

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

**Financial Statements**  
**For the year ended 31 December 2011**  
together with the  
**Independent Auditors' Report to the Unitholders**

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**INDEPENDENT AUDITORS' REPORT**

**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 2011 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 (11) 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.

***Auditors' 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 2011 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



Date: 17 Rabi II 1433H  
Corresponding to: 10 March 2012

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

**BALANCE SHEET**

As at 31 December 2011

(Saudi Arabian Riyals)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>			
Cash at bank		313,958	3,864,532
Investments - held for trading	6	41,025,290	46,597,045
<b>Total assets</b>		<u>41,339,248</u>	<u>50,461,577</u>
<b><u>LIABILITIES</u></b>			
Management and custody fees	8	201,390	246,010
Board of Directors fee	8	63,066	209,290
Sharia Committee member fee		17,500	17,500
Accrued expenses		31,682	31,692
<b>Total liabilities</b>		<u>313,638</u>	<u>504,492</u>
<b>Net assets value attributable to unit holders</b>		<u>41,025,610</u>	<u>49,957,085</u>
Units in issue (numbers)		<u>29,945,930</u>	<u>35,604,122</u>
<b>Net assets value - per unit</b>		<u>1.3700</u>	<u>1.4031</u>

The accompanying notes (1) through (11) form an integral part of these financial statements.

These financial statements shown in the pages from 1 to 9 have been approved by the Board of Directors of the Fund on 10-03-2012 and signed on their behalf by:

  
**Hesham H. Abo-Jamee**  
*Chief Executive Officer*

  
**Hesham Tuffaha**  
*Asset Management Head*



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

For the year ended 31 December 2011  
*(Saudi Arabian Riyals)*

	<u>Note</u>	<u>2011</u>	<u>2010</u>
<b><u>INCOME</u></b>			
Trading (loss) / gain, net	7	(1,815,374)	7,889,828
Dividend income		1,570,000	1,767,840
Murabaha Income		--	129
Other income		1,363	19
<b>Total (loss) / income, net</b>		<u>(244,011)</u>	<u>9,657,816</u>
<b><u>EXPENSES</u></b>			
Management fee	8	682,675	837,496
Custody fee	8	200,000	200,000
Other operating expenses		203,922	358,703
<b>Total expenses</b>		<u>1,086,597</u>	<u>1,396,199</u>
<b>NET (LOSS) / INCOME</b>		<u>(1,330,608)</u>	<u>8,261,617</u>

The accompanying notes (1) through (11) 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 2011

(Saudi Arabian Riyals)

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) / income	(1,330,608)	8,261,617
Adjustment for movement in unrealised gain on investments	(2,631,710)	(6,640,821)
<i>Changes in operating assets and liabilities:</i>		
Investments - held for trading	8,203,465	28,183,835
Management and custody fees	(44,620)	(57,419)
Board of Directors fee	(146,224)	(17,748)
Sharia Committee member fee	--	(5,000)
Accrued expenses	(10)	16,692
<b>Net cash provided by operating activities</b>	<u>4,050,293</u>	<u>29,741,156</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from subscription of units	10,392,218	14,724,504
Payments on redemption of units	(17,993,085)	(41,416,843)
<b>Net cash used in financing activities</b>	<u>(7,600,867)</u>	<u>(26,692,339)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>	(3,550,574)	3,048,817
Cash and cash equivalents, beginning of the year	3,864,532	815,715
<b>Cash and cash equivalents, end of the year</b>	<u>313,958</u>	<u>3,864,532</u>

The accompanying notes (1) through (11) 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 UNIT HOLDERS**

For the year ended 31 December 2011

	<u>2011</u>	<u>2010</u>
	<u>In Saudi Arabian Riyals</u>	
Net assets value, beginning of the year	49,957,085	68,387,807
Add: new subscriptions during the year	10,392,218	14,724,504
Less: redemptions during the year	(17,993,085)	(41,416,843)
Net (loss) / income	(1,330,608)	8,261,617
Net assets value, end of the year	<u>41,025,610</u>	<u>49,957,085</u>
	<u>In numbers</u>	
Units, beginning of the year	35,604,122	56,309,257
Add: Units subscribed	7,690,756	11,159,821
Less: Units redeemed	(13,348,948)	(31,864,956)
Net decrease in units	(5,658,192)	(20,705,135)
Units, end of the year	<u>29,945,930</u>	<u>35,604,122</u>

The accompanying notes (1) through (11) 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 2011

**1. GENERAL**

Bakheet Saudi Trading Equity Fund (the "Fund") is an investment fund established through an agreement between the Bakheet Investment Group (the "Fund Manager") and the Fund Investors (the "Unitholders")

The address of the Fund Manager is as follows:

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

The Fund's primary objective is to increase 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 the Sharia rules, and invests the available liquidity in Murabaha investments, and Saudi Riyal Murabaha funds. The Fund is an "open-end" type, and will not distribute any dividends to the unit holders. Instead, the income will be reinvested in the Fund, which will be reflected in the Fund's unit price.

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

The Saudi Capital Market Authority ("CMA") approval for the Fund was obtained on 12 Rabi 1 1428H (corresponding to 31 March 2007). The Fund commenced operations on 7 May 2007.

**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 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 shall be 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 standard on financial reporting issued by the Saudi Organization of Certified Public Accountants (SOCPA).

**4.2 Basis of measurement**

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



**BAKHEET SAUDI TRADING EQUITY FUND  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2011

(Saudi Arabian Riyals)

**4. BASIS OF PREPARATION (CONTINUED)**

**4.3 Functional and presentation currency**

These financial statements have been presented in Saudi Riyal, which is also the functional currency of the Fund.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING 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 Investments - held for trading**

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**

Realized gains or losses on investments - held for trading at disposal are determined on moving average cost basis. Trading gains or losses includes gains and losses from changes in fair value of investments - held for trading. Dividend 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.

**6. INVESTMENTS - HELD FOR TRADING**

All of the Fund's investments are in Saudi public companies that are listed on the Saudi Stock Exchange (Tadawul). The composition of the investment portfolio is summarized below:

<u>Sector</u>	<u>Cost</u>	<u>Market value</u> 2011	<u>% of market value</u>
Petrochemical industries	13,064,091	14,703,380	35.84
Banks and financial services	6,160,344	6,304,890	15.37
Industrial investment	5,555,686	5,722,090	13.95
Agriculture and food industries	3,481,293	3,553,810	8.66
Cement	2,585,765	3,194,800	7.79
Building and construction	3,486,548	3,166,320	7.72
Telecommunication and information technology	2,887,148	3,129,000	7.63
Energy and utilities	1,172,705	1,251,000	3.05
Retail	--	--	--
Transport	--	--	--
	<u>38,393,580</u>	<u>41,025,290</u>	<u>100.00</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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*(Saudi Arabian Riyals)*

**6. INVESTMENTS - HELD FOR TRADING (CONTINUED)**

<u>Sector</u>	<u>Cost</u>	<u>Market value</u>	<u>% of market value</u>
		2010	
Petrochemical industries	17,054,582	20,791,735	44.62
Banks and financial services	6,186,187	7,893,300	16.94
Industrial investment	--	--	--
Agriculture and food industries	3,339,293	3,603,550	7.73
Cement	1,972,315	1,965,030	4.22
Building and construction	3,515,354	3,375,875	7.24
Telecommunication and information technology	3,793,751	4,462,520	9.58
Energy and utilities	2,763,361	3,002,485	6.44
Retail	798,014	982,800	2.11
Transport	533,367	519,750	1.12
	<u>39,956,224</u>	<u>46,597,045</u>	<u>100.00</u>

**7. TRADING (LOSS) / GAIN, NET**

	<u>2011</u>	<u>2010</u>
Unrealised gain on investments, net	2,631,710	6,640,821
Realized (loss) / gain on investments, net	<u>(4,447,084)</u>	<u>1,249,007</u>
	<u>(1,815,374)</u>	<u>7,889,828</u>

**8. TRANSACTIONS WITH RELATED PARTIES**

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 the 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 (in numbers) held as follows:

	<u>2011</u>	<u>2010</u>
Held by the Fund Manager	3,378,784	3,665,783
Held by the members of Board of Directors of the Fund	240,414	--
Held by employees and Staff Saving Account of Fund Manager	14,589	659,231
	<u>3,633,787</u>	<u>4,325,014</u>



**BAKHEET SAUDI TRADING EQUITY FUND**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2011  
*(Saudi Arabian Riyals)*

**8. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

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 payable balance</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Bakheet Investment Group	Management and custody fees	<u>882,675</u>	<u>1,037,496</u>	<u>201,390</u>	<u>246,010</u>
Bakheet Investment Group	Board of Directors fee	<u>63,066</u>	<u>209,290</u>	<u>63,066</u>	<u>209,290</u>

**9. 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.

Bank balances are maintained with local banks with sound credit rating.

**Equity price risk**

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund Manager manages this risk through continuous monitoring of market conditions and diversification of its investment portfolio in terms of industry concentration based on fundamental criteria of the Fund.

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

The Fund's terms and conditions provide for the redemptions of units on each dealing day and it is, therefore, exposed to the liquidity risk of meeting unit-holder redemptions. 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.

**BAKHEET SAUDI TRADING EQUITY FUND**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**10. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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 cash at bank and investments - held for trading and financial liabilities consists certain accrued expenses.

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

**11. LAST VALUATION DAY**

The last valuation day of the year was 31 December 2011 (2010: 29 December 2010).