

PAKISTAN
INTERNATIONAL
ELEMENT
ISLAMIC
FUND



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FUNDS' INFORMATION

Management Company

Arif Habib Investments Limited
Arif Habib Centre, 23 M. T. Khan Road,
Karachi -74000.

Board of Directors of the Management Company

Mr. Muhammad Shafi Malik	Chairman
Mr. Nasim Beg	Chief Executive
Syed Ajaz Ahmed	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Kashif	Director
Mr. S. Gulrez Yazdani	Director
Mr. Samad A.Habib	Director

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Audit Committee

Mr. Muhammad Shafi Malik	Chairman
Syed Ajaz Ahmed	Member
Mr. Muhammad Akmal Jameel	Member
Mr. Samad A.Habib	Member

Trustee

Central Depository Company of Pakistan Limited (CDC)
CDC House, 99-B, S.M.C.H.S
Main Shahrah-e-faisal, Karachi.

Bankers

- Summit Bank Limited (formerly: Arif Habib Bank Limited)
- Bank Al Habib Limited
- Meezan Bank Limited
- Al-Baraka Islamic Bank
- Bank Alfalah Limited

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants
1st Floor, Sheikh Sultan Trust Building No.2
Beaumont Road, Karachi-75530

Legal Adviser

Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
6-cl-10, Beaumont Road,
Civil Lines, Karachi-75530

Registrar

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

Rating

PACRA: 3 Star (Normal)
PACRA: 2 Star (Long Term)
PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company



REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS ENDED 31 MARCH 2011

The Board of Directors of Arif Habib Investments Limited, the Management Company of Pakistan International Element Islamic Fund (PIIF) presents its Report together with the Condensed Interim Financial Statements for the nine months ended 31 March 2011.

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

Pakistan International Element Islamic Fund (PIIF) is an Open-end asset allocation Fund, which seeks to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic 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 Sukkus 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.

PIIF is a long only Fund and cannot undertake leveraged investments.

Fund Performance during the Nine Months Ended 31 March 2011

The Net Assets of the Fund as at 31 March 2011 stood at Rs 371.33 million compared to Rs 410.42 million as of 30 June 2010, registering a decrease of 9.52 %. The reduction was driven by investors seeking to reduce equity exposure.

The Net Asset Value (NAV) per unit as at 31 March 2011 was Rs 45.70 as compared to the opening Ex-NAV of Rs. 37.99 per unit, registering an increase of Rs 7.71 per unit during the period.

Future Outlook and Fund Performance

Future Outlook and Fund Performance is fully explained in Fund Manager Report attached to this report.

Acknowledgement

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

For and on behalf of the Board

23 April 2011
Karachi

Nasim Beg
Chief Executive



REPORT OF THE FUND MANAGER FOR THE NINE MONTHS ENDED 31 MARCH 2011

Fund Objective

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

Fund Profile

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

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

Fund Performance

Pakistan International Element Islamic Fund NAV increased 3.32% during the quarter as compared to a rise of 4.9% in its benchmark. The benchmark is the 70:30 weighted average returns of KMI 30 index and DJIM. During the quarter, the Fund was invested in domestic equities only and comparable KMI 30 index increased 5.2%. Lower return during the quarter was due to the underperformance of few key holdings of the fund, including NML, PAEL, PPL, PSO and Packages. These holdings constituted almost 50% of net assets on average during the quarter. On the other hand ICI, POL, Searle and Hubco outperformed. The PE of the fund at the end of quarter was 7.12x.

Month	Fund	Benchmark	KMI-30
Jan'11	2.44%	3.74%	4.89%
Feb'11	-5.91%	-3.82%	-6.66%
Mar'11	7.20	5.25%	7.45%

Asset allocation and activities during 3Q

At the beginning of the quarter, fund was 82% invested in equities while remaining portion was in Sukuk and banks deposits. This portfolio composition was changed and at quarter end 89.9% was in equities while remaining was in Sukuk (1.71% of net assets) and banks deposits.

Following activities were carried by the fund during the quarter.

- Nishat Mills: The stock recently became Shariah compliant. It was added in the portfolio up to 11.5% of net assets, considering its strong fundamentals.
- Meezan Bank: Exposure was reduced to zero from 1.5% to realize capital gains.
- PSO: Exposure was increased to 11.5% from 9.0% as the price fell to attractive levels.
- FFBL: Exposure was reduced to zero from 2.4% at the beginning of the quarter considering limited upside after the stock reached its fair value.
- Packages: Weight was trimmed to 9.9% from 12.4%.
- Searle: Exposure was reduced to 0.95% from 5.2% at the beginning of the quarter as the stock price reached its fair value in the rising equity market.

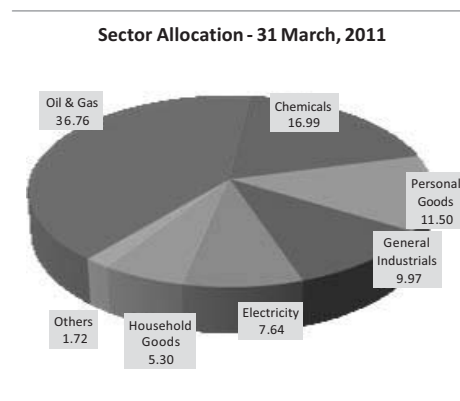
Fixed income

At the beginning of the quarter fixed income portfolio was 15.6% of net assets comprising of GIS Sukuk (13.9% of net assets) and PAEL Sukuk (1.7% of net assets). GIS Sukuk offloaded during the quarter and the proceeds were invested in equities.

International exposure

Due to attractiveness of domestic equity market and availability of attractive stocks, the Fund did not invest internationally. However, an effort is being made to identify global available Shariah compliant options and as opportunities arise, the Fund may consider investing internationally.

Top Ten Holdings as on 31 March, 2011	
Pakistan Oilfields Ltd.	14.2%
ICI Pakistan Ltd.	11.7%
Pakistan State Oil Ltd.	11.5%
Nishat Mills Ltd.	11.5%
Pakistan Petroleum Ltd.	11.1%
Packages Ltd.	10.0%
Hub Power Co. Ltd.	7.6%
Pak Elektron Ltd.	5.3%
Fauji Fertilizer Co. Ltd.	3.5%
Sitara Chemical Industries Ltd.	1.8%



Equity market review

The KSE 100 index finished the third quarter of current fiscal year (first quarter of 2011) in negative, falling by 1.77% to 11809. The market started 2011 on a positive note with the index gaining 6% by January 18 and touched the level of 12,768 due to higher inflows from foreign investors in index heavy weight stocks. However, the market reversed its course in February, when worsening situation in Egypt and Tunisia led to sharp fall in global equities. The index made its low on 25 February near 11200, before bouncing back in the first week of March after the announcement of MTS implementation.

Key driver in the index performance remained its heavy weight stock OGDC (24% weight), which has started to retreat and fallen by 27% after peaking at Rs. 185 (intraday high) on January 10. Minus OGDC, majority of other leading stocks finished the quarter with fresh gains. Top performing sectors during the quarter were Fertilizer, Oil & Gas (with the exception of OGDC), Banks and Cement. Foreign investors remained net buyers in Pakistan with net inflow of US\$ 52 million during the quarter, with March seeing an outflow of US\$ 16 million mainly due to selling in OGDC.

Total outstanding leveraged investment in MTS was only Rs 228 million by quarter end (started March 14), an indication of cautious initial response of participants (financees and financiers). During the quarter, average daily turnover increased to 129 million shares compared to 124 million in the second quarter of FY11, however, trading volumes after hitting highs over 200 million daily in January witnessed a declining trend and had fallen below 100 million daily by March end.

Market outlook

We expect the equity market to move in a narrow band ahead of the budget announcement in early June. Given the continuing high fiscal deficit (approximately 6% of GDP) new taxes, withdrawal of tax exemptions and implementation of RGST are on the cards for the next fiscal year. At the same time, inflation remains a key threat in the backdrop of rising commodity prices in particular oil. Therefore, interest rates are expected to remain at elevated levels with policy rate remaining at 14% for the next few months. On relative valuation downside appears to be less for equities as stock prices of major companies are trading in the range of 7x-9x on 2011 earnings. On the basis of consensus forecast, amongst listed sectors, chemicals/fertilizer, oil and gas exploration, cement (select stocks), major banks and FMCGs are expected to show improvement in earnings growth in 2011.

3QFY11 Economic Review

During the third quarter of the fiscal year, pick up in textile exports and higher remittances helped in reducing the pressure from rising international oil prices and keeping the current account deficit in check. The rate of increase in inflation has reduced during the quarter to 13.16% in March compared to 15.45% YoY growth in December, therefore allowing the central bank to keep the discount rate unchanged at 14% during the last two monetary policy reviews. Following the last round of talks with IMF in March, the government has finally taken additional taxation measures to reduce the rising fiscal gap for the current fiscal year.

Fiscal Side

Given the rising fiscal deficit (2.8% of GDP during 1HFY11 against the full year target of 5.5%), GoP introduced new taxation measures in March which would collect Rs 53 billion through removal of subsidies and/or further taxes on income, imports, agriculture, and domestic sales of zero-rated export-oriented items, while Rs 67 billion is expected to be saved from the government expenditure side. Of Rs53 billion, Rs20 billion will be collected through 15% flood surcharge on income-tax, Rs25 billion revenue will be accumulated through withdrawal of sales tax exemptions on fertilizers, pesticides and tractors, Rs6 billion revenue through increase in special excise duty on imports from 1% - 2.5% and Rs2 billion proceeds from increase in tax on sugar.

Total tax collection from July - February, 2011 summed up to Rs 876 billion against a target of Rs1600 billion for the full FY. With the above mentioned measures, it is now expected that tax revenue target for the current fiscal year is likely to be met. However, given the additional expenditures on last year floods, the fiscal deficit is expected to be higher than the government target of 5.5% for the year ending June 2011.

Inflation

Inflation figures for 3QFY11 came down considerably from 15.45% YoY in December 2010 to 13.16% YoY in March 2011. This was due to the following reasons: first, high base-effect of last year starting January 2010, and second, containment of government borrowing from the SBP within agreed limits. Nonetheless, inflation is expected to edge higher over the next few months given the outlook of an increase in international commodity prices especially oil prices, higher domestic commodity prices with the introduction of 'mini-budget' to enhance the tax base, and expectations of an increase in government borrowing to fund fiscal deficit.

Real Sector

Large Scale Manufacturing (LSM) figures for July - January 2011 showed an increase of 2.34% over the corresponding period of last year. The growth in manufacturing is restricted to few sectors, with majority of the industries showing decline. Textiles, Pakistan's largest industry having one fourth of the total weight could only increase by 0.6%. Major contribution has come from sugar sector (4.15% weight) showing a growth of 8.1% till January and which is likely to improve further as recent reports suggest that total output of sugar for this year has exceeded 4 million tones compared to only 3.1 million tones in the previous year. Other growth sectors have been automobile production (+16.8%), Pharmaceuticals (+5.8%), chemicals (+3.5%) and leather products (14.2%). All other manufacturing sectors were in decline including Food and beverages (-2%), petroleum products (-6.2%), metal industries (-8.1%), non metallic minerals (-11.8%), fertilizers (-7.2%) and cement (-10.6%).

External Side

External sector continued to post encouraging figures in 3QFY11. Current Account Deficit (CAD) from July - February 2011 equaled US\$98 million against US\$3027 million deficit in the same period of preceding year, thus showing a decrease of almost 97%. This is explained by an improvement in balance on Goods & Services & Income account where deficit decreased from US\$11.2 billion in July-February 2010, to US\$9.9 billion in the same period of current FY. Remittances also played a key role in uplifting the CAD as US\$8.02 billion were received from July- March 2011 against US\$6.54 billion in the corresponding period of last year, thus showing a growth of 22.39%. The SBP expects current account deficit for FY 11 in the range of 1 - 1.5%. Exports from July - March 2011 were US\$18.1 billion against a US\$14.3 billion exports in the same period last year, posting a robust growth of 26.6% YoY. Textile export was yet once again the major determinant of this growth as US\$9.92 billion was contributed by textiles. Imports for the same period equaled US\$29.1 billion against US\$ 25.1 billion in the first 9 months of last FY. This translates into a growth 15.97%. Petroleum group imports stood at US\$8.15 billion from July - March 2011 showing a growth of 11%. Forex reserves YtD (19 March 2011) closed at US\$17.5 billion against US\$16.75 billion at the end of FY10.

Moreover, Asian Development Bank approved a US\$650 million loan which will be used to build the damaged infrastructure due to the floods which hit the country early FY11.

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES
AS AT 31 MARCH 2011**

	<i>Note</i>	31 March 2011 (Unaudited) (Rupees in '000)	30 June 2010 (Audited)
Assets			
Bank balances		24,282	58,094
Receivable against sale of investments		2,736	21,264
Receivable against sale of units		154	1,077
Investments	5	340,112	327,737
Dividend and profit receivable		3,046	2,828
Advances, deposits, prepayments and other receivables		3,235	3,198
Preliminary expenses and floatation costs		131	1,370
Total assets		373,696	415,568
Liabilities			
Payable to the Management Company		823	874
Payable to Central Depository Company -Trustee		63	69
Payable to Securities and Exchange Commission of Pakistan - Annual Fees		289	522
Payable against purchase of investments		-	2,070
Payable on redemption of units		-	27
Accrued expenses and other liabilities		1,195	1,591
Total liabilities		2,370	5,153
Contingencies and commitments	6		
Net assets		371,326	410,415
Unit holders' funds		371,326	410,415
		(Number of units)	
Number of units in issue	7	8,125,199	9,101,281
		(Rupees)	
Net asset value per unit		45.70	45.09

The annexed notes 1 to 12 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	Note	Nine months ended 31 March		Quarter ended 31 March	
		2011 (Rupees in '000)	2010	2011 (Rupees in '000)	2010
Income					
Capital gain on sale of investments - net		20,809	60,661	14,507	10,110
Exchange gain realised on sale of foreign investment		-	2,851	-	-
Profit on saving bank deposits		3,408	3,549	34	1,151
Dividend income		15,605	17,905	5,685	6,838
Income from investment in sukuk bonds		933	2,982	279	-
Income from government ijarah sukuk		1,584	-	571	-
Other income		309	-	103	-
Unrealised exchange gain on foreign investment		-	5,203	-	2,200
Unrealised appreciation / (diminution) in the value of investments - net		45,504	17,212	(4,573)	(11,706)
Total income		88,152	110,363	16,606	8,593
Expenses					
Remuneration of the Management Company		8,847	12,009	2,864	3,455
Remuneration of Trustee		609	878	197	249
Annual fee - Securities and Exchange Commission of Pakistan		289	417	93	118
Securities transaction cost		889	1,248	429	436
Settlement and bank charges		168	622	58	59
Fees and subscriptions		186	186	62	61
Auditor's remuneration		299	385	37	120
Professional charges		38	78	13	28
Donation expense		56	-	-	-
Printing and related cost		158	140	57	56
Amortisation of preliminary expenses and floatation costs		1,239	1,239	407	407
Total expenses		12,778	17,202	4,217	4,989
Net income from operating activities		75,374	93,161	12,389	3,604
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(1,149)	8,891	8,962	2,534
Net income carried forward for distribution		74,225	102,052	21,351	6,138
Earnings / (loss) per unit	8	-	-	-	-

The annexed notes 1 to 12 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	Nine months ended 31 March		Quarter ended 31 March	
	2011	2010	2011	2010
	(Rupees in '000)		(Rupees in '000)	
Net income for the period	74,225	102,052	21,351	6,138
Other comprehensive income for the period	-	-	-	-
Total Comprehensive income for the period	74,225	102,052	21,351	6,138

The annexed notes 1 to 12 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	<u>Nine months ended 31 March</u>		<u>Quarter ended 31 March</u>	
	2011	2010	2011	2010
	(Rupees in '000)		(Rupees in '000)	
Undistributed loss brought forward	(44,651)	(112,796)	(56,396)	(16,882)
Final distribution for the year ended.				
- Issue of 1,322,943 bonus units for the year ended 30 June 2010 @ Rs 7.10 per unit, 05 July 2010 (2009: Nil bonus units)	(50,259)	-	-	-
- Cash distribution	(14,360)	-	-	-
Comprehensive income for the period	74,225	102,052	21,351	6,138
	9,606	102,052	21,351	6,138
Undistributed losses carried forward	<u>(35,045)</u>	<u>(10,744)</u>	<u>(35,045)</u>	<u>(10,744)</u>

The annexed notes 1 to 12 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT
IN UNIT HOLDERS' FUND (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	<u>Nine months ended</u> <u>31 March</u>		<u>Quarter ended</u> <u>31 March</u>	
	2011	2010	2011	2010
	(Rupees in '000)		(Rupees in '000)	
Net assets at the beginning of the period	410,415	606,589	431,271	562,054
Issue of 923,635 units (2010: 1,167,350 units) and 237,832 units (2010: 141,174 units) for the nine months and quarter respectively	37,920	52,926	10,709	6,865
Redemption of 3,222,660 units (2010: 6,047,822 units) and 1,863,803 units (2010: 2,212,769 units) for the nine months and quarter respectively	(138,023)	(288,054)	(83,043)	(107,901)
	(100,103)	(235,128)	(72,334)	(101,036)
Final distribution:				
- Issue of 1,322,943 bonus units for the year ended 30 June 2010 @ Rs 7.10 per unit, 05 July 2010 (2009: Nil bonus units)	(50,259)	-	-	-
- Cash distribution	(14,360)	-	-	-
	(64,619)	-	-	-
Issue of 1,322,943 bonus units for the year ended 30 June 2010 (2009: Nil units)	50,259	-	-	-
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to the income statement	1,149	(8,891)	(8,962)	(2,534)
Capital gain on sale of investments - net	20,809	60,661	14,507	10,110
Net unrealised diminution in the value of investments - net	45,504	17,212	(4,573)	(11,706)
Other net income for the period	7,912	24,179	11,417	7,734
	74,225	102,052	21,351	6,138
Net income for the period less distributions	9,606	102,052	21,351	6,138
Net assets at the end of the period	371,326	464,622	371,326	464,622

The annexed notes 1 to 12 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2011**

	Nine months ended		Quarter ended	
	31 March		31 March	
	2011	2010	2011	2010
	------(Rupees in '000)-----			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	74,225	102,052	21,351	6,138
Adjustments				
Dividend income	(15,605)	(17,905)	(5,685)	(6,838)
Unrealised exchange (loss) on foreign investment	-	(5,203)	-	(2,200)
Unrealised appreciation in the value of investments - net	(45,504)	(17,212)	4,573	11,706
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	1,143	1,376	345	417
Amortisation of preliminary expenses and floatation costs	1,239	1,239	407	407
Net element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	1,149	(8,891)	(8,962)	(2,534)
	16,647	55,456	12,029	7,096
(Increase) / decrease in assets				
Receivable against sale of units	923	4,124	110	-
Receivable against sale of investments	18,528	(2,596)	(2,736)	(2,596)
Investments - 'at fair value through profit or loss'	33,129	147,602	76,506	(32,911)
Profit receivable	779	2,098	1,703	101
Advances, deposits, prepayments and other receivables	(37)	211	36	36
	53,322	151,439	75,619	(35,370)
Increase / (decrease) in liabilities				
Payable to the Management Company	(51)	(246)	(84)	662
Payable to Central Depository Company of Pakistan Limited - Trustee	(6)	(19)	(9)	(16)
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(233)	(220)	93	118
Payable against purchase of investments	(2,070)	(26,028)	(2,124)	(12,566)
Payable on redemption of units	(27)	(648)	-	(1,862)
Accrued expenses and other liabilities	(396)	487	61	226
	(2,783)	(26,674)	(2,063)	(13,438)
Dividend received	14,609	16,653	2,939	3,013
Net cash from / (used in) operating activities	81,794	196,874	88,524	(38,699)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid	(14,360)	-	-	-
Net (payments) against issuance / redemption of units	(101,247)	(236,504)	(72,680)	(101,453)
Net cash used in financing activities	(115,607)	(236,504)	(72,680)	(101,453)
Net (decrease) / increase in cash and cash equivalents during the period	(33,813)	(39,630)	15,844	(140,152)
Cash and cash equivalents at the beginning of the period	58,094	69,046	8,438	169,568
Cash and cash equivalents at the end of the period	24,282	29,416	24,282	29,416

The annexed notes 1 to 12 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director



**NOTES TO THE CONDENSED INTERIM
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED 31 MARCH 2011**

1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited - AHIL as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 December 2005 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules 2003).

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

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

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

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

These un-audited condensed interim financial statements comprise of condensed interim statement of assets and liabilities as at 31 March 2011 and the related condensed interim income statement, condensed interim comprehensive income statement, condensed interim distribution statement, condensed interim movement in unit holders' funds, condensed interim statement of cash flows and notes thereto.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

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

These un-audited condensed interim financial information comprise of condensed interim statement of assets and liabilities as at 31 March 2011 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement, and notes thereto, for the nine months period ended 31 March 2011.

2.2 Use of estimates and judgments

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

2.3 Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

4. RISK MANAGEMENT

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

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

		Unaudited 31 March 2011	Audited 30 June 2010
		(Rupees '000)	
Investment in shares listed in Pakistan	5.1	333,774	318,378
Investment in unlisted Sukuk bond	5.2	6,338	9,359
Investment in Government Ijarah Sukuk	5.3	-	-
		<u>340,112</u>	<u>327,737</u>

5.1 Investment in shares listed in Pakistan

Name of the Investee Company	Number of shares				Balance as at 31 March 2011		Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of investee		
	As at 1 July 2010	Purchases during the period	Bonus / Right issue	Sales during the period	As at 31 March 2011	Cost				(Diminution) / Appreciation	
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise (Rupees in '000)											
OH and Gas											
Pakistan Oilfields Limited	219,163	-	-	57,152	162,011	35,131	52,668	17,537	0.14	0.15	0.00
Pakistan State Oil	-	188,000	-	33,921	154,079	43,431	42,758	(673)	0.12	0.13	0.00
Pakistan Petroleum Limited	162,175	89,000	41,295	98,106	194,364	31,247	41,090	9,843	0.11	0.12	0.00
						109,809	136,516	26,707			
Chemicals											
Fauji Fertilizer Company Limited	240,203	-	23,006	168,179	95,030	6,893	13,103	6,210	0.04	0.04	0.00
Fauji Fertilizer Bm Qasim Limited	722,868	-	-	722,868	-	-	-	-	-	-	-
ICI Pakistan Limited	255,915	80,000	-	73,875	262,040	40,572	43,284	2,712	0.12	0.13	0.00
Sitara Chemical Industries Limited	59,508	-	2,975	-	62,483	10,528	6,686	(3,842)	0.02	0.02	0.00
						57,993	63,073	5,080			
General Industrials											
Packages Limited	414,989	-	-	100,915	314,074	51,320	37,032	(14,288)	0.10	0.11	0.00
Thal Limited	70,128	-	-	70,128	-	-	-	-	-	-	-
						51,320	37,032	(14,288)			
Industrial Engineering											
Alghazi Tractors	-	32,001	-	32,001	-	-	-	-	-	-	-
Automobile and Parts											
Agriauto Industries	191,227	-	-	191,227	-	-	-	-	-	-	-
Pak Suzuki Motor Company Limited	148,365	-	-	106,899	41,466	9,592	2,881	(6,711)	0.01	0.01	0.00
						9,592	2,881	(6,711)			
Household Goods											
Pakistan Elektron Limited	851,992	779,889	-	241,674	1,390,207	22,910	19,671	(3,239)	0.05	0.06	0.01
						22,910	19,671	(3,239)			
Personal Goods											
Nishat Mills Limited	-	775,000	-	117,660	657,340	43,065	42,721	(344)	0.12	0.13	0.00
						43,065	42,721	(344)			
Pharma and Bio Tech											
Searle Pakistan Limited	288,487	91,296	-	324,783	55,000	3,260	3,520	260	0.01	0.01	0.00
						3,260	3,520	260			

Name of the Investee Company	Number of shares			Balance as at 31 March 2011			Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of investee	
	Purchases during the period	Bonus / Right issue	Sales during the period	As at 1 July 2010	As at 31 March 2011	Market Value				(Diminution) / Appreciation
Electricity										
Hub Power Company Limited	-	-	-	753,419	753,419	28,359	4,596	0.08	0.08	0.00
						<u>28,359</u>	<u>4,596</u>			
Fixed Line Telecommunications										
Pakistan Telecommunication Company Limited "A"	-	-	-	1,000,000	-	-	-	-	-	-
Banks										
Meezan Bank	-	-	-	646,331	-	-	-	-	-	-
TOTAL						<u>321,712</u>	<u>333,774</u>	<u>12,062</u>		

(Rupees in '000)

5.1.1 Investments includes shares with market value of Rs. 32,480,240 (30 June 2010: Rs. 28,264,540) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in term of Circular No. 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

5.2 Investment in unlisted sukuk bonds in Pakistan

Name of the Investee Company	Profit rate %	As at 1 July 2010	Number of certificates			Balance as at 31 March 2011			Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued debt capital
			Purchases during the period	Sales during the period	As at 31 March 2011	Cost	Market value	Appreciation / (diminution)			
(Rupees in '000)											
Unlisted Sukuk bonds of Rs 5,000 unless stated otherwise											
Pak Elektron Limited (28 September 2007)	15.18	3,000	-	-	3,000	5,811	6,338	527	0.02	0.02	0.01
Total						<u>5,811</u>	<u>6,338</u>	<u>527</u>			

5.3 This unlisted sukuk bond carry floating profit rates equal to 3 month ask side Karachi inter bank offer rate plus 1.75% per annum receivable quarterly with no floor or cap. These sukuk bonds are secured against floating charge on all of the issuer's present and future fixed assets.

Name of Investments	As at 1 July 2010	Purchases during the period	Sales during the period	As at 31 December 2010	Cost	Market Value	Appreciation / (diminution)	Market value as percentage of net assets
Government Ijarah Sukuk	-	12,000	12,000	-	-	-	-	-
Total								
Grand total					327,523	340,112	12,589	

5.4 Unrealised diminution in the value of investments - net

Market value of investments	31 March 2011	30 June 2010
Less: Cost of investments	340,112	327,737
	(327,523)	(389,182)
	<u>12,589</u>	<u>(61,445)</u>
Less: Unrealised diminution in the value of investment at fair value through profit or loss at the beginning of the period / year	61,445	112,594
Less: Realised on disposal during the period / year	(28,530)	(84,224)
	<u>32,915</u>	<u>28,370</u>
	<u>45,504</u>	<u>(33,075)</u>

6. CONTINGENCIES AND COMMITMENTS

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated July 15, 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

There have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds for the recovery of WWF. On December 14, 2010, the Ministry filed its response contesting the said petition. SHC has concluded its hearing and judgement has been reserved.

Based on the advice of the legal council handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence provision has not been made in respect of WWF, which, if liable, would amount to Re 0.35 per unit.

7. NUMBER OF UNITS IN ISSUE	31 March 2011	30 June 2010
	(Number of Units)	
The units in issue in each class were as follows:		
Classes		
A & B	5,678,298	5,792,116
C & D	2,446,901	3,309,165
	<u>8,125,199</u>	<u>9,101,281</u>

8. EARNINGS / (LOSS) PER UNIT

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

9. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

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

Details of the transactions with connected persons / related parties for the period ended 31 March 2011 and balances with them at the period end other than those disclosed elsewhere in the condensed interim financial statements are as follows:

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

	Nine months ended 31 March		Quarter ended 31 March	
	2011 (Rupees in '000)	2010	2011 (Rupees in '000)	2010
Arif Habib Investments Limited - Management Company				
Remuneration for the period	8,847	12,009	2,864	3,455
Units redeemed - Nil units and Nil units for the nine months and quarter ended 31 March 2011 respectively (2010: 2,431 units and Nil units)	-	111	-	-
Arif Habib Limited				
Brokerage for the period	147	208	77	92
Arif Habib Investments Limited - Employees Provident Fund				
Units redeemed - Nil units for the nine months and quarter ended 31 March 2011 respectively (2010: 68,671 units and Nil units for the quarter ended)	-	3,339	-	-
Pakistan Income Fund (Managed by Arif Habib Investments Limited)				
Capital loss on sale of sukuk bond	-	1,630	-	-
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for the period	609	878	197	249
CDS Charges	15	19	9	7
CDS eligibility fee	51	51	17	17
Sale of Sukuk Bond to Pakistan Income Fund (Managed by Arif Habib Investments Limited)				
Engro Chemical Pakistan Limited	-	49,194	-	-
Directors and executives of the Management Company				
Units issued 22,939 units and 8,694 units for the nine months and quarter ended 31 March 2011 respectively (2010: 76,019 units and 11,604 units)	968	3,537	391	557
Units redeemed 116,118 units and 92,380 units for the nine months and quarter ended 31 March 2011 respectively (2010: 83,490 units and 12,047 units)	5,103	3,894	4,180	573
Bonus units distributed - 19,134 units and Nil units for the nine months and quarter ended 31 March 2011 respectively (2010: Nil and Nil units)	727	-	-	-

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

	31 March 2011 (Unaudited)	30 June 2010 (Audited)
	(Rupees in '000)	
Arif Habib Investments Limited - Management Company		
Remuneration payable	823	828
Front-end load payable	-	13
Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)		
Brokerage payable	22	-
Summit Bank Limited (formerly: Arif Habib Bank Limited)		
Balances as at the period end	22,813	7,683
Arif Habib Investments Limited - Employees Provident Fund		
Units held - Nil units (30 June 2010: 68,671 units)	-	3,339
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	200	200
Prepaid CDS eligibility charges	17	-
Remuneration payable	63	69
Directors and executives of the Management Company		
Units held 49,262 units (30 June 2010: 122,278 units)	2,251	5,514

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

10 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The mark-up and principal redemption of PEL issue dated 28 September 2007 amounting to Rs. 280,726 and Rs 1,071,420 respectively was due on 28 March 2011. The issuer after the due date has issued a cheque against mark-up. Which was cleared on 08 April 2011. However, the due principal is still outstanding.

In accordance with the provisioning policy approved by the Board, a provision was made against the principal amount due amounting to Rs.1,071,420. Further accrual of mark-up was also suspended.

11 DATE OF AUTHORISATION FOR ISSUE

These condensed financial statements were authorised for issue on 23 April 2011 by the Board of Directors of the Management Company.

12 GENERAL

12.1 Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director

Asset Manager Rating
'AM2' Positive Outlook (by PACRA)



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