



# PICIC ENERGY FUND

## 2<sup>nd</sup> Annual Report

FOR THE YEAR ENDED JUNE 30, 2007

Managed by



**PICIC**  
Asset Management Company Ltd.

# c o n t e n t s



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## Scheme's Information

### PICIC ENERGY FUND

<b>Investment Adviser</b>	PICIC Asset Management Company Limited 5 <sup>th</sup> Floor State Life Building No. 1, I.I Chundigar Road, Karachi – 74000, Pakistan Tel: (021) 2462806-10 Fax: (021)-2470378 Email: info@picicamc.com URL: www.picicamc.com	
<b>Board of Directors of the Investment Adviser</b> (As of June 30, 2007)	Mr. Asadullah Khawaja Major (R) Mohammad Fazal Durrani Mr. Masroor Ahmed Qureshi Mr. Nauman Hussain Mr. Yameen Kerai Mr. Hussain A. Naqvi	Chairman     Chief Executive
<b>CFO &amp; Company Secretary of the Investment Adviser</b>	Mr. Zahoor Amanullah	
<b>Audit Committee of the Investment Adviser</b>	Mr. Yameen Kerai Mr. Masroor Ahmed Qureshi Mr. Nauman Hussain	Chairman Member Member
<b>Investment Committee of the Investment Adviser</b>	Mr. Asadullah Khawaja Mr. Masroor Ahmed Qureshi Mr. Yameen Kerai Mr. Hussain A. Naqvi	Chairman Member Member Member
<b>Human Resource Committee of the Investment Adviser</b>	Major (R) Mohammad Fazal Durrani Mr. Masroor Ahmed Qureshi Mr. Nauman Hussain Mr. Hussain A. Naqvi	Chairman Member Member Member
<b>Trustee</b>	Central Depository Company of Pakistan Limited Mezzanine Floor, Progressive Plaza Beaumont Road, Near P. I. D. C. House Karachi-75530	
<b>Bankers</b>	PICIC Commercial Bank Limited Habib Metropolitan Bank Limited Bank Alfalah Limited	
<b>Auditors</b>	M. Yousuf Adil Saleem & Co. Chartered Accountants	
<b>Legal Adviser</b>	Bawaney & Partners	
<b>Registrar and Share Transfer Office</b>	Noble Computer Services (Pvt) Limited 2 <sup>nd</sup> Floor Sohni Center BS 5 & 6, Main Karimabad, Block – 4, Federal “B” Area, Karachi, 75950, Pakistan Tel: (021) 6801880-2	



# vision statement

TO BE PAKISTAN'S PREMIER ENERGY SECTOR DEDICATED MUTUAL FUND AND SERVE AS A MEDIUM FOR TAKING EXPOSURE ON THE DOMESTIC LISTED ENERGY SECTOR OF PAKISTAN THROUGH EXTENSIVE RESEARCH AND ACTIVE FUND MANAGEMENT.

An aerial photograph of a green field with yellow diagonal lines. Numerous people are running across the field, their shadows cast on the grass. The scene is captured from a high angle, looking down at the runners.

# mission statement

TO PROVIDE RETAIL INVESTORS  
AN ACCESS TO HIGH QUALITY  
BLUE CHIP STOCKS IN THE  
ENERGY SECTOR FOR  
CAPTURING THE SIGNIFICANT  
RETURN POTENTIAL.



Directors' Report  
for the year ended June 30, 2007

## Directors' Report

The Board of Directors of PICIC Asset Management Company Limited, the Investment Adviser of PICIC Energy Fund is pleased to present the Second Annual Report of PICIC Energy Fund.

### PICIC ASSET MANAGEMENT COMPANY LIMITED

PICIC Asset Management Company Limited is a wholly owned subsidiary of Pakistan Industrial Credit & Investment Corporation Limited with an authorized capital of Rs.5,000 million and paid-up capital of Rs.3,000 million.

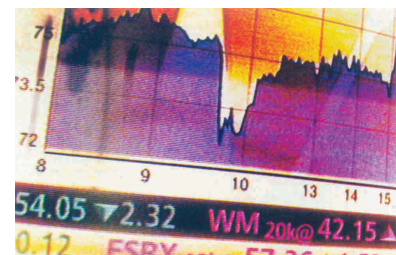
### FINANCIAL RESULTS

The financial results of PICIC Energy Fund for the year under review are summarized as under:

	(Rs. in '000')
Profit after taxation for the year	57,888
Appropriation	Nil
Un-appropriated profit carried forward	57,888
Basic earning per certificate (Rupees)	0.58

### MARKET REVIEW

The KSE-100 index continued with its bull run until the final day of fiscal year 2007, settling at an all time high of 13,772. During FY2007, the KSE-100 index grew by 38% from 9,989 to 13,772 as against 34% growth witnessed during FY2006 from 7,450 to 9,989. The total market capitalization grew by 45% from PKR 2.78 trillion to PKR 4.02 trillion in FY2007 against 34% growth recorded in FY2006 from PKR 2.07 trillion to PKR 2.78 trillion.



The robust growth in market capitalization has largely been a result of market re-rating by global investors due to strong macro performance coupled with sound structural reforms in the financial sector. The market's 5-year CAGR at 51%, pushes Pakistan in the top quartile of emerging markets over the last five years. Aggressive foreign interest in the domestic capital markets particularly in the banking sector (owing to the acceleration in the Mergers & Acquisition (M&A) activity) along with strong bottom line growth allowed the market to remain buoyant throughout most of the second half of Fiscal Year (FY) 2007. Special Rupee Convertible Account (SCRA) balances swelled to US\$978 million by the end of FY2007, which is close to three times of the total inflow in FY06.

## ECONOMIC REVIEW

Pakistan, in FY07, posted real GDP growth of 7%, slightly above the 6.6% of the previous year and well above the consensus market expectation. The above expected growth came mainly on the back of the agriculture sector, which was driven by a bumper wheat crop and the advent of corporate farming. Real GDP growth was also boosted by the services sector on the back of rapid growth in the telecom and financial sector. The industrial sector also gathered further momentum with a 6.8%YoY growth compared to 5% last year, owing to the growth in construction activity in the country.



Due to the rising global crude oil prices external indicators continued to worsen. The country's trade deficit widened to US\$14 billion in FY07 compared to US\$12.4 billion in FY07. Although the remittances flow financed the trade deficit partially the current account deficit widened to US\$7.4bn (5% of GDP) compared to US\$4.6 billion last year (4.3% of GDP). The current account continued to widen, however the capital account surpluses mitigated the affects on the overall Balance of Payments. The capital account surplus has largely resulted from rising Foreign Direct Investment (FDI) and the privatization program in the form of GDRs. These inflows assisted the foreign exchange reserve to grow to an all time high of US\$15.2 billion (up 15.6%YoY), improving the import cover to 7-months from 4-months last year. As a result, the pressure on the Rupee also remained low, whereby US/PKR depreciated only by 1.3% during the year.

Similar to the external side, fiscal discipline also deteriorated slightly in FY07 with the fiscal deficit at 4.3% of GDP, the same as last year, however primary surplus turned to primary deficit in the last fiscal year. The fiscal deficit was partially financed by borrowing from the central bank, which contributed significantly to the reserve money growth thereby fuelling inflation. As a result, the central bank maintained a tighter monetary posture. Consequently, the core inflation came down to 4.7% compared to 6.6% in the same period last year. However, food inflation remained close to double digits.

In terms of sectoral performance, the banking sector topped the list with 56% growth with profitability driven by increased interest and non interest income. Higher profits plus future potential resulted in the re-rating of the entire sector, primarily by the foreign investors.

Cement sector out-performed the KSE-100 Index significantly, as the price appreciation was driven by the strong local as well as regional demand where the regional capacity deficit further fueled the export growth in the sector.

Power sector had a good year owing to the shift of the sector from its defensive-yield mode to an expansionary mode owing to the growth in the demand of power and lower availability of gas forcing the GoP to reactivate capacity expansions of IPPs.

The automobile sector also outperformed the index by 10%, because of the significant earnings growth of major companies and announcement of sizeable expansion plans by major companies because of rapidly expanding middleclass in Pakistan.



## OPERATING RESULTS

During the year under review the investment decisions were based purely on fundamentals and entry and exit strategy was driven by market opportunity. Sector weightings were adjusted accordingly throughout the year given changing company and sector fundamentals.

During the period under review total income of the fund stood at Rs.110 million as compared to Rs.42 million in the corresponding period.

The dividend income for the year ended June 30, 2007 stood at Rs.30 million as compared to Rs.14 million in the corresponding period. Realized capital gains during the year ended June 30, 2007 stood at Rs.37 million as compared to Rs.57 million in the corresponding period.

Total expenditure during the year ended June 30, 2007 increased to Rs.52 million as compared to Rs.23 million in the corresponding period mainly on account of increase in Investment advisory fees and securities transaction cost.

Tax provision for the current year amounted nil due to tax exemption on PICIC Energy Fund under Clause 99 of Part I of the Second Schedule of the Income Tax Ordinance, 2001 and Rule 55 of NBFC Rules 2003.

The net income of the fund for the year ended June 30, 2007 increased to Rs.58 million as compared to Rs.19 million reported for the corresponding period. This translates into an earning per certificate of Re.0.58 for the year as compared to Re.0.19 in the corresponding period.

The net assets of PICIC Energy Fund increased from Rs.1,019 million on June 30, 2006 to Rs.1,077 million on June 30, 2007 and accordingly the net asset value per certificate increased from Rs.10.19 per certificate on June 30, 2006 to Rs.10.77 per certificate on June 30, 2007.

## DIVIDEND

By the grace of Almighty Allah, the Board of Directors of PICIC Asset Management Company Limited (the Investment Adviser) has declared a final cash dividend of 7.5% (i.e. Re.0.75/- per certificate) of PICIC Energy Fund for the year ended June 30, 2007. The total dividend for the year ended June 30, 2007 amounts to 7.5% (i.e. Re.0.75/- per certificate) resulting in total cash payout of Rs. 75 million.

## FUTURE OUTLOOK

The Investment Adviser is confident about the growth potential of the Mutual Fund Sector. We feel that current economic growth rate, privatization policy, economic reforms, deregulation policy, new listings and the performance of micro economy would contribute significantly towards further market appreciation.

We at PICIC Asset Management Company Limited would Insha-Allah continue to emphasize on maximizing certificate-holders value and are optimistic for seizing all emerging opportunities to ameliorate the certificate-holders interest.

## MANAGEMENT QUALITY RATING OF THE INVESTMENT ADVISER

JCR-VIS Credit Rating Company Ltd. has assigned Management Quality rating of 'AM2' to PICIC Asset Management Company Limited.

## TRANSACTION WITH CONNECTED PERSONS

Transactions between the Fund and its connected persons are carried out on an arm's length basis and the relevant terms of the transaction are determined in accordance with the 'Comparable Uncontrolled Price Method'. The Fund has fully complied with the best practices on transfer pricing as contained in the Listing Regulation No.38 of the Karachi Stock Exchange.

## CORPORATE GOVERNANCE

PICIC Energy Fund being listed on all three Stock Exchanges, the Investment Adviser is committed to observe Code of Corporate Governance prescribed for listed companies.

## DIRECTORS' DECLARATION ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- a. The financial statements prepared by the Investment Adviser of the Fund, present fairly state of affairs of the Fund, the result of its operations, cash flows and statement of movement in equity & reserves and distribution.
- b. The Fund has maintained proper books of accounts.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, provisions of the Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003, requirements of the Trust Deed and directives of Securities and Exchange Commission of Pakistan have been consistently applied in preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.

## PICIC ENERGY FUND (PEF)

- f. There are no significant doubts upon the Fund's ability to continue as a going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.
- h. Since operations of the fund started on January 20, 2006, therefore, key operating and financial data of last one year is summarized on page No. 10 (Annexure-A)
- i. All trades during the year in the certificates of the Fund carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children has been annexed on page No. 11 (Annexure-B).
- j. There is no statutory payment on account of taxes, duties, levies and charges outstanding.
- k. The statement as to the value of investments of provident, gratuity and pension funds is not applicable in case of Fund as the Fund has no employees.
- l. A statement showing the number of Board meetings and attendance by each director has been annexed on page No. 11 (Annexure-C).
- m. The detailed pattern of certificate-holding as required by the Companies Ordinance, 1984 and the Code of Corporate Governance is annexed on Page No. 12 (Annexure-D).

### AUDITORS

The Fund's external auditors M. Yousuf Adil Saleem & Co., Chartered Accountants being eligible have expressed their willingness to continue as the Fund's auditor for the ensuing year ending June 30, 2008. The Audit Committee of the Investment Adviser has recommended the appointment of M. Yousuf Adil Saleem & Co., Chartered Accountants, as the Fund's auditors for the year ending June 30, 2008.

### ACKNOWLEDGEMENT

Finally, we once again avail this opportunity to thank all our valued certificate-holders and correspondents for their continuing patronage and support, the Ministry of Finance, Securities & Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (Trustee), National Clearing Company of Pakistan Limited, other regulatory authorities, financial institutions and the auditors for their continued guidance and assistance. The Board also wishes to place on record its appreciation for the staff for their unwavering commitment and hard work and to the certificate-holders for the trust and confidence reposed in us.

For and on behalf of the Board

Hussain A. Naqvi  
Chief Executive Officer

Karachi  
July 18, 2007

## Annexure-A

**SUMMARIZED OPERATING AND FINANCIAL RESULTS  
FOR THE LAST YEAR IN COMPARISON TO CURRENT YEAR**

YEAR ENDED	(Rupees in '000')	
	JUNE 30, 2007	JUNE 30, 2006
<b>STATEMENT OF ASSETS &amp; LIABILITIES</b>		
Net Assets:		
Investment in quoted shares	617,107	481,326
Other Assets	517,426	605,765
Liabilities	(57,523)	(67,970)
<b>Total</b>	<b>1,077,010</b>	<b>1,019,121</b>
Financed By:		
Capital	1,000,000	1,000,000
Unappropriated profit	77,010	19,121
<b>Total</b>	<b>1,077,010</b>	<b>1,019,121</b>
Net Asset Value per Certificate (Rupees)	10.77	10.19
<b>INCOME STATEMENT</b>		
Income:		
Gain on Sale of Investments -net	37,224	57,018
Diminution on remeasurement of investment - net	(12,086)	(60,687)
Dividend	30,330	14,280
Other Income	54,314	31,610
	109,782	42,221
Expenditure:		
Management Fee	31,684	14,293
Auditors' Remuneration	280	200
Other Expenses	19,930	8,607
	51,894	23,100
Profit Before Taxation	57,888	19,121
Taxation	-	-
Profit After Taxation	57,888	19,121
Basic Earning per Certificate (Rupees)	0.58	0.19

Annexure-B

*STATEMENT SHOWING CERTIFICATES OF PICIC ENERGY FUND  
HELD BY DIRECTORS, CEO, CFO, COMPANY SECRETARY OF  
PICIC ASSET MANAGEMENT COMPANY LTD. (THE INVESTMENT ADVISER)  
AND THEIR SPOUSES AND MINOR CHILDREN AS AT JUNE 30, 2007*

S. NO.	NAME	DESIGNATION	SHARES HELD
01	Mr. Asadullah Khawaja	Chairman	-
02	Maj (R) Mohammad Fazal Durani	Director	-
03	Mr. Masroor Ahmed Qureshi	Director	-
04	Mr. Nauman Hussain	Director	-
05	Mr. Yameen Kerai	Director	-
06	Mr. Hussain A. Naqvi	CEO	-
07	Mr. Zahoor Amanullah	CFO & Company Secretary	-

Annexure-C

*STATEMENT SHOWING ATTENDANCE OF THE BOARD OF DIRECTORS' MEETING OF  
PICIC ASSET MANAGEMENT COMPANY LIMITED (THE INVESTMENT ADVISER) FOR  
PICIC ENERGY FUND FOR THE PERIOD FROM JULY 01, 2006 TO JUNE 30, 2007*

S. NO.	NAME	DESIGNATION	MEETINGS		
			TOTAL	ATTENDED	LEAVE GRANTED
01	Mr. Asadullah Khawaja	Director	8	7	1
02	Mr. A.K.M. Sayeed*	Director	8	8	-
03	Mr. Itiza Husain*	Director	8	7	1
04	Maj. (R) Mohammad Fazal Durani	Director	8	8	-
05	Mr. Muhammad Ali Khoja*	Director	8	8	-
06	Mr. Masroor Ahmed Qureshi**	Director	1	1	-
07	Mr. Nauman Hussain**	Director	1	1	-
08	Mr. Yameen Kerai**	Director	1	1	-
09	Syed Abid Raza*	CEO	8	8	-
10	Mr. Hussain A. Naqvi**	CEO	1	1	-

\* Resigned from the Board of PICIC Asset Management Company Limited on June 28, 2007

\*\*Appointed on the Board of PICIC Asset Management Company Limited on June 28, 2007

Annexure-D

*STATEMENT SHOWING PATTERN OF CERTIFICATES HELD BY THE  
CERTIFICATE-HOLDERS OF PICIC ENERGY FUND AS AT JUNE 30, 2007*

<i>CERTIFICATES</i>		<i>NUMBER OF CERTIFICATE</i>	<i>TOTAL HOLDINGS</i>
<i>FROM</i>	<i>TO</i>	<i>HOLDERS</i>	
1	100	7	335
101	500	5,628	2,812,119
501	1,000	1,377	1,377,000
1,001	5,000	1,739	5,013,400
5,001	10,000	399	3,521,600
10,001	15,000	109	1,441,000
15,001	20,000	90	1,716,000
20,001	25,000	59	1,408,500
25,001	30,000	41	1,195,500
30,001	35,000	22	727,000
35,001	40,000	22	857,500
40,001	45,000	11	483,000
45,001	50,000	79	3,931,000
50,001	55,000	5	266,000
55,001	60,000	9	535,500
60,001	65,000	5	318,000
65,001	70,000	8	553,000
70,001	75,000	3	220,500
75,001	80,000	2	157,000
80,001	85,000	1	85,000
85,001	90,000	5	443,000
90,100	95,000	2	187,000
95,100	100,000	27	2,691,500
100,100	200,000	37	5,771,500
200,001	1,000,000	43	18,842,366
1,000,001	16,000,000	10	45,445,680
	<b>TOTAL</b>	<b>9,740</b>	<b>100,000,000</b>

PICIC ENERGY FUND (PEF)

*STATEMENT SHOWING CATEGORY OF CERTIFICATE-HOLDERS  
OF PICIC ENERGY FUND AS AT JUNE 30, 2007*

<i>CATEGORY DESCRIPTION</i>	<i>NUMBER OF CERTIFICATE-HOLDERS</i>	<i>HOLDING</i>	<i>%</i>
INDIVIDUALS	9613	40,762,994	40.76
COMMERCIAL BANKS	3	5,993,020	5.99
INSURANCE COMPANIES	3	329,340	0.33
INVESTMENT BANKS/COMPANIES	2	1,162,000	1.16
JOINT STOCK COMPANIES	75	7,429,626	7.43
MODARABA COMPANIES	4	588,000	0.59
CHARITABLE TRUST	3	493,000	0.49
LEASING COMPANIES	1	320	0.00
ICP	-	-	-
NIIL	1	761,040	0.76
NIUT	2	3,000,000	3.0
PICIC	2	11,130,160	11.13
PICIC AMC	1	16,042,000	16.04
MUTUAL FUNDS	-	-	-
FOREIGNERS	7	8,665,000	8.67
CO-OPERATIVE SOCIETY	1	265,500	0.27
OTHERS	22	3,378,000	3.38
TOTAL	9,740	100,000,000	100.00

*PATTERN OF CERTIFICATE-HOLDING OF PICIC ENERGY FUND AS PER REQUIREMENT OF THE CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2007*

PARTICULAR	CERTIFICATE HELD
Individuals	40,762,994
Investment Companies	1,162,000
Joint Stock Companies	7,429,626
Associated Company Pakistan Industrial Credit & Investment Corporation Limited (PICIC)	5,240,260
PICIC Commercial Bank Limited	5,889,900
Investment Adviser PICIC Asset Management Company Limited	16,042,000
National Investment Trust Limited (NITL)	761,040
National Investment Unit Trust (NIUT)	3,000,000
Investment Corporation of Pakistan (ICP)	-
Chief Executive Hussain A. Naqvi	-
Directors & their Spouses Mr. Asadullah Khawaja Maj (R) Mohammad Fazal Durrani Mr. Masroor Ahmed Qureshi Mr. Nauman Hussain Mr. Yameen Kerai	- - - - -
Executives	-
Banks, DFIs, NBFIs, Insurance Companies, Modarabas, & Mutual Funds	6,910,680
Foreign Investors	8,665,000
Co-operative Societies	265,500
Charitable Trusts	493,000
Others	3,378,000
TOTAL	100,000,000

*DETAILS OF CERTIFICATE-HOLDERS HOLDING TEN PERCENT OR MORE CERTIFICATES OF PICIC ENERGY FUND AS AT JUNE 30, 2007*

PARTICULARS	HOLDING	%
PICIC Asset Management Company Limited	16,042,000	16.04



## Statement of Ethics and Business Practices



PICIC Asset Management Company Limited, a wholly owned subsidiary of Pakistan Industrial Credit & Investment Corporation Ltd. (the Investment Adviser of PICIC Energy Fund) will be guided by the following principles in its pursuit of excellence in all activities for attainment of the organizational objectives:

### AS DIRECTORS:

- ⦿ Formulate and monitor the objectives, strategies and overall business plan of the company.
- ⦿ Oversee that the affairs of the company are being carried out prudently within the framework of existing laws & regulations and high business ethics.
- ⦿ Ensure compliance of legal and regulatory requirements.
- ⦿ Protect the interest and assets of the company.
- ⦿ Maintain organizational effectiveness for the achievement of the organizational goals.
- ⦿ Foster the conducive environment through responsive policies.
- ⦿ Ensure that company's interest supersedes all other interest.
- ⦿ Transparency in the functioning of the company.
- ⦿ Ensure efficient and effective use of company's resources.

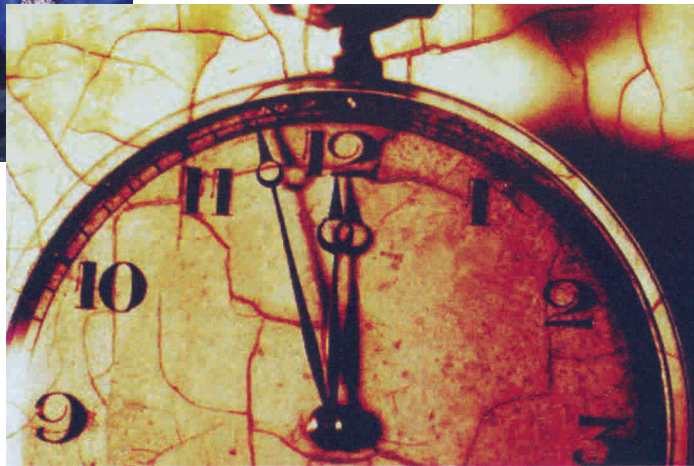
#### AS EXECUTIVES, MANAGERS AND STAFF:

- ⊙ Follow the policy guidelines strictly adhering to the rules and procedures as approved by the Board.
- ⊙ Strike and work diligently for profitable operations of the company.
- ⊙ Provide the direction and leadership for the company.
- ⊙ Ensure shareholders satisfaction through excellent product and service.
- ⊙ Promote a culture of excellence, conservation and continual improvement.
- ⊙ Cultivate work ethics and harmony among colleagues and associates.
- ⊙ Encourage initiatives and self-realization in employees.
- ⊙ Ensure an equitable way of working and reward system.
- ⊙ Institute commitment to healthy environment.
- ⊙ Productive devotion of time and efforts.
- ⊙ Promote and protect the interest of the company and ensure that company's interest supersedes all other interest.
- ⊙ Exercise prudence in using company's resources.
- ⊙ Observe cost effective practice in daily activities.
- ⊙ Strive for excellence and quality.
- ⊙ Avoid making personal gain (other than authorized salary and benefits) at the company's expense, participating in or assisting activities which compete with PICIC Asset Management Company Limited.
- ⊙ Efforts to create succession in related areas would be appreciated/encouraged.

#### FINANCIAL INTEGRITY:

- ⊙ Compliance with accepted accounting rules and procedures.
- ⊙ In addition to being duly authorized, all transactions must be properly and fully recorded. No record entry or document may be false or misleading and no undisclosed and unrecorded account, fund or asset may be established or maintained. No company payment may be requested, approved or made with the intention that any part of such payment is to be used for any purpose other than as described in the document supporting it.
- ⊙ All information supplied to the auditors must be complete and not misleading.
- ⊙ PICIC Asset Management Company Limited will not knowingly assist fraudulent activities by others.

## Core Values



PICIC ASSET MANAGEMENT COMPANY LIMITED (THE INVESTMENT ADVISER OF PICIC ENERGY FUND) BELIEVES IN:

- ⦿ Highest standards of personal & professional ethics and integrity.
- ⦿ Providing impeccable services to its certificate-holders.
- ⦿ Maximizing certificate-holders' value through meeting their expectations.
- ⦿ Innovation and technology as rewarding investments.
- ⦿ Training, development & recognition as employees' key motivators.
- ⦿ Democratic leadership & candor as key ingredients for effective teamwork.
- ⦿ These Core Values are the manifestation of its claim of being **"The Trusted Name"**.

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

This statement is being presented by the Board of Directors of PICIC Asset Management Company Limited (Company), the Investment Adviser of PICIC Energy Fund (Fund) to comply with the Best Practices of Code of Corporate Governance (Code) contained in Regulation No.37, Chapter XIII and Chapter XI of the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges respectively for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.



PICIC Asset Management Company Limited, though an un-listed company complies with the Code as the fund under its management is listed on all three Stock Exchanges.

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board comprises of six (6) directors of which five (5) are non-executive and only the Chief Executive Officer (CEO) is an executive director. The Company, being an un-listed company, does not have any minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurring in the Board were filled up by the directors within the prescribed period.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies for 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 CEO have been taken by the Board. There is no other executive-director of the Company besides CEO.
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 meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors have been provided with the copies of the NBFC (Establishment and Regulation) Rules, 2003, Companies Ordinance 1984, Listing Regulations, Code of Corporate Governance, Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company & Fund, its policies and procedures and provisions of Memorandum and Articles of Association and are aware of their duties and responsibilities.
10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Funds other than that disclosed in the pattern of certificate-holding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors, including the chairman of the committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the Code. The terms of reference of the Audit Committee has been approved by the Board.
17. The Investment Adviser has outsourced the internal audit function of the Fund to M/s Anjum Asim Shahid Rahman, Chartered Accountants, Karachi, for the year ended June 30, 2007, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
18. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the board

Hussain A. Naqvi  
Chief Executive Officer

Karachi  
July 18, 2007



M. Yousuf Adil Saleem & Co  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Sharea Faisal,  
Karachi-75350  
Pakistan

UAN: +92 (0) 21 111-55-2626  
Fax: +92 (0) 21- 454 1314  
Web: [www.deloitte.com](http://www.deloitte.com)

**REVIEW REPORT TO THE CERTIFICATE HOLDERS ON 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 **PICIC ASSET MANAGEMENT COMPANY LIMITED** (the investment adviser) of the **PICIC ENERGY FUND** to comply with the Listing Regulation No.37 (Chapter XI), No.43 (Chapter XIII) and No.36 (Chapter XI) of Karachi, Lahore and Islamabad Stock Exchanges where the Fund is listed.

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

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the compliance of the investment advisor of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2007.

Karachi  
July 18, 2007

**Chartered Accountants**

A member firm of  
Deloitte Touche Tohmatsu



# Financial Statements

for the year ended June 30, 2007







**REPORT OF THE TRUSTEE  
PICIC ENERGY FUND**

Report of the Trustee pursuant to Rule 45(g) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

PICIC Energy Fund, a closed-end scheme was established under a trust deed executed between PICIC Asset Management Company Limited as the Investment Adviser and Central Depository Company of Pakistan Limited as Trustee on March 16, 2005. The Scheme was authorized by the Securities and Exchange Commission of Pakistan on May 03, 2005.

In our opinion, PICIC Asset Management Company Limited, the Investment Adviser of PICIC Energy Fund has in all material respects managed PICIC Energy Fund during the year ended June 30, 2007 in accordance with the provisions of the Trust Deed (and the modifications authorized by the Securities and Exchange Commission of Pakistan from time to time) and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

**Mohammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi  
July 18, 2007



M. Yousuf Adil Saleem & Co  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Sharea Faisal,  
Karachi-75350  
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UAN: +92 (0) 21 111-55-2626  
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## **INDEPENDENT AUDITORS' REPORT TO THE CERTIFICATE HOLDERS**

We have audited the accompanying financial statements of **PICIC Energy Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2007, and the income statement, distribution statement, statement of movements in net assets / reserves, cash flow statement and statement of movement in equity and reserves for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Investment Adviser's responsibility for the financial statements**

Investment Adviser of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

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M. Yousuf Adil Saleem & Co  
Chartered Accountants

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 June 30, 2007, 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 NBFC Rules.

**Karachi**  
July 18, 2007

**Chartered Accountants**

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## PICIC ENERGY FUND

STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2007

	Note	2007	2006
-----Rupees in '000'-----			
<b>ASSETS</b>			
Bank balances		502,776	476,700
Investments - at fair value through profit or loss	5	617,107	481,326
Receivable against sale of investments		-	114,852
Dividend receivable		2,200	2,113
Accrued income on bank deposits		4,250	2,900
Security deposits		1,200	200
Preliminary and floatation costs	6	7,000	9,000
<b>Total Assets</b>		<b>1,134,533</b>	<b>1,087,091</b>
<b>LIABILITIES</b>			
Fee payable to Investment Adviser		31,684	14,293
Preliminary and floatation costs payable to Investment Adviser		9,000	10,000
Fee payable to Trustee		110	105
Fee payable to S.E.C.P.		1,056	477
Payable against purchase of investments		14,952	42,464
Accrued expenses		721	631
<b>Total Liabilities</b>		<b>57,523</b>	<b>67,970</b>
<b>NET ASSETS</b>		<b>1,077,010</b>	<b>1,019,121</b>
<b>CAPITAL AND RESERVES</b>			
Capital	7	1,000,000	1,000,000
Unappropriated profit		77,010	19,121
<b>TOTAL CERTIFICATE HOLDERS' FUND</b>		<b>1,077,010</b>	<b>1,019,121</b>
<b>NET ASSET VALUE PER CERTIFICATE - Rupees</b>	8	<b>10.77</b>	<b>10.19</b>

The annexed notes from 1 to 23 form an integral part of these financial statements.

For PICIC Asset Management Company Limited  
(Investment Adviser)

Asadullah Khawaja  
Chairman

Hussain A. Naqvi  
Chief Executive

Yameen Kerai  
Director

PICIC ENERGY FUND

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

	<i>Note</i>	<i>For the year ended June 30, 2007</i>	<i>Period from January 20, 2006 to June 30, 2006</i>
<i>-----Rupees in '000'-----</i>			
<b>INCOME</b>			
Capital gain on sale of investments - net		37,224	57,018
Dividend income		30,330	14,280
Unrealised diminution on remeasurement of investments - net		(12,086)	(60,687)
Income from CFS transactions		2,107	-
Return on deposit accounts with banks		52,207	31,610
		<u>109,782</u>	<u>42,221</u>
<b>OPERATING EXPENSES</b>			
Fee to Investment Adviser	9	31,684	14,293
Fee to Trustee		1,316	590
Fee to S.E.C.P.		1,056	477
Securities transaction cost	10	13,651	5,716
Auditors' remuneration	11	280	202
Amortization of preliminary and floatation costs		2,000	1,000
Other expenses	12	1,906	822
		<u>51,893</u>	<u>23,100</u>
Profit before taxation		57,889	19,121
Taxation	13	-	-
Profit after taxation		<u>57,889</u>	<u>19,121</u>
Earnings per certificate (Rupee):			
With diminution on remeasurement of investments		<u>0.58</u>	<u>0.19</u>
Without diminution on remeasurement of investments		<u>0.70</u>	<u>0.80</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

For PICIC Asset Management Company Limited  
(Investment Adviser)

Asadullah Khawaja  
Chairman

Hussain A. Naqvi  
Chief Executive

Yameen Kerai  
Director

PICIC ENERGY FUND

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

	For the year ended June 30, 2007	Period from January 20, 2006 to June 30, 2006
-----Rupees in '000'-----		
Unappropriated profit brought forward	19,121	-
Profit after taxation	57,889	19,121
Unappropriated profit carried forward	<u>77,010</u>	<u>19,121</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

For PICIC Asset Management Company Limited  
(Investment Adviser)

Asadullah Khawaja  
Chairman

Hussain A. Naqvi  
Chief Executive

Yameen Kerai  
Director

PICIC ENERGY FUND

STATEMENT OF MOVEMENTS IN NET ASSETS / RESERVES  
FOR THE YEAR ENDED JUNE 30, 2007

	For the year ended June 30, 2007	Period from January 20, 2006 to June 30, 2006
-----Rupees in '000'-----		
Net assets value per certificate at the beginning of the year / period	10.19	-
Movements in net assets value per certificate from operations		
Capital gain on sale of investments - net	0.37	0.57
Dividend income	0.31	0.14
Unrealised diminution on remeasurement of investments - net	(0.12)	(0.61)
Income from CFS transactions	0.02	-
Return on deposit accounts with banks	0.52	0.32
	1.10	0.42
Operating expenses	(0.52)	(0.23)
	.	.
Increase in net assets value per certificate from operations	<u>0.58</u>	<u>0.19</u>
Movements in net assets value per certificate from financing		
Issue of certificates	-	10.00
Net assets value per certificate at the end of the year/period	<u>10.77</u>	<u>10.19</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

For PICIC Asset Management Company Limited  
(Investment Adviser)

Asadullah Khawaja  
Chairman

Hussain A. Naqvi  
Chief Executive

Yameen Kerai  
Director

## PICIC ENERGY FUND

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

	For the year ended June 30, 2007	Period from January 20, 2006 to June 30, 2006
-----Rupees in '000'-----		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	57,889	19,121
Adjustments for :		
Capital gain on sale of investments - net	(37,224)	(57,018)
Dividend income	(30,330)	(14,280)
Unrealised diminution on remeasurement of investments - net	12,086	60,687
Amortization of preliminary and floatation costs	2,000	1,000
Operating cash flows before working capital changes	<u>4,421</u>	<u>9,510</u>
Increase / decrease in assets / liabilities		
Investments - net	(110,643)	(484,995)
Receivable against sale of investments	114,852	(114,852)
Accrued income on bank deposits	(1,350)	(2,900)
Security deposit	(1,000)	(200)
Fee payable to Investment Adviser	17,391	14,293
Preliminary and floatation costs payable to Investment Adviser	(1,000)	-
Fee payable to Trustee	5	105
Fee payable to S.E.C.P	579	477
Payable against purchase of investments	(27,512)	42,464
Accrued expenses	90	631
Cash used in operations	<u>(4,167)</u>	<u>(535,467)</u>
Dividend received	30,243	12,167
Net cash flow from/(used in) operating activities	<u>26,076</u>	<u>(523,300)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of certificates	-	1,000,000
Net cash flow from financing activities	<u>-</u>	<u>1,000,000</u>
Net increase in cash and cash equivalents	26,076	476,700
Bank balances at the beginning of the year/period	<u>476,700</u>	<u>-</u>
Bank balances at the end of the year/period	<u>502,776</u>	<u>476,700</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

For PICIC Asset Management Company Limited  
(Investment Adviser)

Asadullah Khawaja  
Chairman

Hussain A. Naqvi  
Chief Executive

Yameen Kerai  
Director



PICIC ENERGY FUND

*STATEMENT OF MOVEMENT IN EQUITY AND RESERVES  
FOR THE YEAR ENDED JUNE 30, 2007*

	Issued, subscribed and paid up capital	Unappropriated Profit	Total
----- Rupees in '000' -----			
Issue of certificates	1,000,000	-	1,000,000
Profit for the period	-	19,121	19,121
Balance as at June 30, 2006	1,000,000	19,121	1,019,121
Profit for the year	-	57,889	57,889
Balance as at June 30, 2007	<u>1,000,000</u>	<u>77,010</u>	<u>1,077,010</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

For PICIC Asset Management Company Limited  
(Investment Adviser)

Asadullah Khawaja  
Chairman

Hussain A. Naqvi  
Chief Executive

Yameen Kerai  
Director

## PICIC ENERGY FUND

### NOTES TO THE FINANCIAL STATEMENTS - FOR THE YEAR ENDED JUNE 30, 2007

#### 1. STATUS AND NATURE OF BUSINESS

PICIC Energy Fund (the Fund) is a closed end scheme established in Pakistan by a Trust Deed executed on March 16, 2005 under the Trust Act, 1882 (11 of 1882) between PICIC Asset Management Company Limited (PICIC AMC) as Investment Advisor and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Fund is governed under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The Registered office of the Fund is situated at Karachi, Pakistan. The certificates of the Fund are listed on all three Stock Exchanges of Pakistan. Principal business of the Fund is to invest in listed equity securities of energy sector with an objective to capture significant return.

#### 2. STATEMENT OF COMPLIANCE

- 2.1 These financial statements have been prepared in accordance with the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the Rules), the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Rules, the Ordinance, or directives issued by SECP differ with the requirements of these standards, the requirements of the Rules, the Ordinance and the said directives take precedence.
- 2.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after January 1, 2007 are either not relevant to company's operations or are not expected to have significant impact on the company's financial statements other than increased disclosures in certain cases:

IAS 1 - Presentation of financial statements - amendments relating to capital disclosures	effective from accounting period beginning on or after January 1, 2007
IFRS 2 - Share based payment	effective from accounting period beginning on or after January 1, 2007
IFRS 3 - Business combinations	effective from accounting period beginning on or after January 1, 2007
IFRS 5 - Non-current assets held for sale and discontinued operations	effective from accounting period beginning on or after January 1, 2007
IFRS 6 - Exploration for and evaluation of mineral resources	effective from accounting period beginning on or after January 1, 2007

IFRIC 10 - Interim financial reporting and impairment	effective for accounting period beginning on or after November 1, 2006
IFRIC 11 - Group and treasury share transactions	effective for accounting period beginning on or after March 1, 2007
IFRIC 12 - Services concession arrangements	effective for accounting period beginning on or after January 1, 2008

### 3. BASIS OF MEASUREMENT

- 3.1 The financial statements have been prepared under the historical cost convention, except for investments which are stated at fair value.
- 3.2 These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.
- 3.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The significant area where judgments were made by the management in the application of accounting policies was investments.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### 4.1 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances. Cash and cash equivalents are carried in the balance sheet at cost.

#### 4.2 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention for purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

The Investment Adviser determines the appropriate classification of the Fund's investments 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 of the Fund are categorised as 'financial assets at fair value through profit or loss'.

*Financial assets at fair value through profit or loss*

These financial assets are classified as held for trading or designated by the management at fair value through profit or loss at inception. Financial assets held for trading are those acquired principally for the purpose of selling in the near term. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the income statement. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. The fair value of financial instruments traded in active market is based on quoted market prices. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise.

#### 4.3 Derivatives

Derivative instruments held by the Fund generally comprise of un paid right letters and future contracts in the capital market. Derivative instruments are initially measured at fair value and subsequent to initial measurement each derivative instrument is remeasured to their fair value and the resultant gain or loss is recognized in the income statement.

Derivative financial instruments entered into by the Fund do not meet the hedging criteria as defined by IAS-39, consequently hedge accounting is not used by the Fund.

#### 4.4 Securities under resale agreements - Continuous Funding System (CFS) transactions

Securities purchased under an agreement to resell (reverse repo) are included as receivable against CFS transactions at the fair value of the consideration given. 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 CFS transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income from CFS transactions in the income statement and is recognised over the term of the respective transactions.

#### 4.5 Taxation

Charge for current taxation is based on taxable income, if any, at the current rates for taxation after taking into account any available tax credits.

### 4.6 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 obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

### 4.7 Dividend distribution

Dividend distribution to the Fund's certificate holders is recognised as liability at the time of their declaration.

### 4.8 Financial assets and financial liabilities

Financial assets carried on the statement of assets and liabilities include bank balances, investment classified as 'held for trading', receivable against sale of investments, dividend and return on deposit account with banks.

Financial liabilities carried on the statement of assets and liabilities include fee payable to Investment Adviser, preliminary and floatation cost payable to Investment Adviser, fee payable to Trustee & S.E.C.P., payable against purchase of investments and accrued expenses.

At the time of initial recognition, all financial assets and financial liabilities are measured at fair value. The particular recognition method adopted for measurement of financial assets and liabilities subsequent to initial recognition is disclosed in the individual policy statement associated with each item.

### 4.9 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount 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 the net basis, or realise the asset and settle liability simultaneously.

### 4.10 Revenue recognition

- Capital gains / (losses) whether realised or unrealised arising on sale of investments are included in the income statement in the period in which they arise.
- Dividend income is recognised when the right to receive the dividend is established.
- Profit on bank deposit and income from Continuous Funding System (CFS) is recognized on accrual basis.

### 4.11 Preliminary and floatation costs

Preliminary and floatation costs are deferred and amortised monthly over the period of five years.

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

The holding are in the fully paid ordinary shares of Rs. 10/- each.

NAME OF THE INVESTEE COMPANY						BALANCE AS AT JUNE 30, 2007			PERCENTAGE IN RELATION TO		
	Opening	Purchases	Bonus / Rights	Sales	Closing	Cost	Carrying value	Market value	Net Assets of the Fund	Investee paid up capital	Total Investment
	----- (Number of shares / certificates) -----					----- (Rupees in '000') -----					
<b>Refineries</b>											
Attock Refinery Limited	150,000	425,000	-	575,000	-	-	-	-	-	-	-
National Refinery Limited	250,000	175,000	-	425,000	-	-	-	-	-	-	-
Pakistan Refinery Limited	-	5,200	-	5,200	-	-	-	-	-	-	-
	<u>400,000</u>	<u>605,200</u>	<u>-</u>	<u>1,005,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Power Generation and distribution</b>											
Hub Power Company Limited	2,000,000	10,514,000	-	9,500,000	3,014,000	104,040	104,040	110,614	10.27%	0.26%	17.92%
Kot Addu Power Company Limited	450,000	2,401,000	-	2,851,000	-	-	-	-	-	-	-
	<u>2,450,000</u>	<u>12,915,000</u>	<u>-</u>	<u>12,351,000</u>	<u>3,014,000</u>	<u>104,040</u>	<u>104,040</u>	<u>110,614</u>	<u>10.27%</u>		<u>17.92%</u>
<b>Oil &amp; Gas Marketing</b>											
Attock Petroleum Limited	90,700	310,900	-	300,500	101,100	46,842	46,842	50,686	4.71%	0.25%	8.21%
Pakistan State Oil Limited	250,000	4,251,800	-	4,249,400	252,400	100,335	100,335	98,802	9.18%	0.15%	16.01%
Sui Northem Gas Company Limited	500,000	14,572,500	-	14,472,500	600,000	15,803	15,803	15,480	1.44%	0.09%	2.51%
Sui Southem Gas Company Limited	-	6,013,500	50,000	5,375,700	687,800	55,307	55,307	48,662	4.52%	0.13%	7.89%
	<u>840,700</u>	<u>25,148,700</u>	<u>50,000</u>	<u>24,398,100</u>	<u>1,641,300</u>	<u>218,287</u>	<u>218,287</u>	<u>213,630</u>	<u>19.84%</u>		<u>34.62%</u>
<b>Oil &amp; Gas Exploration</b>											
Mari Gas Company	-	5,700	-	-	5,700	799	799	998	0.09%	0.00%	0.16%
Oil & Gas Development Company Limited	500,000	11,604,921	-	11,404,921	700,000	84,372	84,372	83,860	7.79%	0.02%	13.59%
Pakistan Oil Fields Limited	250,000	4,760,400	-	4,685,400	325,000	115,483	115,4823	103,025	9.57%	0.16%	16.69%
Pakistan Petroleum Limited	300,000	10,925,800	-	10,825,800	400,000	106,212	106,212	104,980	9.75%	0.06%	17.01%
	<u>1,050,000</u>	<u>27,296,821</u>	<u>-</u>	<u>26,916,121</u>	<u>1,430,700</u>	<u>306,866</u>	<u>306,866</u>	<u>292,863</u>	<u>27.20%</u>		<u>47.46%</u>
<b>Total</b>	<u>4,740,700</u>	<u>65,965,721</u>	<u>50,000</u>	<u>64,670,421</u>	<u>6,086,000</u>	<u>629,193</u>	<u>629,193</u>	<u>617,107</u>	<u>57.31%</u>		<u>100%</u>

## PICIC ENERGY FUND (PEF)

### 6. PRELIMINARY AND FLOATATION COSTS

Total Cost  
Less: Accumulated amortization

2007	2006
----- Rupees in '000' -----	
10,000	10,000
<u>(3,000)</u>	<u>(1,000)</u>
<u>7,000</u>	<u>9,000</u>

### 7. CAPITAL

2007	2006			
No. of Certificates ----- in '000' -----		Issued, subscribed and paid up capital		
<u>100,000</u>	<u>100,000</u>			
		Fully paid ordinary certificates of Rs.10 each issued for cash	<u>1,000,000</u>	<u>1,000,000</u>

The total authorised number of certificates are 100,000,000 with a par value of Rs.10/- per certificate.

PICIC Asset Management Company Limited held 16,042,000 certificates of Rs.10/- each as at June 30, 2007 (2006 : 16,000,000 certificates).

Pakistan Industrial Credit & Investment Corporation Limited held 5,240,260 certificates of Rs.10/- each as at June 30, 2007 (2006 : 5,240,260 certificates).

PICIC Commercial Bank Limited held 5,889,900 certificates of Rs.10/- each as at June 30, 2007 (2006 : 5,889,900 certificates).

### 8. NET ASSET VALUE PER CERTIFICATE

Total net assets - Rupees in thousand  
Total certificates in issue - in thousand  
Net assets value per certificate - Rupees

2007	2006
<u>1,077,010</u>	<u>1,019,121</u>
<u>100,000</u>	<u>100,000</u>
<u>10.77</u>	<u>10.19</u>

### 9. FEE TO INVESTMENT ADVESER

The fee of Investment Adviser has been determined at the rate of three percent per annum of the average annual net assets of the Fund as at June 30, 2007.

**10. SECURITIES TRANSACTION COSTS**

Transaction costs associated with initial recognition of financial assets  
Transaction costs associated with derecognition of financial assets

For the year ended June 30, 2007	Period from January 20, 2006 to June 30, 2006
----- Rupees in '000' -----	
7,630	3,499
6,021	2,217
<u>13,651</u>	<u>5,716</u>

**11. AUDITORS' REMUNERATION**

Annual statutory audit fee  
Half yearly review fee  
Fee for review of statement of compliance of Code of Corporate Governance  
Other certifications  
Out of pocket expenses

150	150
50	-
50	50
10	-
20	2
<u>280</u>	<u>202</u>

**12. OTHER EXPENSES**

Printing and stationery  
CDS charges  
Tax consultancy fee  
Professional tax  
Listing fee  
Postage  
Bank charges  
Other

730	512
341	189
135	-
100	-
163	68
402	47
22	6
13	-
<u>1,906</u>	<u>822</u>

**13. TAXATION**

The Fund is exempt from tax under clause 99 of part 1 of Second Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year, as reduced by the capital gains whether realized or unrealized, is distributed among its certificate holders.

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



#### 14. EARNINGS PER CERTIFICATE

There is no dilutive effect on earnings per certificate as computed below :-

Profit after taxation (with diminution on remeasurement of investments)- Rupees in thousand	57,889	19,121
Profit after taxation (without diminution on remeasurement of investments)- Rupees in thousand	69,975	79,808
Weighted average number of certificates - in thousand	100,000	100,000
Basic earnings per certificate (with diminution on remeasurement of investments)- Rupee	0.58	0.19
Basic earnings per certificate (without diminution on remeasurement of investments)- Rupee	0.70	0.80

For the year ended June 30, 2007	Period from January 20, 2006 to June 30, 2006

#### 15. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons include PICIC Asset Management Company being the Investment Adviser of the Fund, Pakistan Industrial Credit and Investment Corporation Limited being the holding company of the Investment Adviser and PICIC Commercial Bank Limited being the company under the common control.

	2007	2006
	----- Rupees in '000' -----	
PICIC Asset Management Company Limited		
Fee payable to Investment Adviser	31,684	14,293
Preliminary and floatation expenses payable	9,000	10,000
PICIC Commercial Bank Limited		
Bank balances	10	4,000
PICIC Asset Management Company Limited		
Fee of the Investment Adviser	31,684	14,293
Amortization of preliminary and floatation cost	2,000	1,000
Pakistan Industrial Credit and Investment Corporation Limited		
Underwriting commission	-	47
PICIC Commercial Bank Limited		
Underwriting commission	-	313
Return on bank deposit accounts	16	-

## 16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

16.1 The Fund's Market Rate of Return ( MROR ) sensitivity related to financial assets and financial liabilities as at 30 June, 2007 can be determined from the following:

Exposed to MROR risk as at June 30, 2007					
	Upto three months	More than three months and upto one year	More than one year	Not exposed to MROR risk	Total
----- (Rupees in '000) -----					
<b>Financial Assets</b>					
Bank balances	502,776	-	-	-	502,776
Investments - at fair value					
through profit or loss	-	-	-	617,107	617,107
Dividend receivable	-	-	-	2,200	2,200
Accrued income on bank deposits	-	-	-	4,250	4,250
Security deposits	-	-	-	1,200	1,200
	<u>502,776</u>	<u>-</u>	<u>-</u>	<u>624,757</u>	<u>1,127,533</u>
<b>Financial Liabilities</b>					
Payable to Investment Adviser	-	-	-	31,684	31,684
Preliminary and floatation costs payable	-	-	-	9,000	9,000
Payable to Trustee	-	-	-	110	110
Payable to S.E.C.P	-	-	-	1,056	1,056
Payable against purchase of investments	-	-	-	14,952	14,952
Accrued expenses	-	-	-	721	721
	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,523</u>	<u>57,523</u>
On-balance sheet gap 2007	<u>502,776</u>	<u>-</u>	<u>-</u>	<u>567,234</u>	<u>1,070,010</u>

## PICIC ENERGY FUND (PEF)

Exposed to MROR risk as at June 30, 2006					
	Upto three months	More than three months and upto one year	More than one year	Not exposed to MROR risk	Total
----- (Rupees in '000) -----					
<b>Financial Assets</b>					
Bank balances	476,700	-	-	-	476,700
Investments - at fair value through profit or loss	-	-	-	481,326	481,326
Receivable against sale of investments	-	-	-	114,852	114,852
Dividend receivable	-	-	-	2,113	2,113
Accrued income on bank deposits	-	-	-	2,900	2,900
Security deposits	-	-	-	200	200
	<u>476,700</u>	<u>-</u>	<u>-</u>	<u>601,391</u>	<u>1,078,091</u>
<b>Financial Liabilities</b>					
Payable to Investment Adviser	-	-	-	14,293	14,293
Preliminary and floatation costs payable	-	-	-	10,000	10,000
Payable to Trustee	-	-	-	105	105
Payable to S.E.C.P	-	-	-	477	477
Payable against purchase of investments	-	-	-	42,464	42,464
Accrued expenses	-	-	-	631	631
	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,970</u>	<u>67,970</u>
On-balance sheet gap 2006	<u>476,700</u>	<u>-</u>	<u>-</u>	<u>533,421</u>	<u>1,010,121</u>

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

Balance with banks - in deposit accounts

	2007	2006
	Percentage per annum	
	1% to 9.5%	1.5% to 10%

## 17. MATURITIES OF ASSETS AND LIABILITIES

As at June 30, 2007				
	Total	Upto three months	More than three months and upto one year	More than one year
----- (Rupees in '000) -----				
<b>Assets</b>				
Bank balances	502,776	502,776	-	-
Investments - at fair value through profit or loss	617,107	617,107	-	-
Dividend receivable	2,200	2,200	-	-
Accrued income on bank deposits	4,250	4,250	-	-
Security deposits	1,200	-	-	1,200
Preliminary and floatation costs	7,000	-	2,000	5,000
	<u>1,134,533</u>	<u>1,126,333</u>	<u>2,000</u>	<u>6,200</u>
<b>Liabilities</b>				
Payable to Investment Adviser	31,684	31,684	-	-
Preliminary and floatation costs payable	9,000	-	2,000	7,000
Payable to Trustee	110	110	-	-
Payable to S.E.C.P	1,056	1,056	-	-
Payable against purchase of investments	14,952	14,952	-	-
Accrued expenses	721	721	-	-
	<u>57,523</u>	<u>48,523</u>	<u>2,000</u>	<u>7,000</u>
Net Assets	<u>1,077,010</u>	<u>1,077,810</u>	<u>-</u>	<u>(800)</u>

As at June 30, 2006				
	Total	Upto three months	More than three months and upto one year	More than one year
----- (Rupees in '000) -----				
<b>Assets</b>				
Bank balances	476,700	476,700	-	-
Investments - at fair value through profit or loss	481,326	481,326	-	-
Receivable against sale of investments	114,852	114,852	-	-
Dividend receivable	2,113	2,113	-	-
Accrued income on bank deposits	2,900	2,900	-	-
Security deposits	200	-	-	200
Preliminary and floatation costs	9,000	-	1,000	8,000
	<u>1,087,091</u>	<u>1,077,891</u>	<u>1,000</u>	<u>8,200</u>
<b>Liabilities</b>				
Payable to Investment Advisor	14,293	14,293	-	-
Preliminary and floatation costs payable	10,000	-	1,000	9,000
Payable to Trustee	105	105	-	-
Payable to S.E.C.P	477	477	-	-
Payable against purchase of investments	42,464	42,464	-	-
Accrued expenses	631	631	-	-
	<u>67,970</u>	<u>57,970</u>	<u>1,000</u>	<u>9,000</u>
Net Assets	<u>1,019,121</u>	<u>1,019,921</u>	<u>-</u>	<u>(800)</u>

## 18. RISK MANAGEMENT

The Fund primarily invests in listed equity securities. These investments are subject to varying natures of risk. These risk emanate from various factors that include, but are not limited to following:

### Yield / Interest rate risk

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve. Interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market interest rates. Sensitivity to interest/ mark-up rate risk arises from mismatches or gaps in the amounts of interest/ mark-up based assets and liabilities that mature or reprice in a given period. The Fund exposure to yield/interest rate risk upto the extent of balance kept with banks in deposit account.

### Market risk

Market risk is the risk that the value of financial instruments may fluctuate as a result of changes in market price of securities due to change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The investment adviser manages market risk by monitoring exposure on marketable securities by following internal risk management policies and investment guidelines as approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

### Credit risk

Credit risk arises from the inability of the counter parties to fulfill their obligations.

All investing transactions are settled / paid for upon delivery using approved brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has received payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet the obligation, the trade will fail.

The Fund enters into transactions with diverse credit worthy counter parties thereby mitigating any significant concentration of credit risk.

### Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Fund is not materially exposed to liquidity risk as all obligations / commitments of the Fund are short term in nature and are restricted to the extent of available liquidity and all assets of the Fund are readily disposable in the market.

## 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments categorized as 'held for trading' are carried at their fair value. The management is of the view that the fair market value of most of the remaining financial assets and financial liabilities are not significantly different from their carrying values.

**20. PERFORMANCE TABLE**

	2007	2006
	----- Rupees in '000' -----	
Net assets - Rupees in thousand	1,077,010	1,019,121
Net assets value per certificate - Rupees	10.77	10.19
	For the year ended June 30, 2007	Period from January 20, 2006 to June 30, 2006
Profit after tax - Rupees in thousand	<u>57,889</u>	<u>19,121</u>
Earnings per certificate - Rupee	<u>0.58</u>	<u>0.19</u>

**21. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Investment Adviser in its meeting held on July 18, 2007 approved a final cash dividend @ 7.5% (i.e. Re.0.75 per certificate) amounting to Rs.75,000,000/- for the year ended June 30, 2007.

**22. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on July 18, 2007 by the Board of Directors of the Investment Adviser.

**23. FIGURES**

Figures have been rounded off to the nearest thousand rupees.

For PICIC Asset Management Company Limited  
(Investment Adviser)

Asadullah Khawaja  
Chairman

Hussain A. Naqvi  
Chief Executive

Yameen Kerai  
Director

PICIC ASSET MANAGEMENT COMPANY LIMITED

*INCOME STATEMENT  
IN RELATION TO PICIC ENERGY FUND (SCHEME)  
FOR THE YEAR ENDED JUNE 30, 2007*

	<i>Rupees in '000'</i>
<i>INCOME</i>	
Management fee	31,684
Unrealised diminution in the value of investments classified as 'held for trading'	(4,210)
	<u>27,474</u>
<i>EXPENSES</i>	
Salaries, allowances and other benefits	7,952
Charge for defined benefit plan	99
Contributions to defined contribution plan	218
Directors' fee	180
Rent, rates and taxes	597
Fees and subscription	663
Vehicle running and maintenance cost	419
Travelling and conveyance	144
Repairs and maintenance	309
Telephone and utilities	424
Insurance	411
Depreciation	1,129
Others	303
	<u>12,847</u>
Profit before taxation	14,627
Taxation - current	5,227
Profit after taxation	<u><u>9,400</u></u>

Note: Other revenue and expenses not related to the scheme have not been included in the above statement.

**NOTE:**

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PICIC ENERGY FUND (PEF)

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5<sup>th</sup> Floor State Life Building No. 1, LI Chundrigar Road, Karachi – 74000, Pakistan  
Telephone: (021) 2462806-10, 2414220 (20 Lines) Fax: (021)-2470378  
Email: [info@picicamc.com](mailto:info@picicamc.com) URL: [www.picicamc.com](http://www.picicamc.com)