

CONTENTS**Page No.**

Fund's Information	1
Mission Statement	2
Report of the Directors of the Management Company	3
Report of the Fund Manager	7
Trustee Report to the Unit Holders	13
Report of the Shariah Advisory Council	14
Shariah Compliance Auditors' Report to the Management Company	15
Statement of Compliance with the Code of Corporate Governance	16
Review Report to the Unit Holder on Statement of Compliance with Best Practices of the Code of Corporate Governance	18
Independent Auditor's Report to the Unit Holders	19
Statement of Assets and Liabilities	20
Income Statement	21
Distribution Statement	22
Statement of Movement in Unit holders Fund	23
Cash Flow Statement	24
Notes to the Financial Statements	25
Details of Pattern of Holding (Units)	41
Pattern of Unit Holding (By Size)	42
Performance Table	43

FUND'S INFORMATION

Management Company

Arif Habib Investment Management Limited

2 / 1, R. Y. 16, Old Queens Road,
Karachi-74000

Board of Directors of the Management Company

Mr. Salim Chandia	(Chairman)
Mr. Nasim Beg	(Chief Executive)
Mr. Sirajddin Cassim	(Director)
Mr. Muhammad Akmal Jameel	(Director)
Mr. Muhammad Shafi Malik	(Director)
Mr. Muahammad Kashif	(Director)
Mr. Yacoob Memon	(Director)

Audit Committee

Mr. Muhammad Shafi Malik	(Chairman)
Mr. Muhammad Akmal Jameel	(Member)
Mr. Yacoob Memon	(Member)

Company Secretary & CFO of the Management Company

Syed Ajaz Ahmed

Shahriah Advisory Council

Justice (Rtd) Muhammad Taqi Usmani
Maulana Mahmood Ashraf Usmani
Dr. Muhammad Imran Ashraf Usmani
Mufti Muhammad Zahid

Trustee

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

Bankers

Arif Habib Bank Limited (Formerly Arif Habib Rupali Bank Limited)
Bank Alfalah Limited Islamic Banking
Bank AL Habib Limited
Bank Islami Pakistan Limited
Royal Bank of Scotland
Al Baraka Islamic Bank
Daood Islamic Bank
Deutsche Bank AG, Karachi Branch

Auditors

M/s. A. F. Ferguson & Co. - Chartered Accountants
Statelife building No. 1-C,
I. I. Chundrigar Road, Karachi

Legal Adviser

M/s. Bawaney & Partners
404, 4th Floor, Braumont Plaza,
Beaumont Raod, Karachi-75530

Registrar

M/s. Gangjees Registrar Services (Pvt.) Limited
Room No. 516, 5th Floor, Clifton Centre,
Kehkashan, Clifton, Karachi.

Distributors

Arif Habib Bank Limited
Bank Al Habib Limited
Standard Chartered Bank
Bank of Punjab
Allied Bank Limited
Citibank N.A.
IGI Investment Bank
National Bank of Fujairah

Rating

PACRA: 4 Star (Normal)
PACRA: AM2 (Positive Outlook) - Management Company

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 30TH JUNE 2008**

The Board of Directors of Arif Habib Investment Management Limited, the Management Company of Pakistan International Element Islamic Fund (PIIF) is pleased to present its third annual report together with audited Financial Statements for the Financial Year ended 30th June 2008.

Fund Objective

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

Fund Profile

PIIF is an open-end asset allocation Fund, which seeks to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic allocations towards different asset classes.

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

Fund Performance During Financial Year Ended 30th June 2008

The net assets of the Fund as at 30th June 2008 stood at Rs 984.08 million. The ex-dividend Net Assets Value (NAV) per unit at the start of the period was Rs 50.14, an increase of Rs 1.72 in the NAV per unit was recorded during the period under review. The NAV per unit as on 30th June 2008 was Rs 51.86. Further, during the year, PIIF delivered a total return of 3.4% compared to its Hybrid Benchmark, which is 70% Dow Jones JS Pakistan Islamic index and 30% Dow Jones Islamic Market World index (representing the allowed allocation limits of international and domestic investment), which Dow Jones JS Islamic rose by 3.75%. The KSE-100 Index, however, fell by 10.8% during the period.

Earning Per Unit (EPU)

EPU has not been disclosed as we feel determination of weighted average units for calculating EPU is not practicable for open-end funds.

Income Distribution

The Board in the meeting held on 3rd July 2008 declared a distribution in the form of bonus units to A, B and C class units and equivalent cash dividend for D class units at the rate of Rs 1.75 per unit for the Financial Year ended 30th June 2008 (3.49% on the opening NAV for the Financial Year 2008)

Corporate Governance

The Fund is listed on all the three Stock Exchanges of Pakistan; hence the Management Company is required to comply with the requirements of the Code of Corporate Governance 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 appropriate accounting policies have been consistently applied in preparation of Financial Statements and accounting estimates are based on reasonable and prudent judgment. International Financial Reporting Standards as applicable in Pakistan have been followed in the preparation of Financial Statements. The system of internal control is sound in design and has been effectively implemented and monitored. There are no events or conditions that cast doubt upon the Fund’s ability to continue as going concern. There has been no material departure from the best practices of Corporate Governance, as detailed in listing regulations. Key financial data is summarized in the Financial Statements. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the accounts. The statement as to the value of investments of provident Fund is not applicable in the case of the Fund as such expenses are borne by the Management Company. The detailed pattern of Unit Holding, as required by the Code of Corporate Governance is given in the annual report.

**Attendance of Board Meetings
From 1st July 2007 to 30th June 2008**

Statement showing attendance of Board meetings is as follows:

S. No.	Name	Meetings		
		Total	Attended	Leave Granted
1.	Mr. Salim Chamdia (Chairman)	12	12	-
2.	Mr. Nasim Beg	12	12	-
3.	Mr. Sirajudin Cassim	12	-	12
4.	Mr. Muhammad Akmal Jameel	12	11	1
5.	Mr. Muhammad Kashif Habib	12	6	6
6.	Mr. Muhammad Shafi Malik	12	10	2
7.	Mr. John W. Kirkham	12	2	10
8.	Mr. Mirza Qamer Beg	12	10	2

On 21st August 2007 Mr. John Kirkham, the Chairman of the Board resigned and Mr. Salim Chamdia was appointed in his place on 6th October 2007. On 15th September 2007, Mr. Mirza Qamar Beg was appointed as director however he resigned from directorship on 3rd July 2008 and Mr. Yacoob Memon was appointed on 25th July 2008.

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

S. No.	Name	Designation	<i>Investment</i>	<i>Redemption</i>
			<i>(Number of Units)</i>	
1.	Mr. Nasim Beg	Chief Executive	107,527	104,097

External Auditors

As recommended by the Audit Committee, the Board of Directors of the Management Company has appointed M/s. KPMG Taseer Hadi & Co., Chartered Accountants as the Fund’s new auditor for the year ending 30th June 2009.

Future Outlook

Domestic

The KSE-100 finished the Fiscal Year ended 30th June 2008 down 10.77%. It suffered a significant meltdown after touching its peak in April 2008 and benchmark index has come down by 35% by July 2008. Weakening macro fundamentals local political stalemate and turbulence in the global economy and financial markets have been the major factors.

Pakistan economy has been adversely affected by rising international oil price, double digit growth in inflation and pressure on balance of payments. During 2009, the pressure on balance of payments is likely to be absorbed through external inflows such as Saudi Oil facility. However, pressure on current account deficits will persist if the trade deficit remains high and investment inflows stay low. In addition, interest rates are also expected to stay high or may even rise further in the backdrop of inflationary pressures. High interest rates environment will keep equity valuations subdued in the near future. Overall valuations have become attractive following the recent correction in the market. Moreover, any major decrease in the international oil price, funding commitments from big economies or multi lateral agencies and the much required stability on the local political front can serve as key drivers for the equity values.

International

Equity markets throughout the world have suffered major decline during the Financial Year ended June 2008 with some of the major indexes losing in the range of 14% to 25%. The global economy is in a tough spot, caught between sharply slowing demand in many advanced economies and rising inflation everywhere, notably in emerging and developing economies.

Global growth is expected to decelerate significantly in the second half of 2008, before recovering gradually in 2009. Looking forward, in advanced economies, inflationary pressures are likely to be countered by slowing demand and, with commodity prices projected to stabilize, the expected increase in inflation for 2008 is forecast to be reversed in 2009. In emerging and developing countries, inflationary pressures are mounting faster, fueled by soaring commodity prices, above-trend growth, and accommodative monetary policies.

Financial market conditions remain difficult, however, forceful policy responses to the financial turbulence and encouraging progress towards bank recapitalization seemed to have reduced concerns about a financial meltdown.

Acknowledgement

The Board is thankful to the Fund's valued investors, 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 team of the Management Company for the growth and the meticulous management of the Fund.

For and on behalf of the Board

25th July 2008
Karachi

Nasim Beg
Chief Executive

**REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED 30TH JUNE, 2008**

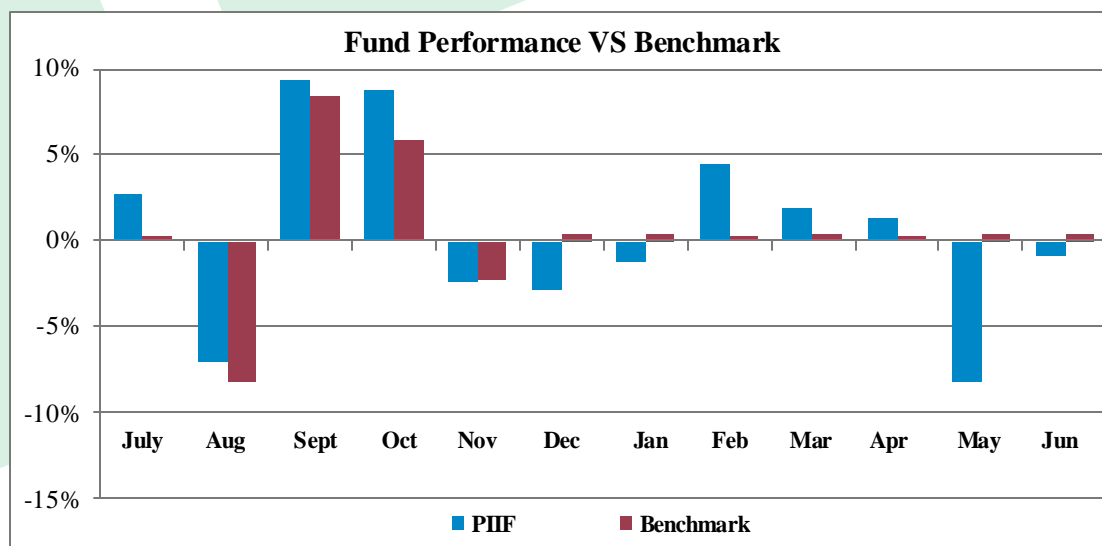
Fund Objective

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

Fund's Performance

During the year ended 30th June 2008, PIIF has earned a total return of 3.4%, as compared to 3.75% return of its Hybrid Benchmark which is 70% Dow Jones Islamic Market Pakistan index and 30% Dow Jones Islamic Market World Index (representing the allowed allocation limits of international & domestic investments). The Fund's return was slightly below its benchmark primarily due to the reason that its international investment portfolio was not invested upto the allowed limit and international benchmark delivered better returns (Dow Jones Islamic Market World index return 10.4%) than the domestic one (Dow Jones Islamic Market Pakistan index return 0.92%). The KSE-100 index, however, fell by 10.8% during the period.

Despite the overall negative return on Pakistan's equity market, the Fund was able to deliver a positive return and thus achieved its objective. On a comparative basis, however, the Fund climbed to the top slot in the Islamic Fund's category in Pakistan.



	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2008 Performance
PIIF	2.6%	-7.1%	9.3%	8.8%	-2.5%	-3.0%	-1.2%	4.4%	1.9%	1.2%	-8.3%	-0.9%	3.43%
70% DJIMPK & 30%DJIM World	0.1%	-8.3%	8.4%	5.8%	-2.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	3.75%

NAV Change Analysis and Total Return

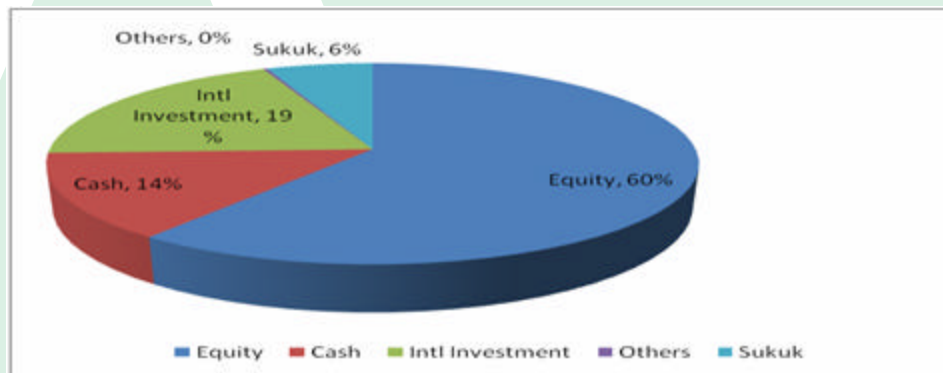
	FY2005-06	FY2006-07	FY2007-08
Beginning net assets (Rs 000)	825,000	1,378,168	1,072,531
No. of Units	16,500,000	28,877,192	21,388,967
Beginning NAV (Rs per unit)	50.00	47.73	50.14
Ending Net Assets (Rs 000)	1,378,168	1,072,531	984,083
No. of Units	28,877,192	18,211,172	18,974,014
Ending NAV (Rs per unit)	47.73	58.89	51.86
Bonus Distribution (Rs per unit)	Nil	8.75	1.75
Ending NAV (Ex-Dividend) (Rs per unit)	47.73	50.14	50.11
Income Distribution (%)	Nil	18.33	3.49
Capital Growth (%)	Nil	5.07	(0.06)
Total Return (%)	(4.54)	23.40	3.43

Average Annual Returns for Last 1, 2 & 3 year periods.

Year End	Numbers of Years	Total Return	Annualised Return (CAGR)
30-Jun-08	1 year	3.43%	3.43%
	2 Year	27.61%	12.96%
	3 year (Since inception)	21.82%	9.50%
30-Jun-07	1 year	23.40%	23.40%
	2 Year (since inception)	17.78%	14.98%
30-Jun-06	1 year (since inception)	(4.54%)	(23.60%)

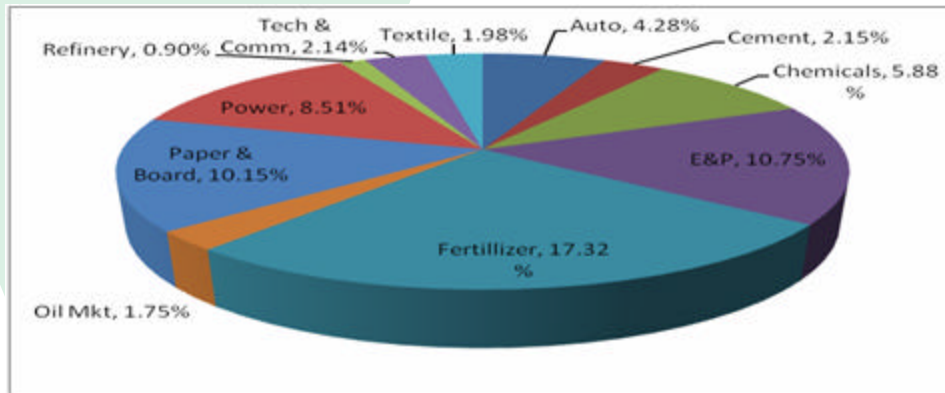
Asset allocation and investment Activities during 2008

The average (month-end) portfolio allocations to the different assets classes during the year were as follows:



Equity portfolio (Domestic)

The equity portfolio was diversified across a wide range of economic sectors with average (month-end) exposure in major sectors as follows and it contributed 3.88% to the portfolio return (gross of expenses).



During the year, the Fund was invested in around 15 stocks which were attractive in terms of their valuations and fundamental outlook. Major contribution in the total return has come from the Fertilizer, Power Generation & Distribution, Oil & Gas Exploration and Refinery sectors, while Cement, Autos and Textiles caused major decline in the portfolio value.

Fertilizer and E&P, which together accounted for around 28% of the portfolio remained the best performing sectors and provided major contribution to the return of the portfolio. Holdings in the Chemical, Power Generation and Refinery also contributed significant positive return to the portfolio primarily on account of realised capital gains on their disposals. Autos, Cement and Textile were the major contributors of negative returns in the portfolio mainly on account of unrealised capital losses. Being a Shariah compliant portfolio, most of the holdings had a very low exposure to interest rate risk which resulted in smaller decline in these stocks as compared to others in the market due to hike in interest rates by SBP.

Changes in the Portfolio

During the year, the Fund completely disposed off its holdings in the Refinery sector while reductions were made in the allocations to Fertilizer, Auto and Paper & Board sector. Telecom, Oil Marketing and Power sectors were added in the portfolio. Sector wise analysis of portfolio changes and returns are given below:

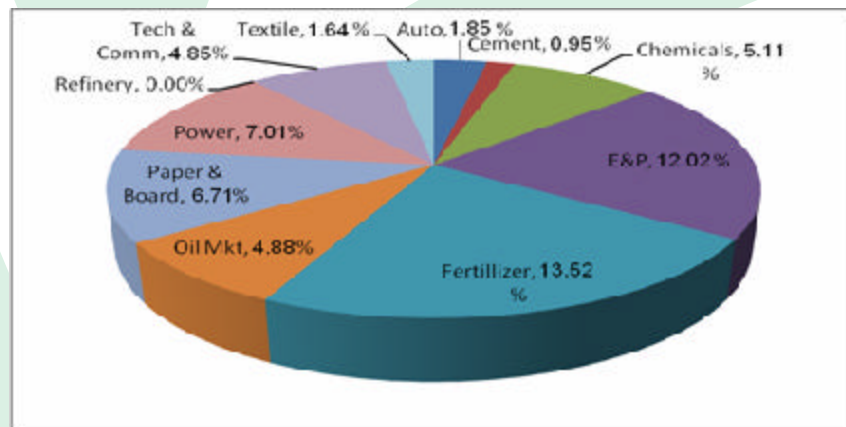
- Holding in the refinery sector (NRL), which was around 4% of the portfolio, was disposed off due to the negative outlook of the sector amidst expectations of removal of deemed duty on diesel which was expected to have significant impact on gross refining margins. The timely exit contributed 1.13% to the portfolio return.
- Allocation to Fertilizer sector was reduced from 23.74 % to 13.52 % by completely divesting holding in FFBL on the backdrop of downgrade of its earnings forecast due to cost pressures and decline in sales volume. Fertilizer sector proved to be the star performer and contributed 2.95% to the portfolio return.
- Auto sector exposure caused the biggest dent in the portfolio return by contributing (2.33%).Auto sector outlook turned negative due to the serious threats to its earnings on account of rising steel prices and depreciation of Rupee against Yen while higher financing cost reduced sales potential. The Fund therefore reduced its exposure from 6.1% to 1.85% by completely divesting from the two auto assemblers of the higher end market i.e. Honda Car and Indus Motors.
- Paper & Board which was 10% of the portfolio last year was brought down to 6.71%. One of the holdings in this sector, Century Papers, had to be disposed off due to Shariah compliance reasons, while Packages holding was reduced as it became over priced with respect to its fair value. The sector contributed 0.2% to portfolio return.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

- Allocation to Power sector was made by adding KAPCO to around 9% in the portfolio as it was offering an attractive dividend yield. However, KAPCO holding had to be disposed off completely as it became non-compliant on the basis of its December 2007 financials. It was then substituted to some extent by accumulating Hubco, which was also at attractive levels. The contribution of Power sector to total portfolio return was 1.36%.
- In the Technology sector, Netsol had to be disposed off due to Shariah compliance reasons. PTCL was added in the portfolio on the expectations of visible earning outlook post Financial Year 2008 after one-off cost of VSS. The Technology sector contribution in return was (0.27%).
- OMC sector was added in the portfolio close to the financial year end by taking exposure in PSO (5%) after its valuation became attractive subsequent to the significant decline in its price, and is expected to perform better in the rising oil prices scenario. The contribution from this sector in the total return was 0.48%.

Portfolio Composition at year end

The composition of the portfolio as at year end June 2008 was as follows:



Allocations to the Fertilizer, E&P, Power, Paper & Board, Oil Marketing and Chemicals sector constitute major portion of the portfolio which are expected to outperform the other sectors of the economy in the forthcoming months.

International portfolio

As of June end, the international portfolio was 17.64% of Fund size (out of the 30% maximum allowed) and contributed a total portfolio return of 2.63% (gross of expenses) out of which 0.46% was capital appreciation while 2.18% was on account of exchange gain.

The International portfolio comprised of Islamic Mutual Funds having exposure in US, European and Asia Pacific markets. PIIF exited from US exposure by divesting its investment in Alfanar US Large-Cap Ltd during the year.

Market Review

The outgoing financial year ended June 2008 turned out to be a difficult year for Pakistan Market, which after witnessing a bull run for 6 consecutive years (Financial Year 2002-07), ended with a negative return of 11% and closed at 12,289 points level.

In the Financial Year 2008, the market posted a negative annual return of 10.8% against 6 year (Financial Year 2002-07) average annual return of 48%. Though KSE-100 touched its all time high of 15,676 on 18th April, 2008, the index could not sustain its upward momentum and closed the Fiscal Year at 12,289 level, down 22% from its peak. Uncertain

political situation and weak macroeconomic fundamentals were the major reasons behind this massive correction. Among key sectors, Fertilizers and E&P sectors remained top performers with returns of 21 % and 13 %, respectively in their capitalization. Performance of the two index heavyweights was more than offset by dismal performances by Banking and Telecom sectors, which registered a decline of 36% and 29 %, respectively.

According to Central Bank cash flows numbers, during Financial Year 2008, total outflow of foreign portfolio investments was recorded at USD 221 million (as of 27th June 2008), as against net inflows of USD 978 million, recorded in Financial Year 2007. While the country witnessed an inflow of USD 40 million during the first half of Financial Year 2008, uncertain political environment coupled with liquidity crisis in international markets led to an outflow of USD 261 million in the second half.

During July 2007 – June 2008 period, the Dow Jones Industrial Average index displayed a total return of (15.25%), the NASDAQ composite index; (11.2%); and the FTSE index; (14.86%). In the Asian regional markets the Hang Seng index (HSI) showed a total return of 1.51%, the Bombay Stock Exchange (BSESN); (8.12%), and the China Shanghai; (28.39%). Along this backdrop, the Pakistani equity market, which is otherwise considered to be largely insulated from the outside world, was also hard hit at several fronts and ended up delivering a negative total return of 10.77%, albeit modest in comparison to the returns on the international markets.

Economic Review

Growth Takes the Toll

GDP growth fell to 5.8% in the Financial Year 2008, significantly lower than the targeted 7.2%. Large scale Manufacturing grew by a dismal 4.8% and Agriculture by a mere 1.5%. However, the services sector, insulated from all the gloom developing in the economy, exceeded its target of 7.2%, registering 8.2% growth rate, an indication that consumer confidence remained largely intact in this area.

The Challenge of the Twin Deficits

Exports increased during the Financial Year 2008 by 13.2% to USD 19.2 billion whereas imports rose by 30.9% to USD 39.9 billion. The result was a significantly large trade deficit of USD 20.7 billion, an increase of 52.9%. This in turn has impacted the current account, which has gone up to 8.4% of GDP in Financial Year 2008. As a result foreign reserves have been put under pressure which in October stood over USD 16 billion, have shrunk to USD 11 billion by June end. Further the Rupee has depreciated by 13% during the year amid the rising trade and current account deficits. The fiscal deficit narrates a similar tale; subsidies amounted to Rs 407 billion against a budgeted Rs 113 billion, had prompted increased borrowing from the Central Bank thus creating inflationary pressures. Increase in the cost of doing business has hurt the investment climate causing a decline in investment as a percentage of GDP from 22.9% to 21.6%. The fiscal deficit at present stands at 8.3% of GDP, significantly surpassing the limit of 4-4.5 % of GDP the GoP has to follow under Fiscal and Debt Responsibility Act 2005.

A New Era of Inflation

In the Financial Year 2008, prices of key commodities had gone up considerably high. Of particular significance was oil which since June 2007 has more than doubled, with highly sensitive developing economies suffering the most. Prices of almost every major input to production have increased with dizzying speed, bringing down equity valuations across the globe. In Pakistan, like the rest of the world, inflation has hit both the individuals and industry with full vigour, Average CPI since June has increased by 12%.

The U.S Housing Crisis Takes the Globe by Surprise

The collapse of the U.S housing market led to the largest financial institutions coming under severe liquidity crunch, dampening investor confidence in the financial system, a plummeting Dollar vacillating under the prospects of a U.S recession with growing signs of inflation and lastly, adversely impacting global financial markets.

Future Outlook

The Year Ahead; a Time for Making Adjustments

There has been a gross realization of the seriousness of the global economic situation and central banks, governments and individuals are making adjustments in order to escape the brunt of inflation. The US Federal Reserve Bank, after an aggressive rate cutting in order to avert an economic crisis, is now poised to increase rates, along with the European Central Bank and other central banks in emerging markets. In this context, Pakistan's aggressive interest rate policy is not unique, but an amalgamation with the growing awareness of most other central banks that a tight monetary stance has become imperative in order to contain monetary overhang and the global commodities boom. In addition to this, emerging economies are currently running higher budget deficits primarily due to heavy spending on subsidies (oil and food). Like other countries, the Pakistan government too has indicated that subsidies are not a solution to the problem and therefore, international price increases of oil and food will be passed on to domestic consumers.

Growth slowdown to persist

The growth slowdown of Financial Year 2008 is likely to continue into the new fiscal year on the back of lower consumer and business confidence, high borrowing costs, political uncertainty and increasing costs of major raw materials. Nonetheless, the growth target of 5.5%, slightly higher than Pakistan's long run average growth rate (5.2%) seems achievable. The services sector which contributes the major share of GDP is expected to slow, though still grow significantly as compared to other sectors (6% targeted) as a result of improvement in Pakistan's fundamentals achieved in the last half decade. The target for the Manufacturing sector of 6%, in our view will be difficult to achieve as fundamentals particularly in Textile go against this projection. On the other hand, Agriculture sector is expected to grow by 4% and may also exceed this target due to favourable price situation and government support.

Twin deficits should improve

The government has put in place arrangements for raising approximately USD 10 billion external inflows in 2009 (compared to USD 3.3 billion similar inflows in 2008). This will include in particular Saudi Oil Facility, U.S Economic/Defence Assistance, World Bank and the Asian Development Bank. In addition, the government is targeting to reduce trade deficit by increasing exports up to 15% without imports accelerating significantly. All these measures should help in reducing current deficit to 6% of GDP in 2009 from 8.2% last year.

In order to control high fiscal deficit (presently 8.3% of GDP), the government has started to pass on the international oil price increase to domestic users and is aiming to reduce overall subsidies to Rs 295 billion from Rs 407 billion of last year. In addition, the deferred oil payment facility (one third of Pakistan import) of USD 5 billion will create the necessary fiscal space for the government, which will lead to less borrowing from the Central Bank.

High Interest Rate Environment to Persist

After a total of 250 basis points rise in rates in Financial Year 2008 and 100 basis points in July 2008 (discount rate is now at 13%), we can see further increase in interest rates if inflationary pressures stay strong in coming months.

Implications for PIIF

PIIF, being Shariah compliant Fund, is better placed to perform in the current market environment as it is relatively less vulnerable to implications of monetary tightening due to no exposure in financial sector and being invested in lower leveraged industrial sectors. Moreover, adverse changes in the exchange rate will benefit the international portfolio of the Fund. PIIF, thus provides, a comparatively better avenue for investors seeking a hedged exposure to the equities market.

Other Disclosures under NBFC Regulations 2007

The Fund Manager hereby makes the following disclosures as required under the NBFC Regulations 2007.

- a. The Management Company or any of its delegates did not receive any soft commission (goods & services) from any of its broker/dealer by virtue of transactions conducted by the Fund.
- b. There was no unit split undertaken during the year.
- c. The Fund Manager is not aware of any circumstances that can materially affect any interests of the Unit Holders other than those already disclosed in this report.
- d. Statement of unit holding by size is given in the annual report.

TRUSTEE REPORT TO THE UNIT HOLDERS

Report of the Trustee pursuant to Regulation 58(f) and Clause 9 of Schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007

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

In our opinion, the Management Company has in all material respects managed the Fund during the year ended 30th June 2008 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, 2007 and the constitutive documents of the Fund.

Karachi:
Dated: 12th September 2008

Muhammad Hanif
Chief Executive Officer
Central Depository Company of Pakistan Limited

REPORT OF THE SHARIAH ADVISORY COUNCIL

Alhamdulillah, the year under review was the second full year of operations of Pakistan International Element Islamic Fund (the Fund). We, the Shariah Advisory Council of the Fund, are issuing this report in accordance with the clause 2.3 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

It is the responsibility of M/s Arif Habib 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; (1) Nature of business, (2) Interest bearing debt in relation to the total assets, (3) Illiquid assets in relation to the total assets, (4) Investment in non-Shariah compliant activities to total assets and income from non-compliant investments to Gross revenues, and (5) Net liquid assets per share vs. share price.

For screening international equities, we have advised the Dow Jones Islamic Indices criteria to be used, which relate the level of cash, receivable, interest bearing securities and debt to the average market capitalization of the company. As of 30th June 2008 PIEIF had approximately 17.64% of its NAV in international investments, namely in two Islamic Funds (Alfanar Asia and Alfanar Europe). These funds were reviewed prior to the investment and as such were deemed Shariah compliant.

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

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

In the light of the above scope, we hereby certify that all the provisions of the scheme and investments made by the Fund for the year ended 30th June 2008 are in compliance with the Shariah principles.

The management company has been directed to set aside as charity, amount earned as interest from conventional banks. In addition, there are investments made by PIEIF where 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 2.460 million was transferred to the charity account and an amount of Rupees 1.741 million was disbursed.

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.

Karachi
Dated: 16th August 2008

Dr Ejaz Samadani

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 30th June 2008.

It is the responsibility of the Management Company to appoint a Shariah Advisor 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, in all material respects, with Shariah guidelines, as prescribed by the Shariah Advisory Council. 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 during the year ended 30th June 2008 were, in all material respects, in compliance with the shariah compliant avenues as approved by the Shariah Advisory Council of the Fund.

Karachi
16th August 2008

A, F. Ferguson & Co.
Chartered Accountants

**STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30TH JUNE 2008**

This statement is being presented by the Board of Directors of Arif Habib Investment Management Limited, the Management Company of the Pakistan International Element Islamic Fund (Fund) to comply with the Code of Corporate Governance contained in Regulation No.37, of listing regulations of Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors however, none of the directors on the Board represent minority shareholders.
2. The directors 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 Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board of the Management Company due to resignation of Mr. John Kirkham on 21st August 2007, which was filled by Mr. Mirza Qamar Beg on 15th September 2007.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and circulated for signatures to all employees of the company.
6. The Board has developed mission statement and significant policies of the Fund. 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 and circulated and signed by the Chairman of the meeting of the Board of Directors.
9. An orientation course has been conducted for all the directors of the company to inform them about regulatory updates, NBFC Rules 2003 and NBFC & Notified entities Regulations, 2007.

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

For and on behalf of the Board

Karachi
25th July 2008

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 XI of the Islamabad Stock Exchange and Chapter XIII of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company 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 Company personnel 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 effectiveness of such internal controls.

Based on our review nothing has come to our attention which cause 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 period from 30th June 2008.

Karachi
25th July 2008

A.F. Ferguson & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S 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 30th June 2008, 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 of financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 30th June 2008 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and Non-Banking Finance Companies and Notified Entities Regulations, 2007.

Karachi
25th July 2008

A. F. Ferguson & Co.
Chartered Accountant

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 30TH JUNE 2008**

	Note	2008 -----Rupees in '000-----	2007
ASSETS			
Bank balances	4	121,266	168,182
Receivable against sale of investments		2	18,356
Receivable against sale of units		20,185	1,680
Investments	5	831,299	904,299
Dividend and profit receivable	6	10,207	7,654
Deposits, prepayments and other receivables	7	3,594	9,118
Preliminary expenses and floatation costs	8	4,670	6,320
Total assets		991,223	1,115,609
LIABILITIES			
Payable to Arif Habib Investment Management Limited - Management Company	9	2,632	2,008
Payable to Central Depository Company of Pakistan Limited - Trustee	10	165	175
Payable to Shariah Advisor		83	210
Payable to Securities and Exchange Commission of Pakistan	11	1,030	1,267
Payable on redemption of units		180	35,640
Accrued expenses and other liabilities	12	3,050	3,778
Total liabilities		7,140	43,078
NET ASSETS		984,083	1,072,531
Unit holders' funds (as per statement attached)		984,083	1,072,531
		(Number of units)	
Number of units in issue	13	18,974,014	18,211,172
		(Rupees)	
Net asset value per unit		51.86	58.89

The annexed notes 1 to 27 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 30TH JUNE 2008**

	Note	2008 -----Rupees in '000-----	2007
Income			
Capital gain on sale of investments		56,484	86,633
Income from investment in Sukuk		7,308	-
Dividend income		31,665	41,689
Profit on bank accounts		6,390	21,887
Other income		1,402	178
		103,249	150,387
Unrealised appreciation / (diminution) on investments at fair value through profit or loss - net	5.4	(23,990)	145,597
		79,259	295,984
Expenses			
Remuneration of Arif Habib Investment Management Limited - Management Company	14	28,474	36,470
Remuneration of Central Depository Company of Pakistan Limited - Trustee		2,019	2,267
Remuneration of Shariah Advisor		496	500
Annual fee - Securities and Exchange Commission of Pakistan		1,030	1,267
Brokerage		2,169	2,531
Bank charges		184	49
Settlement charges		43	29
Fees and subscriptions		351	113
Auditors' remuneration	15	769	635
Capital value tax		95	52
Printing & related cost		322	-
Professional charges		268	-
Amortisation of preliminary expenses and floatation costs	8	1,650	1,650
Total operating expenses		37,870	45,563
Net income from operating activities		41,389	250,421
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(8,629)	(22,757)
Net income for the year		32,760	227,664
Earnings per unit	3.7		

The annexed notes 1 to 27 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 30TH JUNE 2008**

	2008 -----Rupees in '000-----	2007
Undistributed income / (net loss) brought forward	161,974	(65,690)
Final distribution 2007: Rs. 8.75 per unit (Date of distribution: 4 th July 2007) (2006: Nil)		
- Bonus units	(125,228)	-
- Cash distribution	(34,120)	-
Net profit for the year	32,760	227,664
	(126,588)	227,664
Undistributed income carried forward	35,386	161,974

The annexed notes 1 to 27 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 30TH JUNE 2008**

	2008 -----Rupees in '000-----	2007
Net assets at the beginning of the year	1,072,531	1,378,168
Issue of 12,724,685 units (2007: 6,303,297 units)	698,176	344,403
Redemption of 14,459,413 units (2007: 16,969,317 units)	(793,893)	(900,461)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to income statement	(95,717)	(556,058)
Capital gain on sale of investments	8,629	22,757
Net unrealised appreciation / (diminution) on investments at fair value through profit or loss	56,484	86,633
Other net income / (loss) for the year	(23,990)	145,597
Final distribution 2007: Rs. 8.75 per unit (Date of distribution: 4 th July 2007) (2006: Nil)	266	(4,566)
- Bonus units	32,760	227,664
- Cash distribution	(125,228)	-
Issue of 2,497,570 bonus units for the year ended 30 th June 2007 (2006: Nil)	(34,120)	-
Net assets as at the end of the year	(159,348)	-
	125,228	-
	<u>984,083</u>	<u>1,072,531</u>

The annexed notes 1 to 27 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 30TH JUNE 2008**

	Note	2008	2007
		-----Rupees in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		32,760	227,664
Adjustments			
Unrealised diminution / (appreciation) in the value of investments at fair value through profit or loss - net		23,990	(145,597)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		8,629	22,757
Amortisation of preliminary expenses and floatation costs		1,650	1,650
Remuneration of Arif Habib Investment Management Limited - Management Company		28,474	36,470
Remuneration of Central Depository Company of Pakistan Limited - Trustee		2,019	2,267
		97,522	145,211
(Increase) / decrease in assets			
Receivable against sale of investments		18,354	(15,917)
Investments		49,010	420,895
Dividend and profit receivable		(2,553)	6,428
Deposits, prepayments and other receivables		5,524	(303)
		70,335	411,103
Increase / (decrease) in liabilities			
Payable to Arif Habib Investment Management Limited - Management Company		639	(8,540)
Payable to Central Depository Company of Pakistan Limited - Trustee		2	(9)
Payable to Shariah Advisor		(127)	125
Payable to Securities & Exchange Commission of Pakistan		(237)	1,039
Payable against purchase of investments		-	(2,000)
Accrued expenses and other liabilities		(728)	3,279
		(451)	(6,106)
Remuneration paid to Arif Habib Investment Management Limited - Management Company		(28,489)	(35,538)
Remuneration paid to Central Depository Company of Pakistan - Trustee		(2,031)	(2,286)
Net cash from operating activities		136,886	512,384
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(34,120)	-
Net receipts / (payments) made against sales / redemption of units		(149,682)	(510,051)
Net cash used in financing activities		(183,802)	(510,051)
Net (decrease) / increase in cash and cash equivalents during the year		(46,916)	2,333
Cash and cash equivalents at the beginning of the year		168,182	165,849
Cash and cash equivalents as at 30 th June	4	121,266	168,182

The annexed notes 1 to 27 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 30TH JUNE 2008**

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 14th 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.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2' to the Management Company and '4 Star Normal' to the Fund.

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Amendments to published accounting standards effective in 2008

Amendments to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces certain new disclosures about the level of and the management of the Fund's capital. Adoption of this amendment has only resulted in additional disclosures which have been set out in note 23 of these financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1st July 2007 which are not considered relevant nor have any significant effect on the Fund's operations are not detailed in these financial statements.

2.3 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 1st January 2008 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 (Revised September 2007)	effective from 1 st January 2009
IAS 23 - Borrowing Costs (Revised March 2007)	effective from 1 st January 2009
Amendments to IAS 27 (Revised) - Consolidated and Separate Financial Statements	effective from 1 st July 2009

IFRS 3 (Revised) - Business Combinations	effective from 1 st July 2009
IFRS 7 - Financial Instruments: Disclosure	effective from 28 th April 2008
IFRS 8 - Operating Segments	effective from 1 st January 2008
IFRIC 12 - Service Concession Arrangements	effective from 1 st January 2008
IFRIC 13 - Customer Loyalty Programmes	effective from 1 st July 2008
IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction	effective from 1 st January 2008
IFRIC 15 - Agreements for the Construction of Real Estate	effective from 1 st January 2009
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	effective from 1 st October 2008

2.4 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 3.1)
- ii) Amortisation of preliminary expenses and floatation costs (note 3.9)

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments have been carried at fair value.

2.6 Functional and Presentation Currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention 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 'Financial assets 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 value of these investments are taken to the Income Statement.

Investments in unquoted debt securities, if any, are carried at fair value.

b) Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

Investments categorised as available for sale are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, 'available for sale' investments are measured at fair value. Net gains and losses arising on changes in fair values of these investments are taken to equity until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset classified as available for sale is impaired. If evidence of impairment exists, the cumulative loss recognised in equity is removed from equity and recognised in the income statement.

Investments in unquoted debt securities, if any, are carried at fair value.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

Transaction costs are included in the initial measurement of all financial assets and liabilities except for transaction costs incurred at the time of acquisition of 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.

c) Derivatives

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.

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 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.

3.7 Earnings per unit

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

3.8 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed 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.

3.9 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 30th April 2006.

3.10 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.

3.11 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 deposits and certain other receivables.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

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.

3.12 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.

3.13 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 when the right to receive the payment is established.

Profit on bank deposits is recognised on an accrual basis.

Profit on investment in Sukuk certificates is recognised on an accrual basis.

3.14 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances.

3.15 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognized in the Income Statement within the fair value net gain or loss.

	Note	30 th June 2008	30 th June 2007
-----Rupees in '000-----			
4	BANK BALANCES		
	In current accounts	20,981	9,140
	In deposit accounts	100,285	159,042
		<u>121,266</u>	<u>168,182</u>
5	INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS'		
	Investment in shares listed in Pakistan	5.1 575,995	693,082
	Investment in units of mutual funds outside Pakistan	5.2 173,568	211,217
	Investment in unlisted Sukuk in Pakistan	5.3 81,736	-
		<u>831,299</u>	<u>904,299</u>

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

5.1 Investment in shares listed in Pakistan

Name of the Investee Company	Number of shares*					Balance as at 30 th June 2008			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at 1 st July 2007	Purchases during the year	Bonus/ Right issue	Sales during the year	As at 30 th June 2008	Cost	Market Value	Appreciation / (Diminution)		
----- (Rupees in '000) -----										
TEXTILE COMPOSITE										
Nishat Mills Limited	187,400	-	-	-	187,400	16,801	16,111	(690)	1.64	1.94
						<u>16,801</u>	<u>16,111</u>	<u>(690)</u>		
CEMENT										
Attock Cement Pakistan Limited	-	121,800	-	-	121,800	13,110	9,394	(3,716)	0.95	1.13
Cheat Cement Limited	331,890	-	-	331,890	-	-	-	-	-	-
						<u>13,110</u>	<u>9,394</u>	<u>(3,716)</u>		
CHEMICALS										
ICI Pakistan Limited	430,000	340,200	-	458,600	311,600	51,538	50,283	(1,255)	5.11	6.05
						<u>51,538</u>	<u>50,283</u>	<u>(1,255)</u>		
PAPER & BOARD										
Century Paper & Board Mills Limited.	133,800	-	13,380	147,180	-	-	-	-	-	-
Packages Limited	323,515	-	43,307	104,800	262,022	46,153	66,001	19,848	6.71	7.94
						<u>46,153</u>	<u>66,001</u>	<u>19,848</u>		
AUTOMOBILE ASSEMBLERS										
Honda Atlas Cars (Pak) Limited	636,440	-	189,340	825,780	-	-	-	-	-	-
Indus Motors Company Limited	12,100	-	-	12,100	-	-	-	-	-	-
Pak Suzuki Motor Company Limited	54,900	97,000	-	-	151,900	51,604	18,196	(33,408)	1.85	2.19
						<u>51,604</u>	<u>18,196</u>	<u>(33,408)</u>		
REFINERY										
National Refinery Limited	125,900	-	-	125,900	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>		
POWER GENERATION & DISTRIBUTION										
Hub Power Company Limited	-	2,410,500	-	-	2,410,500	76,025	68,940	(7,085)	7.01	8.29
Kot Addu Power Company Limited	-	2,009,800	-	2,009,800	-	-	-	-	-	-
						<u>76,025</u>	<u>68,940</u>	<u>(7,085)</u>		
OIL & GAS MARKETING COMPANIES										
Pakistan State Oil Company Limited	-	145,000	-	30,000	115,000	46,173	47,982	1,809	4.88	5.77
						<u>46,173</u>	<u>47,982</u>	<u>1,809</u>		
OIL & GAS EXPLORATION COMPANIES										
Oil & Gas Development Company Limited	863,927	100,000	-	250,000	713,927	86,179	88,784	2,605	9.02	10.68
Pakistan Petroleum Limited	-	120,000	-	-	120,000	31,320	29,519	(1,801)	3.00	3.55
						<u>117,499</u>	<u>118,303</u>	<u>804</u>		
TECHNOLOGY AND COMMUNICATION										
Pakistan Telecommunication Company Limited. "A"	-	1,235,400	-	-	1,235,400	53,372	47,736	(5,636)	4.85	5.74
Netsol technologies Limited	-	76,600	28,536	105,136	-	-	-	-	-	-
						<u>53,372</u>	<u>47,736</u>	<u>(5,636)</u>		
FERTILIZER										
Fauji Fertilizer Company Limited	857,600	25,000	-	386,100	496,500	61,898	65,697	3,799	6.68	7.90
Engro Chemical Pakistan Limited	324,300	-	88,449	172,900	239,849	42,112	67,352	25,240	6.84	8.10
Fauji Fertilizer Bin Qasim Limited	1,757,500	650,000	-	2,407,500	-	-	-	-	-	-
						<u>104,010</u>	<u>133,049</u>	<u>29,039</u>		
						<u>576,285</u>	<u>575,995</u>	<u>(290)</u>		

* Fully paid ordinary shares of Rs 10 each

5.1.1 Investments include shares with market value of Rs 14,745,495 (2007: Nil) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular number 11 dated 23rd October 2007 issued by the Securities & Exchange Commission of Pakistan.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

5.2 Investment in units of mutual funds outside Pakistan

Name of the Mutual Fund	Number of units					Balance as at 30 th June 2008			Market value as percentage of net assets	Market value as percentage of total investment
	As at 1 st July 2007	Purchases during the year	Bonus/ Right issue	Sales during the year	As at 30 th June 2008	Cost	Market Value	Appreciation / (Diminution)		
Al Fanar US Large Capital Limited (5.2.1)	705	-	-	(705)	-	-	-	-	-	-
Al Fanar Europe Limited (5.2.2)	515	-	-	-	515	62,074	97,811	35,737	9.94	11.77
Al Fanar Asia Limited (5.2.3)	863	-	-	-	863	62,026	75,757	13,731	7.70	9.11
						<u>124,100</u>	<u>173,568</u>	<u>49,468</u>		

5.2.1 These represent investment in Class 'A' units of Al Fanar US Large Cap Limited incorporated in British Virgin Islands. Al-Fanar US large Cap Limited invests in US large value stocks, in accordance with the Islamic investment guidelines.

5.2.2 These represent investment in Class 'A' units of Al Fanar Europe Limited incorporated in British Virgin Islands. Al Fanar Europe Limited invests in European equities, in accordance with the Islamic investment guidelines.

5.2.3 These represent investment in Class 'A' units of Al Fanar Asia Limited incorporated in British Virgin Islands. Al Fanar Asia Limited invests in Asian equities, in accordance with the Islamic investment guidelines.

5.3 Unlisted sukuk certificates

Name of the Investee Company	Profit Rate %	Number of certificates				Balance as at 30 th June 2008			Market value as percentage of net assets	Market value as percentage of total investment
		As at 1 st July 2007	Purchases during the year	Sales during the year	As at 30 th June 2008	Cost	Market Value	Appreciation / (Diminution)		
Engro Chemical Pakistan Limited	Kibor + 1.5%	-	16,000	-	16,000	80,000	81,736	1,736	8.31	9.83
						<u>80,000</u>	<u>81,736</u>	<u>1,736</u>		

5.3.1 These have a face value of Rs 5,000 each

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

	30 th June 2008	30 th June 2007
Market value of investments	831,299	904,299
Less: Cost of investments	(780,385)	(796,161)
	<u>50,914</u>	<u>108,138</u>
Net unrealised (appreciation) / diminution in the value of investments at fair value through profit or loss at the beginning of the year	(108,138)	65,392
Realised on disposal during the year	41,765	(36,464)
	<u>(66,373)</u>	<u>28,928</u>
Unrealised Gain / (Reversal of gain) on letter of rights	(8,531)	8,531
	<u>(23,990)</u>	<u>145,597</u>
6 DIVIDEND AND PROFIT RECEIVABLE		
Dividend receivable	4,604	4,059
Profit receivable on bank deposits	2,587	3,595
Income receivable from Sukuk	3,016	-
	<u>10,207</u>	<u>7,654</u>

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	Note	30 th June 2008	30 th June 2007
-----Rupees in '000-----			
7	DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advance tax		480	108
Receivable from Pakistan Income Fund		-	203
Receivable from Pakistan Stock Market Fund		185	-
Prepaid expenses		13	51
Receivable from Arif Habib Investment Management Limited - Management Company		216	25
Deposits with Central Depository Company of Pakistan Limited		200	200
Deposits with National Clearing Company of Pakistan Limited		2,500	-
Unrealised gain on letter of rights		-	8,531
		<u>3,594</u>	<u>9,118</u>
8	PRELIMINARY EXPENSES AND FLOATATION COSTS		
Opening balance	8.1	6,320	7,970
Less: Amortisation during the year		(1,650)	(1,650)
Closing balance		<u>4,670</u>	<u>6,320</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 30th April 2006.

	Note	30 th June 2008	30 th June 2007
-----Rupees in '000-----			
9	PAYABLE TO ARIF HABIB INVESTMENT MANAGEMENT LIMITED – MANAGEMENT COMPANY		
Management fee	9.1	1,965	1,980
Front end load payable		666	28
Back end load payable		1	-
		<u>2,632</u>	<u>2,008</u>

9.1 For class A and class B units, management fee is calculated as follows:

- 3% of the average annual net assets of the Fund attributable to class A and class B units as reduced by 25 percent of the management fee on the amount of foreign investments attributable to class A and class B units.

For class C and class D units, management fee is calculated as follows:

- 2% of the average annual net assets of the Fund attributable to class C and class D units as reduced by 25 percent of the management fee on the amount of foreign investments attributable to class C and class D units.

For units which were originally issued to the core investors, management fee is calculated as follows:

- 1.5% of the average annual net assets of the Fund attributable to the units originally issued to the core investors as reduced by 25% of the management fee on the amount of foreign investments attributable to the units originally issued to the core investors.

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

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

		30 th June 2008	30 th June 2007
		-----Rupees in '000-----	
10	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
	Remuneration payable	163	175
	CDS charges payable	2	-
		165	175

10.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily Net Asset Value of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30th June 2008 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee in arrears.

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

Under the provisions of the Non Banking Finance Companies & Notified Entities Regulations, 2007, a collective investment 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.

		30 th June 2008	30 th June 2007
		-----Rupees in '000-----	
12	ACCRUED EXPENSES AND OTHER LIABILITIES		
	Auditors' remuneration	420	391
	Brokerage	136	37
	Payable to Pakistan Income Fund	317	-
	Payable to Pakistan Stock Market Fund	-	2,036
	Withholding Tax payable	-	128
	Zakat Payable	112	237
	Charity / donation payable	1,668	949
	Credit Rating Fee	100	-
	Professional services charges	50	-
	NCSS charges	1	-
	Capital Value Tax	12	-
	Printing & related cost	234	-
		3,050	3,778

12.1 According to the instructions of the Shariah Board, any income earned by the Fund from investments whereby a portion of investment of such investee has been made in non-shariah compliant avenues, such portion of the income of the Fund from that investee should be donated for charitable purposes directly by the Fund.

13 NUMBER OF UNITS IN ISSUE

The units in issue as at 30th June 2008 in each class were as follows:

		30 th June 2008	30 th June 2007
		-----No. of units in issue-----	
Classes			
	A & B	12,163,372	6,780,595
	C & D	6,810,642	11,430,577
		18,974,014	18,211,172

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

13.1 Pattern of unitholding

	As at 30 th June 2008		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	3621	508,517	51.68%
Associated companies	1	122	0.01%
Insurance companies	2	3,543	0.36%
Directors	2	220	0.02%
Banks / DFIs	6	216,110	21.96%
NBFCs	1	1	0.00%
Retirement funds	48	175,018	17.79%
Public limited companies	2	6,233	0.63%
Others	17	74,319	7.55%
	<u>3700</u>	<u>984,083</u>	<u>100.00%</u>

	As at 30 th June 2007		
	Numbers of units holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	5035	339,453	31.65%
Associated companies	1	118	0.01%
Insurance companies	-	-	-
Directors	1	391	0.04%
Banks / DFIs	14	292,066	27.23%
NBFCs	5	22,337	2.08%
Retirement funds	45	127,652	11.90%
Public limited companies	12	247,401	23.07%
Others	24	43,113	4.02%
	<u>5137</u>	<u>1,072,531</u>	<u>100.00%</u>

Note	For the year ended 30 th June 2008	For the year ended 30 th June 2007
	-----Rupees in '000-----	
	<u>22,505</u>	28,527
	<u>5,969</u>	7,943
	<u>28,474</u>	<u>36,470</u>

14 MANAGEMENT FEE

Management Fee		<u>22,505</u>	28,527
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	14.1	<u>5,969</u>	7,943
		<u>28,474</u>	<u>36,470</u>

- 14.1 The management company has announced different units ("C" and "D" class units) to which reduced levels of management fee are applicable. This reduction in management fee is passed on to such unit holders under a specific mechanism set out in the Trust Deed. In this connection, the amount of reduction in management fee is deemed to be reinvested in the Fund on behalf of eligible unit holders and additional units (at the prevailing NAV of the Fund) are issued by the Trustee to such unit holders on a daily basis. Consequently, under the mechanism, 111,258 (for the year ended 30th June 2007: 158,883) additional units amounting to Rs 5,969 million (for the year ended 30th June 2007: Rs 7.943 million) have been issued to these unit holders by the Trustee during the current year.

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	Year ended 30 th June 2008	Year ended 30 th June 2007
15 AUDITORS' REMUNERATION	-----Rupees in '000-----	
Audit fee	175	150
Half yearly review fee	80	50
Other certifications and services	505	405
Out of pocket expenses	9	30
	<u>769</u>	<u>635</u>

16 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investment Management Limited being the Management Company, Arif Habib Bank Limited (Formerly Arif Habib Rupali Bank Limited), Arif Habib Securities Limited, Arif Habib Limited and Aba Ali Habib being companies under common management, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

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

	Year ended 30 th June 2008	Year ended 30 th June 2007
	(Rupees in '000)	
Arif Habib Investment Management Limited- Management Company		
Remuneration of the Management Company	28,474	36,470
Front End Load	5,986	911
Back End Load	1,448	-
Transaction costs	364	46
349 units Invested in the Fund (2007: Nil)	18	-
Arif Habib Limited - Brokerage House		
Brokerage	235	190
Arif Habib Bank Limited		
Balance with bank	15,430	100
Directors and Officers		
307,909 units (2007: 28,985 units) issued during the year	16,240	1,485
261,570 units (2007: 176,793 units) redeemed during the year	14,740	9,561
Arif Habib Investment Management Limited Employees Provident Fund		
66,353 units (2007: Nil) issued during the year	3,620	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the year	2,019	2,267

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

	30 th June 2008	30 th June 2007
	-----Rupees in '000-----	
16.1 Amounts outstanding as at the year end		
Arif Habib Investment Management Limited - Management Company		
Remuneration payable	1,965	1,980
Transaction cost receivable	216	25
Front-end load payable	666	28
Back-end load payable	1	
Central Depository Company of Pakistan Limited - Trustee		
Balance at end of the year	165	175
Security deposit (assets)	200	200

17 YIELD / INTEREST RATE RISK

17.1 The Fund is mainly exposed to mark-up / interest rate risk on its investment portfolio. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that risk is managed within acceptable limits.

	----- As at 30 th June 2008 -----				
	Exposed to Yield/Interest risk			Not exposed to Yield/ Interest 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	100,285	-	-	20,981	121,266
Receivable against sale of investments	-	-	-	2	2
Receivable against sale of units	-	-	-	20,185	20,185
Investments	81,736	-	-	749,563	831,299
Dividend and profit receivable	-	-	-	10,207	10,207
Deposits and other receivables	-	-	-	3,101	3,101
	182,021	-	-	804,039	986,060
Financial Liabilities					
Payable to Arif Habib Investment Management Limited - Management Company	-	-	-	2,632	2,632
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	165	165
Payable to Shariah Advisor	-	-	-	83	83
Payable on redemption of units	-	-	-	180	180
Accrued expenses and other liabilities	-	-	-	3,050	3,050
	-	-	-	6,110	6,110
On-balance sheet gap	182,021	-	-	797,929	979,950
Off-balance sheet financial instruments	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-
	----- As at 30 th June 2007 -----				
	Exposed to Yield/Interest risk			Not exposed to Yield/ Interest 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 on redemption of units	-	-	-	35,640	35,640
Accrued expenses and other liabilities	-	-	-	3,778	3,778
	-	-	-	41,811	41,811
On-balance sheet gap	159,042	-	-	908,277	1,067,319
Off-balance sheet financial instruments	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

		2008	2007
		Percentage per annum	
17.2	The rates of return on financial instruments are as follows:		
	Bank balances	4.97 to 10.0	1.5 to 9.0
	Sukuk certificates	Kibor + 1.5%	-

18 MATURITIES OF ASSETS AND LIABILITIES

	As at 30 th June 2008			
	Total	Upto three months	More than three months and upto one year	More than one year
----- Rupees in '000 -----				
Assets				
Bank balances	121,266	121,266	-	-
Receivable against sale of investment	2	2	-	-
Receivable against sale of units	20,185	20,185	-	-
Investments	831,299	831,299	-	-
Dividend and profit receivable	10,207	10,207	-	-
Deposits, prepayments and other receivables	3,594	881	13	2,700
Preliminary expenses and floatation costs	4,670	413	1,237	3,020
	991,223	984,253	1,250	5,720

Liabilities

Payable to Arif Habib Investment Management Limited - Management Company	2,632	2,632	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	165	165	-	-
Payable to Shariah Advisor	83	83	-	-
Payable to Securities and Exchange Commission of Pakistan	1,030	1,030	-	-
Payable on redemption of units	180	180	-	-
Accrued expenses and other liabilities	3,050	3,050	-	-
	7,140	7,140	-	-
	984,083	977,113	1,250	5,720

	As at 30 th 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 against purchase of investment	-	-	-	-
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

PAKISTAN INTERNATIONAL ELEMENT ISLAMIC FUND

19 TOP TEN BROKERS/DEALERS BY PERCENTAGE OF COMMISSION PAID

		2008
1	Arif Habib Limited	11.35%
2	JS Global Capital Limited	8.38%
3	Taurus Securities Limited	7.87%
4	DJM Securities (Private) Limited	7.78%
5	Global Securities Pakistan Limited	6.76%
6	Invest Capital & Investment Bank Limited	6.38%
7	AKD Securities Limited	5.74%
8	H. H. Misbah Securities (Private) Limited	5.60%
9	BMA Capital Management Limited	5.35%
10	Shehzad Chandia Securities (Private) Limited	4.68%
		2007
1	Cassim Investment (Private) Limited	15.42%
2	H. H. Misbah Securities (Private) Limited	11.75%
3	DJM Securities (Private) Limited	10.39%
4	Invisor Securities (Private) Limited	8.55%
5	Arif Habib Limited	8.22%
6	Orix Investment Bank Pakistan Limited	7.60%
7	BMA Capital Management Limited	6.22%
8	Atlas Capital Market (Private) Limited	4.58%
9	Al Falah Securities (Private) Limited	3.58%
10	Taurus Securities Limited	3.50%

20 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Designation	2008		
		Qualification	Experience in years	
1	Basharat Ullah	Chief Investment Officer	MBA	15
2	Syed Ajaz Ahmed	Chief Financial Officer	LLB / ACMA	36
3	Nazia Nauman	Head of Research	MBA / CFA	8

20.1 Basharat Ullah is the Manager of the Fund. He has obtained a Masters degree in Business Administration. Other Funds being managed by the fund manager are as follows:

- Pakistan Stock Market Fund
- Pakistan Capital Market Fund
- Equity portion of the Discretionary Managed Portfolios

21 RISK MANAGEMENT

The Fund is 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:

21.1 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 net assets value 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.

21.2 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. 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.

21.3 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.

21.4 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.

22 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 40th, 41st, 42nd, 43rd, 44th, 45th, 46th, 47th, 48th, 49th, 50th and 51st Board meetings were held on 4th July 2007, 21st July 2007, 6th October 2007, 24th October 2007, 28th November 2007, 26th January 2008, 29th March 2008, 4th April 2008, 23rd April 2008, 10th May 2008, 23rd May 2008 and 24th June 2008 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
1 Mr. Salim Chamdia	12	12	-	-
2 Mr. Nasim Beg	12	12	-	-
3 Mr. Sirajuddin Cassim	12	-	12	-
4 Mr. Muhammad Akmal Jameel	12	11	1	47 th meeting
5 Mr. Muhammad Kashif	12	6	6	40 th , 44 th , 46 th , 47 th , 48 th and 50 th meeting
6 Mr. Muhammad Shafi Malik	12	10	2	44 th and 49 th meeting
7 Mr. John Kirkham	12	2	10	42 nd to 51 st meeting
8 Mr. Mirza Qamer Beg	12	10	2	40 th and 41 st meeting

23 CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restrictions or specific capital requirements on the subscription and redemption of units.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for units holders and to maintain a strong capital base to meet unexpected losses or opportunities.

In accordance with the NBFC Regulations, the Fund is required to distribute at least ninety percent of its income from sources other than capital gain as reduced by such expenses as are chargeable to the Fund.

In accordance with risk management policies stated in note 21, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

24 NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on 3rd July 2008 has proposed a final distribution in respect of the year ended 30th June 2008 of Rs 1.75 per unit (2007: Rs 8.75 per unit) amounting to Rs 33.205 million (2007: Rs 159.348 million). The financial statements for the year ended 30th June 2008 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30th June 2009.

25 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 25th July 2008 by the Board of Directors of the Management Company.

26 CORRESPONDING FIGURES

Unrealised gain on letter of rights amounting to Rs 8,531 thousand has been reclassified from "Other income" to "Unrealised appreciation / diminution on investments at fair value through profit or loss".

27 GENERAL

Figures have been rounded off to the nearest thousand Rupees.

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

Chief Executive

Director

DETAILS OF PATTERN OF HOLDING (UNITS)

	Unit Held
Associated Company	
Arif Habib Investment Management Limited	2,349.02
Director and CEO	
Nasim Beg (Chief Executive)	10,062
Muhammad Akmal Jameel (Director)	2,885.17
Public Limited Companies	120,181.97
Banks and Financial Institution	4,235,516.91
Other Corporate Sector Entities	1,431,330.32
Individual	9,796,880.80
Retirement Funds	3,374,807.35
TOTAL	<u>18,974,013.53</u>

**PATTERN OF UNIT HOLDING (BY SIZE)
AS OF 30TH JUNE 2008**

<----- HAVING UNITS ----->

No. of Unit Holders	FROM	TO	Total Units Held	Percentage
329	1	100	19,025.02	0.10
1318	101	500	327,143.54	1.72
608	501	1000	425,764.57	2.24
1063	1001	5000	2,342,594.56	12.35
193	5001	10000	1,367,841.61	7.21
55	10001	15000	659,570.08	3.48
25	15001	20000	447,509.68	2.36
22	20001	25000	503,284.41	2.65
8	25001	30000	217,547.29	1.15
4	30001	35000	130,346.96	0.69
7	35001	40000	253,160.02	1.33
3	40001	45000	125,945.11	0.66
9	45001	50000	425,833.44	2.24
3	50001	55000	152,671.16	0.80
3	55001	60000	171,654.59	0.90
1	65001	70000	66,353.36	0.35
4	70001	75000	287,570.50	1.52
3	75001	80000	232,217.06	1.22
3	85001	90000	264,741.66	1.40
4	90001	95000	371,275.30	1.96
4	100001	105000	406,818.70	2.14
2	105001	110000	211,728.18	1.12
1	115001	120000	117,451.14	0.62
6	120001	125000	724,579.47	3.82
1	140001	145000	140,059.77	0.74
1	150001	155000	153,900.96	0.81
2	175001	180000	351,642.55	1.85
1	180001	185000	184,278.59	0.97
1	190001	195000	193,404.28	1.02
3	205001	210000	619,084.22	3.26
1	235001	240000	239,695.54	1.26
1	240001	245000	242,122.03	1.28
1	250001	255000	251,147.37	1.32
1	255001	260000	257,176.00	1.36
1	265001	270000	266,722.75	1.41
1	270001	275000	274,356.62	1.45
2	355001	360000	716,146.98	3.77
1	485001	490000	488,047.87	2.57
1	500001	505000	503,624.27	2.65
1	595001	600000	599,238.85	3.16
1	1530001	1535000	1,530,608.06	8.07
1	1710001	1715000	1,710,129.52	9.01
3,700	TOTAL UNITS		18,974,013.63	100.00

PERFORMANCE TABLE

	2008	2007	2006
Net assets (Rs '000)	984,083	1,072,531	1,378,168
Net Income / (loss) (Rs '000)	32,760	227,664	(65,690)
Net asset value per unit (Rs)	51.86	58.89	47.73
Closing selling price per unit (Rs)	54.02	60.40	48.95
Closing repurchase price per unit (Rs)	51.86	58.89	47.73
Highest selling price per unit (Rs)	60.34	60.52	51.59
Lowest selling price per unit (Rs)	48.69	46.22	44.25
Highest repurchase price per unit (Rs)	58.83	59.01	50.30
Lowest repurchase price per unit (Rs)	47.47	45.07	43.14
Distribution per unit (Rs)	1.75	8.75	-
Distribution dates	3 rd July 08	4 th July 08	-
Total return of the Fund	3.43%	23.40%	(4.54%)
Distribution	3.49%	18.33%	-
Capital growth	(0.06%)	5.07%	-
Average annual return of the Fund (CAGR)			
1 Year	3.43%	23.40%	(23.60%)
2 Year	12.96%	14.98%	-
3 Year (since inception)	9.50%	-	-

Disclaimer

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.