan long-term economic growth story increased, with record inflows of \$5,125 million compared to \$3,521 million last year. The investment to GDP ratio has increased to 23% from 21%. Tax collection has increased by 18% to Rs 841 billion, indicating strong economic activity.

Challenges are inflation and the higher trade deficit

Key concerns on the economic front were: inflationary pressure remained high with CPI for 2007 at 7.8% (compared to 7.9% in 2006) with food inflation jumping to 10.3% as opposed to 6.9% in 2006. The trade deficit increased to \$13.5 billion in 2007 as exports (primarily Textiles) failed to pick up.

Global equities making new highs

The strong gains in the last quarter of FY2007 in the Pakistan market coincided with a surge in equity markets across the world. Most of the markets made new record highs as benign global interest rates amid surplus liquidity pushed equity prices higher. Pakistan too witnessed rapid inflows of foreign portfolio money during this time period.

Pakistan developing into a mature emerging market

Unlike in the past, negative developments on the domestic political front especially after the removal of Chief Justice of Pakistan in March 2007 and subsequent agitation in the country, had no negative impact on the market. In fact, the market recorded its strongest gains (up 22% in the last quarter) during this period of uncertainty. This also demonstrates that an increasing number of domestic investors are maturing, becoming less edgy about political events and more focused on companies' valuations.

Future Outlook

Attractive relative valuations compared to regional peers

In our view, equities should remain a favoured asset class in 2008. Capital markets globally are on an unprecedented run and the Pakistan equity market is no exception. There are some real fundamentals working that are pushing equity markets higher. The Pakistan equity market historically has been trading at very low multiples offering deeply discounted prices in respect to valuations and also compared to its regional peers. With a sound economic growth story and global fund managers seeking bargains, Pakistan has been the beneficiary recipient of foreign portfolio and direct investments. The Price-Earnings ratio of stocks in Pakistan now averages around 13 times on last reported earnings, which is not excessively high or expensive relative to its own historic averages or regional comparison.

Tight monetary policy likely to continue

Monetary policy is likely to remain tight as inflationary pressures have not yet subsided. While the SBP is expected to keep interest rates tilted at the higher end, liquidity in the banking system and slowing credit demand should not cause a major increase in overall interest rates.

Uncertainty in the run-up to the elections

For the equity market, the biggest challenge in FY2008 will be domestic political instability and worsening of security situation in the run-up to elections in coming winter. The cautionary note here is the real (or perceived) political instability which may curb some of the inflows especially from foreign portfolio investors in the short term.

High trade deficit to be a challenge

Key challenges for the economy are the worsening trade deficit (at \$13.5 billion) and higher current account deficit (\$7.0 billion or 4.8% of GDP during 2007). The weakness in exports resulting in a higher trade deficit will need to be cushioned with more foreign investment or privatization/disinvestment proceeds.

Fundamentals conducive to long-term investment

The Pakistan economy has grown at an average rate of 7% during the past five years, and we expect that this growth will be sustained in FY2008. We are confident that the broader fundamentals of the stock market are conducive to long-term investment. Rising per capita income is expected to drive aggregate demand in major sectors: Autos, Fertilizer, Consumer Goods, Banks, Infrastructure and Energy. We thus anticipate that these sectors are well-poised to leverage off the overall growth of the economy.

International diversification to cushion fund against domestic price volatility

As an investment policy, PIEIF makes its investment allocations in sectors and stocks which are benefiting most from the economic growth and have the best potential in the long term. PIEIF, with its low beta vis-à-vis the internationally diversified portfolio will continue to benefit from the global growth story and maximize its returns between its international and domestic segment allocation.

**REPORT OF THE TRUSTEE
FOR THE YEAR ENDED 30 JUNE 2007**

Report of the Trustee Pursuant to Rule 76(h) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Pakistan International Element Islamic Fund, an open-end fund was established under a trust deed executed between Arif Habib Investment Management Limited as the Assets Management Company and Central Depository Company of Pakistan Limited as Trustee on 14 December 2005. The scheme was authorized by the Securities and Exchange Commission of Pakistan (SECP) on 10 November 2005.

In our opinion, Arif Habib Investment Management Limited, the Asset Management Company of Pakistan International Element Islamic Fund has in all material respects managed Pakistan International Element Islamic Fund during the year ended June 30, 2007 in accordance with the provisions of the Trust Deed (and the modification authorized by the SECP from time to time) and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Karachi
6 September 2007

Kamran Qazi
Company Secretary
Central Depository Company of Pakistan Limited

REPORT OF THE SHARIAH ADVISORY COUNCIL

Alhamdulillah, the period under review was the first year of operations of Pakistan International Element Islamic Fund (the Fund). We the Shariah Advisory Council of the Fund are issuing this report in accordance with clause 2.3 of the Trust Deeds 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 Investment Management Limited (AHIML), 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; (i) Nature of business, (ii) interest bearing debt in relation to the total assets, (iii) illiquid assets in relation to the total assets, (iv) Investment in non-Shariah compliant activities to total assets and income from non-compliant investments to Gross revenues, and (v) 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, receivables, interest bearing securities and debt to the average market capitalization of the company. As of 30 June 2007 PIEIF had approximately 20% of its NAV in international investments, namely in three Alfanar Funds (Alfanar Asia, Alfanar Europe and Alfanar US Large Cap). These funds were reviewed prior to the investment and as such were deemed Shariah compliant.

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

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

In light of the above scope, we hereby certify that all the provisions of the scheme and investments made by the Fund for the period ended 30 June 2007 are in compliance with the Shariah principles.

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

During the year an amount of Rupees 948,588.96 was transferred to charity account.

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

Dr. Ejaz Samadani

Karachi

16 July 2007

For and on behalf of Shariah Advisory Council

**SHARIAH COMPLIANCE AUDITORS’
REPORT TO THE MANAGEMENT COMPANY**

We have audited the compliance of the Investments made by the Pakistan International Element Islamic Fund with the Shariah guidelines prescribed by the Shariah Advisory Council of the Fund for the year ended 30 June 2007.

It is the responsibility of the Management Company to appoint a Shariah Advisory Council and established and maintain a system of internal control to ensure compliance with the Shariah guidelines advised by the Shariah Advisory Council of the Fund. Our responsibility is to carry out procedures to enable us to report on the compliance of the investments made by the Fund with the Shariah guidelines, as prescribed by the Shariah Advisory Council.

We conducted our audit in accordance with the International Standards on Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund has complied with Shariah guidelines, as prescribed by the Shariah Advisory Council, in all material respects. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, investments made by the Fund were, in all material respects, in compliance with the shariah compliant avenues as approved by the Shariah Advisory Council of the Fund.

Karachi
21 July 2007

A.F. Ferguson & Co.
Chartered Accountants

**STATEMENT OF COMPLIANCE
WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2007**

This statement is being presented by the Board of Directors of Arif Habib Investment Management Limited (the Company), the Management Company of the Pakistan International Element Islamic Fund (the Fund) to comply with the Code of Corporate Governance contained in Regulation No. 37, Chapter XIII and Chapter XI of listing regulations of Karachi, Lahore and Islamabad stock exchanges respectively 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 Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board. At present the Board includes six non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year three casual vacancies occurred in the Board. On 27 January 2007 Mr. Samad A. Habib and Mr. Muhammad Yousaf resigned and were replaced by Mr. Muhammad Kashif Habib and Mr. Shafi Malik respectively on the same date. On 14 June 2007 Mr. Arif Habib, the chairman of the Board resigned. Mr. John W. Kirkham was made the chairman of the Board on 04 July 2007.
5. The 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, management and employees of the Company.
6. The Management has developed a vision/mission statement, overall corporate strategy and significant policies of the Company and the same has been approved by the Board. 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. There is no other executive director of the company besides the CE.
8. The meetings of the Board were presided over by the Chairman and in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded, circulated and signed by the Chairman of the meeting of the Board of Director.
9. An orientation course has been conducted for the new director appointed during the year to apprise them of their duties and responsibilities.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

10. The Board has approved appointment, remuneration and term and conditions of the employment of Chief Financial Officer, Head of Internal Audit and the Company secretary. During the year appointment of Head of Internal Audit was made by the Board.
11. The roles and responsibilities of the Chairman and Chief Executive have been approved by the Board of Directors.
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 financial statements of the Fund were duly endorsed by CE and CFO of the Company before approval of the Board.
14. The Company has complied with all the significant corporate and financial reporting requirements of the Code relevant to the Fund.
15. The Board has formed an audit committee for the Fund. It comprises of four members, all of whom are non-executive directors including the Chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of Interim and final results of the Fund and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has established an effective internal audit function.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. 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.
20. The directors, CE and executives of the Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Karachi
21 July 2007

Nasim Beg
Chief Executive

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investment Management Limited, Management Company of Pakistan International Element Islamic Fund to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company 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 personnel of the Management Company and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of the 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 controls and the effectiveness of such internal controls.

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 as applicable to the Fund for the year ended 30 June 2007.

Karachi
21 July 2007

A.F. Ferguson & Co.
Chartered Accountants

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **Pakistan International Element Islamic Fund**, which comprise the statement of assets and liabilities as at 30 June 2007, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the year then ended, 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 Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2007, and of its financial performance, cash flows and transactions for the year then ended in accordance with the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and approved accounting standards as applicable in Pakistan.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 and approved accounting standards as applicable in Pakistan.

Karachi
21 July 2007

A.F. Ferguson & Co.
Chartered Accountants

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2007**

	<i>Note</i>	30 June 2007	30 June 2006
(Rupees in '000)			
Assets			
Bank balances	4	168,182	165,849
Receivable against sale of investments		18,356	2,439
Receivable against sale of units		1,680	12,823
Investments	5	904,299	1,188,128
Dividend and profit receivable	6	7,654	14,082
Deposits, prepayments and other receivables	7	9,118	284
Preliminary expenses and floatation costs	8	6,320	7,970
Total assets		1,115,609	1,391,575
Liabilities			
Payable to Arif Habib Investment Management Limited - Management Company	9	2,008	9,616
Payable to Central Depository Company of Pakistan Limited - Trustee	10	175	203
Payable to Shariah Advisor		210	85
Payable to Securities and Exchange Commission of Pakistan	11	1,267	228
Payable against purchase of investments		-	2,000
Payable on redemption of units		35,640	776
Accrued expenses and other liabilities	12	3,778	499
Total liabilities		43,078	13,407
Net assets		1,072,531	1,378,168
Unit holders' funds (as per statement attached)		1,072,531	1,378,168
(Number of units)			
Number of units in issue	13	18,211,172	28,877,192
(Rupees)			
Net asset value per unit		58.89	47.73

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

	<i>Note</i>	For the year ended 30 June 2007	For the period from 22 April 2006 to 30 June 2006
(Rupees in '000)			
Income			
Capital gain on sale of investments		86,633	1,429
Dividend income		41,689	-
Profit on bank accounts		21,887	7,861
Other income	14	8,709	370
		158,918	9,660
Unrealised appreciation / (diminution) on investments at fair value through profit or loss - net	5.3	137,066	(65,392)
		295,984	(55,732)
Expenses			
Remuneration of Arif Habib Investment Management Limited - Management Company	15	36,470	5,253
Remuneration of Central Depository Company of Pakistan Limited - Trustee		2,267	398
Remuneration to Shariah Advisor		500	85
Annual fee - Securities and Exchange Commission of Pakistan		1,267	228
Brokerage		2,531	2,873
Bank charges		49	31
Settlement charges		29	27
Fees and subscriptions		113	235
Auditors' remuneration	16	635	240
Capital value tax		52	135
Amortisation of preliminary expenses and floatation costs	8	1,650	280
Total operating expenses		45,563	9,785
Net income / (loss) from operating activities		250,421	(65,517)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(22,757)	(173)
Net income / (loss)		227,664	(65,690)
Earnings per unit	3.9		

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

	For the year ended 30 June 2007	For the period from 22 April 2006 to 30 June 2006
	(Rupees in '000)	
Net loss brought forward	(65,690)	-
Net profit / (loss) for the year / period	227,664	(65,690)
Undistributed income / (net loss) carried forward	161,974	<u>(65,690)</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30 JUNE 2007**

	For the year ended 30 June 2007	For the period from 22 April 2006 to 30 June 2006
	(Rupees in '000)	
Net assets at the beginning of the year / period	1,378,168	-
Issue of 6,303,297 units (2006: 32,276,047 units)	344,403	1,597,897
Redemption of 16,969,317 units (2006: 3,398,855 units)	(900,461)	(154,212)
	(556,058)	1,443,685
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Income Statement	22,757	173
Capital gain on sale of investments	86,633	1,429
Net unrealised appreciation / (diminution) on investments at fair value through profit or loss	137,066	(65,392)
Other net income / (loss) for the year / period	3,965	(1,727)
Net income / (loss) for the year / period	227,664	(65,690)
Net assets as at the end of the year / period	<u>1,072,531</u>	<u>1,378,168</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

<i>Note</i>	For the year ended 30 June 2007 (Rupees in '000)	For the period from 22 April 2006 to 30 June 2006
CASH FLOW FROM OPERATING ACTIVITIES		
	227,664	(65,690)
Net income / (loss)		
Adjustments		
Unrealised diminution / (appreciation) in the value of investments at fair value through profit or loss - net	(137,066)	65,392
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	22,757	173
Amortisation of preliminary expenses and floatation costs	1,650	280
Unrealised gain on letter of rights	(8,531)	-
Remuneration of Arif Habib Investment Management Limited - Management Company	36,470	5,253
Remuneration of Central Depository Company of Pakistan Limited - Trustee	2,267	398
	145,211	5,806
(Increase) / decrease in assets		
Receivable against sale of investments	(15,917)	(2,439)
Investments	420,895	(1,253,520)
Dividend and profit receivable	6,428	(14,082)
Preliminary expenses and floatation costs	-	(8,250)
Deposits, prepayments and other receivables	(303)	(284)
	411,103	(1,278,575)
Increase / (decrease) in liabilities		
Payable to Arif Habib Investment Management Limited - Management Company	(8,540)	8,568
Payable to Central Depository Company of Pakistan Limited - Trustee	(9)	9
Payable to Shariah Advisor	125	85
Payable to Securities & Exchange Commission of Pakistan	1,039	228
Payable against purchase of investments	(2,000)	2,000
Accrued expenses and other liabilities	3,279	499
	(6,106)	11,389
Remuneration paid to Arif Habib Investment Management Limited - Management Company	(35,538)	(4,205)
Remuneration paid to Central Depository Company of Pakistan - Trustee	(2,286)	(204)
	512,384	(1,265,789)
Net cash flow from operating activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts / (payments) made against sales / redemption of units	(510,051)	1,431,638
Net increase in cash and cash equivalents during the year / period	2,333	165,849
Cash and cash equivalents at the beginning of the year / period	165,849	-
Cash and cash equivalents as at June 30	168,182	165,849

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Fund (PIEIF) was established under a Trust Deed executed between Arif Habib Investment Management Limited (AHIML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 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).

PIEIF is an open-ended mutual fund, listed on the Karachi, Lahore and Islamabad Stock Exchanges. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

As discussed in note 15.1 of these financial statements, reduced levels of management fee are applicable to "C" and "D" class units and the amount of reduction in management fee is deemed to be reinvested in the Fund on behalf of eligible unit holders and additional units are issued by the Trustee to such unit holders on a daily basis. Previously, the Trust Deed and Offering Document of the Fund inappropriately defined this arrangement as a distribution of bonus units to unit holders. Accordingly, appropriate amendments were made to the Trust Deed of the Fund during the current year through a Supplemental Trust Deed dated 11 December 2006. The Securities and Exchange Commission of Pakistan has also approved these amendments to the Trust Deed of the Fund.

The principal activity of the Fund is to make shariah compliant investments in securities or instruments both inside and outside Pakistan.

2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Trust Deed, the NBFC Rules and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Trust Deed, the NBFC Rules or directives issued by the SECP differ with the requirements of these standards, the requirements of the the Trust Deed, the NBFC Rules and the said directives take precedence.

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

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1 November 2006 are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than increased disclosures in certain cases:

IAS 1 - Presentation of financial statements - amendments relating to capital disclosures	effective from accounting period beginning on or after 1 January 2007
IFRS 2 - Share based payment	effective from accounting period beginning on or after 1 January 2007
IFRS 3 - Business combinations	effective from accounting period beginning on or after 1 January 2007

IFRS 5 - Non-current assets held for sale and discontinued operations	effective from accounting period beginning on or after 1 January 2007
IFRS 6 - Exploration for and evaluation of mineral resources	effective from accounting period beginning on or after 1 January 2007
IFRIC 10 - Interim financial reporting and impairment	effective for accounting period beginning on or after 1 November 2006
IFRIC 11 - Group and treasury share transactions	effective for accounting period beginning on or after 1 March 2007
IFRIC 12 - Services concession arrangements	effective for accounting period beginning on or after 1 January 2008

2.3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (note 3.2 and 5)
- ii) Amortisation of preliminary expenses and floatation costs (note 3.11 and 8)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 ACCOUNTING CONVENTION

3.1.1 These financial statements have been prepared under the historical cost convention except that certain investments have been included at fair value in accordance with the recognition criteria specified in the relevant IAS and the requirements of the NBFC rules.

3.1.2 The financial statements are presented in Pak Rupees which is the Fund's functional and presentation currency.

3.2 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+3' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the asset.

The management determines the appropriate classification of the investments made by the Fund in accordance with the requirements of International Accounting Standard (IAS) 39; 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis. Investments are categorised as follows:

a) Financial assets at fair value through profit or loss

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'held for trading' and accounted for as a 'Financial asset at fair value through profit or loss'. These investments are marked to market, using the closing market rates at the end of each day and are carried on the Statement of Assets and Liabilities at fair value. Net gains and losses arising on changes in fair values of these investments based on the quoted market rates ruling at the day-end are taken to the Income Statement.

b) Available for sale

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'Available for sale'. Subsequent to initial measurement, 'Available for sale' investments are re-measured to fair value based on the closing quoted market rates ruling at the day-end. Net gains and losses arising on changes in fair values of these investments are taken to equity as part of Unit holders' Funds. When the securities are disposed of or impaired, the related fair value adjustments previously taken to equity are transferred to the Income Statement.

3.3 Derivative instruments

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

3.4 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company 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, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company. Transaction costs are recorded as the income of the Fund.

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

3.5 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such dividends are declared / transfers are made.

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holder's Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

3.7 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.8 Net asset value per unit

The net asset value (NAV) 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 circulation at the year end.

3.9 Earnings per unit

Earnings per unit (EPU) for the year ended 30 June 2007 has not been disclosed as in the opinion of the management determination of weighted average units for calculating EPU is not practicable.

3.10 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. Accordingly, no tax liability has been recorded for the current year.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11 of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.11 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are being amortised over a period of five years commencing from 30 April 2006.

3.12 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.

3.13 Financial assets and financial liabilities

Financial assets carried on the Statement of Assets and Liabilities include bank balances, investments, receivable against sale of investments, receivable against sale of units, dividend and profit receivable and certain other receivables.

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Financial liabilities carried on the Statement of Assets and Liabilities include payable to Arif Habib Investment Management Limited – Management Company, payable to Central Depository Company of Pakistan Limited – Trustee, payable to Shariah Advisor, payable against purchase of investments, payable on redemption of units and accrued expenses, creditors and certain other liabilities.

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Transaction costs are included in the initial measurement of all financial assets and liabilities except for transaction costs incurred for the acquisition of investments classified as 'financial assets at fair value through profit or loss' and transaction costs that may be incurred on disposal which are charged as expense when incurred.

3.14 Impairment

The carrying value of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

3.15 Revenue recognition

Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.

Unrealised capital gains / (losses) arising on marking to market of investments classified as "Financial assets at fair value through profit or loss" are included in the Income Statement in the period in which they arise.

Dividend income is recognised on the date of book closure of the investee company / institution declaring the dividend.

Profit on bank deposits is recognised on an accrual basis.

3.16 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances.

	<i>Note</i>	30 June 2007	30 June 2006
		(Rupees in '000)	
4. BANK BALANCES			
In current accounts		9,140	8,355
In deposit accounts		159,042	157,494
		168,182	165,849
5. INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS'			
Investment in shares listed in Pakistan	5.1	693,082	1,188,128
Investment in units of mutual funds outside Pakistan	5.2	211,217	-
		904,299	1,188,128

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5.2 Investment in units of mutual funds outside Pakistan

Name of the Mutual Fund	----- Number of shares -----					Balance as at 30 June 2007			Market value as percentage of net assets
	As at 01 July 2006	Purchases during the year	Bonus/ Right issue	Sales during the year	As at 30 June 2007	Cost	Market Value	Appreciation / (Diminution)	
-----Rupees in '000-----									
Al Fanar US Large Capital Limited (Class 'A')	-	705	-	-	705	64,770	65,002	232	6.06%
Al Fanar Europe Limited (Class 'A')	-	515	-	-	515	62,074	76,576	14,502	7.14%
Al Fanar Asia Limited (Class 'A')	-	863	-	-	863	62,026	69,639	7,613	6.49%
						<u>188,870</u>	<u>211,217</u>	<u>22,347</u>	

5.3 Unrealised appreciation / (diminution) in the value of investments at fair value through profit or loss - net

Market value of investments
Less: Cost of investments

30 June 2007 **30 June 2006**
(Rupees in '000)

	904,299	1,188,128
	(796,161)	(1,253,520)
	108,138	(65,392)

Net unrealised (appreciation) / diminution in the value of investments at fair value through profit or loss at the beginning of the year
Realised on disposal during the year

	65,392	-
	(36,464)	-
	28,928	-
	137,066	(65,392)

6. DIVIDEND AND PROFIT RECEIVABLE

Dividend receivable
Profit receivable on bank deposits

	4,059	6,227
	3,595	7,855
	7,654	14,082

7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advance tax
Receivable from Pakistan Income Fund
Prepaid Expenses
Receivable from Arif Habib Investment Management Limited - Management Company
Deposits with Central Depository Company of Pakistan Limited
Unrealised gain on letter of rights

	108	-
	203	-
	51	21
	25	163
	200	100
	8,531	-
	9,118	284

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	<i>Note</i>	30 June 2007	30 June 2006
(Rupees in '000)			
8. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Opening balance	8.1	7,970	8,250
Less: Amortisation during the year / period		(1,650)	(280)
Closing balance		<u>6,320</u>	<u>7,970</u>

8.1 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.

	<i>Note</i>	30 June 2007	30 June 2006
(Rupees in '000)			
9. PAYABLE TO ARIF HABIB INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY			
Management fee	9.1	1,980	1,048
Preliminary expenses and floatation cost		-	8,250
Front end load payable		28	180
Others		-	138
		<u>2,008</u>	<u>9,616</u>

9.1 Under the provisions of the NBFC Rules, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund.

		30 June 2007	30 June 2006
(Rupees in '000)			
10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
Remuneration payable		175	194
CDS charges payable		-	9
		<u>175</u>	<u>203</u>

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

Under the provisions of the NBFC Rules, an open end scheme is required to pay as annual fee to the SECP, an amount equal to one-tenth of one percent of the average annual net assets of the scheme.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	<i>Note</i>	30 June 2007	30 June 2006
(Rupees in '000)			
12. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		391	240
Brokerage		37	20
Financial charges payable		-	3
Payable to Pakistan Income Fund		-	167
Payable to Pakistan Stock Market Fund		2,036	40
Withholding Tax payable		128	-
Zakat Payable		237	-
Charity / donation payable	12.1	949	29
		3,778	499

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. Accordingly, an amount of Rs 948,589 has been recognised as charity payable.

13. NUMBER OF UNITS IN ISSUE

The units in issue as at June 30, 2007 in each class were as follows:

Classes	<i>Note</i>	30 June 2007	30 June 2006
(No. of units in issue)			
A & B		6,780,595	12,147,435
C & D	13.1	11,430,577	16,729,757
		18,211,172	28,877,192

13.1 The number of units in classes C & D include 1,720,000 units and 2,200,000 units, respectively, relating to the core investors of the Fund. These units were issued as initial subscription in the form of seed capital subscribed upto 25 April 2006 with the restriction that these units are not redeemable or transferable for a period of two years from the date of such subscription.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	<i>Note</i>	For the year ended 30 June 2007	For the period from 22 April 2006 to 30 June 2006
(Rupees in '000)			
14. OTHER INCOME			
Transaction cost		178	370
Unrealised gain on letter of rights		8,531	-
		8,709	370
15. MANAGEMENT FEE			
Management Fee		28,527	3,760
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	15.1	7,943	1,493
		36,470	5,253

15.1 The management company has announced different units ("C" and "D" class units) to which reduced levels of management fee are applicable. This reduction in management fee is passed on to such unit holders under a specific mechanism set out in the Trust Deed. In this connection, the amount of reduction in management fee is deemed to be reinvested in the Fund on behalf of eligible unit holders and additional units (at the prevailing NAV of the Fund) are issued by the Trustee to such unit holders on a daily basis. Consequently, under the mechanism, 158,883 (for the period ended 30 June 2006: 30,933) additional units amounting to Rs. 7.943 million (for the period ended 30 June 2006: Rs. 1.493 million) have been issued to these unit holders by the Trustee during the current year.

		For the year ended 30 June 2007	For the period from 22 April 2006 to 30 June 2006
(Rupees in '000)			
16. AUDITORS' REMUNERATION			
Audit fee		150	50
Half yearly review fee		50	-
Other certifications and services		405	160
Out of pocket expenses		30	30
		635	240

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

17. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investment Management Limited being the Management Company, Arif Habib Rupali Bank Limited, Arif Habib Securities Limited, Arif Habib Limited and Aba Ali Habib being companies under common management.

The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

	<i>Note</i>	For the year ended 30 June 2007	For the period from 22 April 2006 to 30 June 2006
(Rupees in '000)			
Arif Habib Investment Management Limited - Management Company			
Remuneration of the Management Company		36,470	5,253
Sales load		911	1,095
Transaction costs		46	163
Investment in the Fund (2006: 2,000 units)		-	100
Arif Habib Limited - Brokerage House			
Brokerage	17.1	190	277
Aba Ali Habib - Brokerage House			
Brokerage	17.1	-	13
Arif Habib Rupali Bank Limited			
Balance with bank		100	-
Directors and Officers			
28,985 units (2006: 170,405 units) issued during the year / period		1,485	8,553
176,793 units (2006: 5,091 units) redeemed during the year / period		9,561	244

17.1 The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale value of securities transacted through them. The purchase or sale value have not been treated a transactions with connected persons as ultimate counter-parties are not connected persons.

	30 June 2007	30 June 2006
(Rupees in '000)		
17.2 Amounts outstanding as at the year end		
Arif Habib Investment Management Limited - Management Company		
Remuneration payable	1,980	1,048
Preliminary expenses and floatation costs	-	8,250
Transaction cost receivable	25	163
Front-end load payable	28	180
Others	-	138

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

18. MARKET RATE OF RETURN (MROR) SENSITIVITY POSITION

18.1 The Fund's MROR sensitivity related to financial assets and financial liabilities as at 30 June 2007 can be determined from the following:

	Exposed to MROR risk as at 30 June 2007			Not exposed to MROR risk	Total
	Upto three months	More than three months and upto one year	More than one year		
----- Rupees in '000 -----					
On-balance sheet financial instruments					
Financial Assets					
Bank balances	159,042	-	-	9,140	168,182
Receivable against sale of investments	-	-	-	18,356	18,356
Receivable against sale of units	-	-	-	1,680	1,680
Investments	-	-	-	904,299	904,299
Dividend and profit receivable	-	-	-	7,654	7,654
Deposits and other receivables	-	-	-	8,959	8,959
	159,042	-	-	950,088	1,109,130
Financial Liabilities					
Payable to Arif Habib Investment Management Limited - Management Company	-	-	-	2,008	2,008
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	175	175
Payable to Shariah Advisor	-	-	-	210	210
Payable to Securities and Exchange Commission of Pakistan	-	-	-	1,267	1,267
Payable on redemption of units	-	-	-	35,640	35,640
Accrued expenses and other liabilities	-	-	-	3,778	3,778
	-	-	-	43,078	43,078
On-balance sheet gap	159,042	-	-	907,010	1,066,052
Off-balance sheet financial instruments					
	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-
Total MROR sensitivity gap	159,042	-	-		
Cummulative MROR sensitivity gap	159,042	159,042	159,042		
----- Rupees in '000 -----					
	Exposed to MROR risk as at 30 June 2006			Not exposed to MROR risk	Total
	Upto three months	More than three months and upto one year	More than one year		
On-balance sheet financial instruments					
Financial Assets					
Bank balances	157,494	-	-	8,355	165,849
Receivable against sale of investments	-	-	-	2,439	2,439
Receivable against sale of units	-	-	-	12,823	12,823
Investments	-	-	-	1,188,128	1,188,128
Dividend and profit receivable	-	-	-	14,082	14,082
Deposits and other receivables	-	-	-	263	263
	157,494	-	-	1,226,090	1,383,584
Financial Liabilities					
Payable to Arif Habib Investment Management Limited - Management Company	-	-	-	9,616	9,616
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	203	203
Payable to Shariah Advisor	-	-	-	85	85
Payable against purchase of investment	-	-	-	2,000	2,000
Payable on redemption of units	-	-	-	776	776
Accrued expenses and other liabilities	-	-	-	499	499
	-	-	-	13,179	13,179
On-balance sheet gap	157,494	-	-	1,212,911	1,370,405
Off-balance sheet financial instruments					
	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-
Total MROR sensitivity gap	157,494	-	-		
Cummulative MROR sensitivity gap	157,494	157,494	157,494		

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

18.2 The rate of return on financial instruments are as follows:

	2007	2006
	Percentage per annum	
Bank balances	1.5 to 9.0	6.5 to 7.5

19. MATURITIES OF ASSETS AND LIABILITIES

	As at 30 June 2007			
Total	Upto three months	More than three months and upto one year	More than one year	
Rupees in '000				
Assets				
Bank balances	168,182	168,182	-	-
Receivable against sale of investment	18,356	18,356	-	-
Receivable against sale of units	1,680	1,680	-	-
Investments	904,299	904,299	-	-
Dividend and profit receivable	7,654	7,654	-	-
Deposits, prepayments and other receivables	9,118	8,867	51	200
Preliminary expenses and floatation costs	6,320	413	1,237	4,670
	1,115,609	1,109,451	1,288	4,870
Liabilities				
Payable to Arif Habib Investment Management Limited – Management Company	2,008	2,008	-	-
Payable to Central Depository Company of Pakistan Limited – Trustee	175	175	-	-
Payable to Shariah Advisor	210	210	-	-
Payable to Securities and Exchange Commission of Pakistan	1,267	1,267	-	-
Payable on redemption of units	35,640	35,640	-	-
Accrued expenses and other liabilities	3,778	3,778	-	-
	43,078	43,078	-	-
	1,072,531	1,066,373	1,288	4,870
	As at 30 June 2006			
Total	Upto three months	More than three months and upto one year	More than one year	
Rupees in '000				
Assets				
Bank balances	165,849	165,849	-	-
Receivable against sale of investment	2,439	2,439	-	-
Receivable against sale of units	12,823	12,823	-	-
Investments	1,188,128	1,188,128	-	-
Dividend and profit receivable	14,082	14,082	-	-
Deposits, prepayments and other receivables	284	174	10	100
Preliminary expenses and floatation costs	7,970	413	1,238	6,319
	1,391,575	1,383,908	1,248	6,419
Liabilities				
Payable to Arif Habib Investment Management Limited – Management Company	9,616	9,616	-	-
Payable to Central Depository Company of Pakistan Limited – Trustee	203	203	-	-
Payable to Shariah Advisor	85	85	-	-
Payable to Securities and Exchange Commission of Pakistan	228	228	-	-
Payable against purchase of investment	2,000	2,000	-	-
Payable on redemption of units	776	776	-	-
Accrued expenses and other liabilities	499	499	-	-
	13,407	13,407	-	-
	1,378,168	1,370,501	1,248	6,419

20. RISK MANAGEMENT

The Fund is primarily an Islamic asset allocation fund, which primarily invests in shares of listed companies. Investment in shares of companies carries a risk that is considered higher than that of investment in debt securities. Capital invested in the stock market could, in extreme circumstances, lose its entire value. However, studies show that diversification of the investment into a number of shares and industrial sectors with a reasonably longer-term investment horizon reduces the risk associated with investing in the stock market. The risk emanates from various factors that include, but are not limited to:

20.1 Market risk

Market risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. The volatility in share prices results in volatility in the NAV based price of the Fund. The value of investments may fluctuate due to change in business cycles affecting the business of the company in which the investment is made, change in business circumstances of the company, its business sector, industry and / or the economy in general.

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 of Management Company and regulations laid down by the Securities and Exchange Commission of Pakistan.

20.2 Credit risk

Credit risk management

Credit risk arises from the inability of the relevant brokerage house or the counter party to fulfill their obligations. There is a possibility of default by participants or failure of the financial markets / stock exchanges, the depositories, the settlements or clearing system, etc.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits and by following strict credit evaluation criteria laid down by the Management Company. The Fund does not expect to incur material credit losses on its financial assets.

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. Financial assets subject to credit risk amount to Rs. 1,109.130 million. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

20.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The 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.

20.4 Market rate of return (MROR) risk

MROR risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Fund has minimal MROR exposure as it primarily invests in listed equity securities.

20.5 Fair value of financial instruments

Investments on Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair market 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.

	2007	2006
21. PERFORMANCE TABLE		
Net assets (Rs. '000)	1,072,531	1,378,168
Net Income / (loss) (Rs. '000)	227,664	(65,690)
Net asset value per unit (Rs.)	58.89	47.73
Highest offer price per unit (Rs.)	60.52	51.59
Lowest offer price per unit (Rs.)	46.22	44.25
Highest repurchase price per unit (Rs.)	59.01	50.30
Lowest repurchase price per unit (Rs.)	45.07	43.14

22. NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of Management Company in its meeting held on 04 July 2007 has proposed a final distribution in respect of year ended 30 June 2007 of Rs. 8.75 per unit (2006: Rs. Nil per unit) amounting to Rs. 159.348 million (2006: Rs. Nil). The financial statements for the year ended 30 June 2007 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2008.

23. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 21 July 2007 by the Board of Directors of the Management Company.

24. GENERAL

Figures have been rounded off to the nearest thousand Rupees.

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

Chief Executive

Director

	United Held
Associated Companies	
Arif Habib Investment Management Limited	2,000
Directors and CEO	
Chief Executive	
Nasim Beg	6,632
Public Limited Companies	4,201,066
Banks and Financial Institutions	4,959,514
Other Corporate Sector Entities	662,897
Individuals	5,764,186
Retirement Funds	2,167,635
Modarabas & Mutual Fund	379,300
Non Profit Organizations	67,942
TOTAL	<u>18,211,172</u>