

**BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)**

**Financial Statements
For the year ended 31 December 2012
together with the
Independent Auditors' Report**



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INDEPENDENT AUDITORS' REPORT

**To The Unitholders of
Bakheet Saudi Trading Equity Fund
Kingdom of Saudi Arabia**

We have audited the accompanying financial statements of **Bakheet Saudi Trading Equity Fund** (the "Fund") managed by Bakheet Investment Group (the "Fund Manager"), which comprise the balance sheet as at 31 December 2012 and the related statements of income, cash flows and changes in net assets attributable to Unitholders for the year then ended and the attached notes (1) through (12) which form an integral part of the financial statements.

Fund Manager's responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Fund Manager has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal controls relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund Manager's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Fund Manager, 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 opinion.



Opinion

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as at 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

For KPMG Al Fozan & Al Sadhan

Khalil Ibrahim Al Sedais
License No. 371



Riyadh on 21 Rabi II 1434H
Corresponding to 3 March 2013

BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
BALANCE SHEET

As at 31 December 2012

(Amounts in Saudi Arabian Riyals)


	<u>Note</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>			
Cash at bank		2,630,436	313,958
Held for trading investments	6	33,611,772	41,025,290
Total assets		36,242,208	41,339,248
<u>LIABILITIES</u>			
Management and custody fees	8	197,905	201,390
Board of Directors' fee	8	60,000	63,066
Shari'a Committee members' fee		17,500	17,500
Accrued expenses		37,612	31,682
Total liabilities		313,017	313,638
Net assets value attributable to unitholders		35,929,191	41,025,610
Units in issue (numbers)		23,509,409	29,945,930
Net asset value - per unit		1.5283	1.3700

The accompanying notes (1) through (13) form an integral part of these financial statements.

These financial statements shown in the pages from 1 to 10 have been approved by the Board of Directors of the Fund on **3 MAR 2013** and signed on their behalf by:



Al Hassan Goussous
Chief Executive Officer



Mohammed Ragheb Alothmani
Acting Division Head - Asset Management

BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
STATEMENT OF INCOME
For the year ended 31 December 2012
(Amounts in Saudi Arabian Riyals)

	<i>Note</i>	<u>2012</u>	<u>2011</u>
<u>INCOME</u>			
Trading gain / (loss), net	7	4,527,975	(1,815,374)
Dividend income		1,478,986	1,570,000
Other income		39,425	1,363
Total income / (loss)		<u>6,046,386</u>	<u>(244,011)</u>
<u>EXPENSES</u>			
Management fee	8	621,533	682,675
Custody fee	8	200,000	200,000
Board of Directors' fee	8	60,000	63,066
Other operating expenses	9	136,142	140,856
Total expenses		<u>1,017,675</u>	<u>1,086,597</u>
NET INCOME / (LOSS)		<u>5,028,711</u>	<u>(1,330,608)</u>

The accompanying notes (1) through (13) form an integral part of these financial statements.

BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2012
(Amounts in Saudi Arabian Riyals)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss)	5,028,711	(1,330,608)
Adjustment for movement in unrealised gain / (loss) on held for trading investments	(515,602)	609,359
<i>Changes in operating assets and liabilities:</i>		
Held for trading investments, net	7,929,120	4,962,396
Management and custody fees	(3,485)	(44,620)
Board of Directors' fee	(3,066)	(146,224)
Accrued expenses	5,930	(10)
Net cash generated by operating activities	<u>12,441,608</u>	<u>4,050,293</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subscription of units	9,560,083	10,392,218
Payments for redemption of units	(19,685,213)	(17,993,085)
Net cash used in financing activities	<u>(10,125,130)</u>	<u>(7,600,867)</u>
Net increase / (decrease) in cash and cash equivalents	2,316,478	(3,550,574)
Cash and cash equivalents at beginning of the year	313,958	3,864,532
Cash and cash equivalents at end of the year	<u>2,630,436</u>	<u>313,958</u>

The accompanying notes (1) through (13) form an integral part of these financial statements.

BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
For the year ended 31 December 2012

	<u>2012</u>	<u>2011</u>
	<u>Amounts in Saudi Arabian Riyals</u>	
Net assets value at beginning of the year	41,025,610	49,957,085
Add: Subscriptions during the year	9,560,083	10,392,218
Less: Redemptions during the year	(19,685,213)	(17,993,085)
Net income / (loss)	5,028,711	(1,330,608)
Net assets value at end of the year	<u>35,929,191</u>	<u>41,025,610</u>
	<u>In numbers</u>	
Units at beginning of the year	29,945,930	35,604,122
Add: Units subscribed	5,949,761	7,690,756
Less: Units redeemed	(12,386,282)	(13,348,948)
Net decrease in units	(6,436,521)	(5,658,192)
Units at end of the year	<u>23,509,409</u>	<u>29,945,930</u>

The accompanying notes (1) through (13) form an integral part of these financial statements.

BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1. GENERAL

Bakheet Saudi Trading Equity Fund (the "Fund") is an investment fund established through an agreement between Bakheet Investment Group (the "Fund Manager") and the Fund Investors (the "Unitholders") by virtue of approval of the Saudi Capital Market Authority (the "CMA") dated 12 Rabi I 1428H (corresponding to 31 March 2007). The Fund commenced its operations on 7 May 2007.

The Fund's primary objective is to increase its capital by achieving a positive return and incurring minimum risk while investing in selected publicly traded joint stock companies in the Kingdom of Saudi Arabia, which fit Sharia rules, and investing the available liquidity in Murabaha investments and Saudi Riyal Murabaha funds.

In dealing with the Unit holders, the Fund Manager considers the Fund as an independent unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

The address of the Fund Manager is as follows:

Bakheet Investment Group
P. O. Box 63762
Riyadh 11526
Kingdom of Saudi Arabia

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all funds operating within the Kingdom of Saudi Arabia.

3. SUBSCRIPTION / REDEMPTION (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions / redemptions of units on every business day (each a "Dealing Day") of the Saudi Stock Market. The value of the Fund's portfolio is determined on each dealing day (each a "Valuation Day"). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets minus fund liabilities) by the total number of outstanding fund units on the relevant valuation day.

4. BASIS OF PREPARATION

4.1 Statement of compliance

These financial statements have been presented in accordance with the requirements of accounting standards on financial reporting issued by the Saudi Organization of Certified Public Accountants (the "SOCPA").

4.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for held for trading investments, that are measured at fair value, using accrual basis of accounting and the going concern concept.

4.3 Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyal (SR), which is the functional currency of the Fund. All financial information presented in SR has been rounded to the nearest Saudi Riyal.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES

The significant accounting policies applied in the preparation of these financial statements are consistent with those used in the previous year and are set out below:

5.1 Held for trading investments

Investments which are purchased for trading are initially recognized at cost and are subsequently re-measured at their market values. The unrealized gains or losses on the revaluation of investments are recognized in the statement of income. Investment transactions are accounted for as of the trade date.

5.2 Revenue recognition

The realized gain or loss from a held for trading investments is calculated as the difference between its carrying amount at the beginning of the reporting period, or transaction price when purchased in the current reporting period and its sale price.

The unrealized gain or loss is calculated as the difference between the carrying amount of a held for trading investment at the beginning of the reporting period, or transaction price when purchased in the current reporting period and its carrying amount at the end of the reporting period.

Dividend income or other income is recognized when the right to receive payment is established.

5.3 Zakat / taxation

Zakat / taxation is the obligation of the unitholders and is not provided for in these financial statements.

5.4 Cash and cash equivalents

Cash and cash equivalents comprise of cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Fund without any restrictions.

BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012
(Amounts in Saudi Arabian Riyals)

6. HELD FOR TRADING INVESTMENTS

The sector-wise composition of investment held for trading is summarized as follows:

<u>Sector</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of market value</u>
		2012	
Petrochemical industries	11,843,990	11,492,181	34.19
Banks and financial services	8,968,716	8,817,487	26.23
Industrial Investment	4,524,045	4,570,337	13.60
Transport	2,949,600	3,112,832	9.26
Telecommunication and information technology	1,438,860	2,052,000	6.11
Cement	1,909,174	2,030,150	6.04
Hotel and tourism	1,461,785	1,536,785	4.57
Agriculture and food industries	--	--	--
Building and construction	--	--	--
Energy and utilities	--	--	--
	33,096,170	33,611,772	100.00
		2011	
Petrochemical industries	14,929,292	14,703,380	35.84
Banks and financial services	7,411,012	6,304,890	15.37
Industrial investment	5,555,680	5,722,090	13.95
Transport	--	--	--
Telecommunication and information technology	3,139,537	3,129,000	7.63
Cement	2,604,341	3,194,800	7.79
Hotel and Tourism	--	--	--
Agriculture and food industries	3,492,896	3,553,810	8.66
Building and construction	3,247,480	3,166,320	7.72
Energy and utilities	1,254,411	1,251,000	3.04
	41,634,649	41,025,290	100.00

7. TRADING GAIN / (LOSS), NET

	2012	2011
Unrealised gain / (loss) on investments, net	515,602	(609,359)
Realized gain / (loss) on investments, net	4,012,373	(1,206,015)
	4,527,975	(1,815,374)

BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012
(Amounts in Saudi Arabian Riyals)

8. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts with its related parties. The Fund Manager, its employees and the Fund's Board of Directors are considered to be related parties of the Fund.

The Fund Manager is responsible for the overall management of the Fund's activities. The Fund Manager can also enter into arrangements with other institutions for provision of investment, custody or other administrative services on behalf of the Fund. The Fund Manager charges the Fund with a management fee of 1.5% per annum of the Fund's net assets, calculated on a daily basis. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund as audit fee, board compensation and other similar charges.

The unitholders' account at 31 December included units held as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Units in numbers</u>	<u>SAR</u>	<u>Units in numbers</u>	<u>SAR</u>
Held by the Fund Manager	3,373,426	5,155,572	3,378,784	4,628,899
Held by members of the Board of Directors of the Fund	1,441,260	2,202,664	240,414	329,365
Held by employees of the Fund Manager	59,800	91,392	14,589	19,987
	<u>4,874,486</u>	<u>7,449,628</u>	<u>3,633,787</u>	<u>4,978,251</u>

During the year, above-mentioned unitholders have subscribed and redeemed units amounting to SR 8.18 million (2011: SR 5.61 million) and SR 6.41 million (2011: SR 5.75 million), respectively.

Related party transactions for the year ended 31 December and balances arising there from are described as under:

<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>		<u>Closing balance payable</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Bakheet Investment Group	Management fee	<u>621,533</u>	<u>682,675</u>	<u>147,905</u>	<u>152,172</u>
	Custody fee	<u>200,000</u>	<u>200,000</u>	<u>50,000</u>	<u>49,218</u>
Board of Directors	Annual remuneration	<u>60,000</u>	<u>63,066</u>	<u>60,000</u>	<u>63,066</u>

**BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2012

(Amounts in Saudi Arabian Riyals)

9. OTHER OPERATING EXPENSES

	<u>2012</u>	<u>2011</u>
Shari'a Committee members fees	70,000	70,000
Audit fee	30,000	28,865
Shari'a cleansing (note 9.1)	28,594	34,383
CMA monitoring and reviewing fees	7,500	7,500
Other expenses	48	108
	<u>136,142</u>	<u>140,856</u>

Note 9.1: Shari'a cleansing amount has been donated to Prince Fahed Bin Salman Charity Association for Renal Failure Patients Care, Riyadh and Charity Committee for Orphans Care, Riyadh.

10. RISK MANAGEMENT POLICIES

Credit risk

Credit risk is the risk that the counter party to a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk for its cash balance only. The exposure is not significant as the cash balance is maintained with a local bank with sound credit rating.

Equity price risk

Equity price risk is the risk that the fair value of an equity investment will fluctuate as a result of changes in market prices. The Fund is exposed to equity price risk arising from its held for trading investments.

The Fund Manager endeavours to minimize this risk including concentration risk through continuous monitoring of market conditions and diversification of its investments across various sectors of Saudi Arabian equity market.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in arranging funds to meet commitments associated with settlement of financial liabilities and redemption of units.

The Fund's securities are considered to be readily realizable as investments are made in quoted equities and can easily be realized at any time. The Fund Manager monitors the liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise.

11. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability could be settled between knowledgeable willing parties in an arm's length transaction.

Financial instruments consist of financial assets and financial liabilities. The Fund's financial assets consists of cash at bank and held for trading investments and financial liabilities consists of management and custody fees, Board of Directors' fee, Shari'a Committee members fees and certain accrued expenses.

For investments traded in an active market, fair value is determined by reference to quoted market prices. The fair values of other financial instruments are not materially different from their carrying values.

**BAKHEET SAUDI TRADING EQUITY FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2012

12. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the current year presentation.

13. LAST VALUATION DATE

The last valuation day of the year was 31 December 2012 (2011: 31 December 2011).