# BAKHEET IPO FUND
## (MANAGED BY BAKHEET INVESTMENT GROUP)

**Financial Statements**
**For the year ended 31 December 2013**
**together with the**
**Independent Auditor's Report**

**KPMG Al Fozan & Al Sadhan**
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License No. 46/11/323 issued 11/3/1992

# INDEPENDENT AUDITORS' REPORT

**The Unitholders of**
**Bakheet IPO Fund**
**Kingdom of Saudi Arabia**

We have audited the accompanying financial statements of **Bakheet IPO Fund** (the "Fund") managed by Bakheet Investment Group (the "Fund Manager"), which comprise the balance sheet as at 31 December 2013 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.

***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.

KPMG Al Fozan & Al Sadhan, a partnership registered in Saudi Arabia and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

*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 2013 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: 16 Jumada I 1435H
Corresponding to 17 March 2014

**BAKHEET IPO FUND**
**(MANAGED BY BAKHEET INVESTMENT GROUP)**
**BALANCE SHEET**
As at 31 December 2013
*(Amounts in Saudi Arabian Riyals)*

| | *Note* | **2013** | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | | **8,446,915** | 4,384,647 |
| Dividend receivable | | **540,296** | -- |
| Held for trading investments | *6* | **186,576,162** | 85,848,764 |
| **Total assets** | | **195,563,373** | 90,233,411 |
| **LIABILITIES** | | | |
| Management and custody fees | *8* | **1,063,541** | 567,936 |
| Board of Directors' fee | *8* | **60,000** | 60,000 |
| Accrued expenses | | **24,563** | 32,063 |
| **Total liabilities** | | **1,148,104** | 659,999 |
| **Net assets value attributable to unitholders** | | **194,415,269** | 89,573,412 |
| Units in issue (numbers) | | **117,959,673** | 85,142,660 |
| **Net assets value - per unit** | | **1.6482** | 1.0520 |

The accompanying notes (1) through (12) 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 17/03/2014 and signed on their behalf by:

**Al Hassan Sami Goussous**
*Chief Executive Officer*

شركة مجموعة بخيت
س.ت ١٠١٠٢٢٦٨٩٤
ترخيص هيئة السوق المالية
رقم: ٢٦-٠٦٠١٢
الاستثمارية

**Mohammed Ragheb Al Othmani**
*Division Head - Asset Management*

**BAKHEET IPO FUND**
**(MANAGED BY BAKHEET INVESTMENT GROUP)**
**STATEMENT OF INCOME**
For the year ended 31 December 2013
*(Amounts in Saudi Arabian Riyals)*

| | *Note* | **2013** | 2012 |
|---|---|---|---|
| **INCOME** | | | |
| Trading gain, net | *7* | **59,459,999** | 17,483,517 |
| Dividend income | | **5,523,125** | 3,113,635 |
| Other income | | **514** | 1,120 |
| **Total income** | | **64,983,638** | 20,598,272 |
| **EXPENSES** | | | |
| Management fee | *8* | **2,852,179** | 1,712,991 |
| Custody fee | *8* | **713,045** | 428,248 |
| Board of Directors' fee, net | *8* | **43,678** | 60,000 |
| Other operating expenses | *9* | **64,500** | 63,887 |
| **Total expenses** | | **3,673,402** | 2,265,126 |
| **NET INCOME** | | **61,310,236** | 18,333,146 |

The accompanying notes (1) through (12) form an integral part of these financial statements.

**BAKHEET IPO FUND**
**(MANAGED BY BAKHEET INVESTMENT GROUP)**
**STATEMENT OF CASH FLOWS**
For the year ended 31 December 2013
*(Amounts in Saudi Arabian Riyals)*

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | **61,310,236** | 18,333,146 |
| Adjustment for unrealised gain on held for trading investments | **(37,428,897)** | (8,632,767) |
| *Changes in operating assets and liabilities:* | | |
| Held for trading investments | **(63,298,501)** | (2,802,550) |
| Dividend receivable | **(540,296)** | -- |
| Management and custody fees | **495,605** | 128,943 |
| Board of Directors' fee | **--** | (9,076) |
| Accrued expenses | **(7,500)** | (115) |
| **Net cash (used in) / generated by operating activities** | **(39,469,353)** | 7,017,581 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from subscription of units | **70,601,941** | 8,714,901 |
| Payments for redemption of units | **(27,070,320)** | (11,899,888) |
| **Net cash generated by / (used in) financing activities** | **43,531,621** | (3,184,987) |
| **Net increase in cash and cash equivalents** | **4,062,268** | 3,832,594 |
| Cash and cash equivalents at beginning of the year | **4,384,647** | 552,053 |
| **Cash and cash equivalents at end of the year** | **8,446,915** | 4,384,647 |

The accompanying notes (1) through (12) form an integral part of these financial statements.

**BAKHEET IPO FUND**
**(MANAGED BY BAKHEET INVESTMENT GROUP)**
**STATEMENT OF CHANGES IN NET ASSETS**
**ATTRIBUTABLE TO UNITHOLDERS**
For the year ended 31 December 2013

| | 2013 | 2012 |
|---|---|---|
| | **Amounts in Saudi Arabian Riyals** | |
| **Net assets value at beginning of the year** | **89,573,412** | 74,425,253 |
| Add: Subscriptions during the year | **70,601,941** | 8,714,901 |
| Less: Redemptions during the year | **(27,070,320)** | (11,899,888) |
| Net income | **61,310,236** | 18,333,146 |
| **Net assets value at end of the year** | **194,415,269** | 89,573,412 |
| | **In numbers** | |
| **Units at beginning of the year** | **85,142,660** | 87,780,634 |
| Add: Units subscribed | **51,540,510** | 9,309,134 |
| Less: Units redeemed | **(18,723,497)** | (11,947,108) |
| Net increase / (decrease) in units | **32,817,013** | (2,637,974) |
| **Units at end of the year** | **117,959,673** | 85,142,660 |

The accompanying notes (1) through (12) form an integral part of these financial statements.

## 1. GENERAL

Bakheet IPO 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") by virtue of approval of the Capital Market Authority (the "CMA") dated 03 Safar 1429H (corresponding to 10 February 2008). The Fund commenced its operations on 16 March 2008.

During 2013, the Fund Manager and Osool Capital, a CMA license company registered in Kingdom of Saudi Arabia have resolved to merge their operations. The legal formalities in this regard have been initiated and are expected to be completed in the first half of 2014.

The Fund's primary objective is to maximize capital growth by achieving a positive return while minimizing potential risks through investing in the Initial Public Offerings of shares of Saudi joint stock companies, in addition to newly listed companies in the Saudi stock market during the first three years of their listing and investing the Fund' s available liquidity in low risk and highly liquid Saudi Riyal assets such as money market funds and bank deposits. In addition, the Fund is allowed to invest up to 25% of the Fund's assets in small and medium cap companies.

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 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 within the Kingdom of Saudi Arabia.

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

The Fund is open for subscriptions / redemptions of units on the last business day of each week (each a "Dealing Day"). 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. BASIS OF PREPARATION (continued)

### 4.3 Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyals (SR), which is the functional currency of the Fund. All financial information presented in SR has been rounded to the nearest Saudi Arabian 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 unit holders and is not provided for in these financial statements.

### 5.4 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, 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.

## 6. HELD FOR TRADING INVESTMENTS

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

| Sector | Cost | Market value | % of market value |
|---|---|---|---|
| | | 2013 | |
| Building and construction | **28,016,118** | **40,518,029** | **21.72** |
| Cement | **28,713,519** | **32,836,825** | **17.60** |
| Agriculture and food industries | **23,906,868** | **30,507,059** | **16.35** |
| Retail | **26,848,853** | **28,930,254** | **15.51** |
| Hotel and tourism | **19,888,000** | **28,608,804** | **15.33** |
| Transport | **13,749,612** | **13,939,380** | **7.47** |
| Insurance | **8,024,295** | **11,235,811** | **6.02** |
| Industrial investment | -- | -- | -- |
| | **149,147,265** | **186,576,162** | **100.00** |
| | | 2012 | |
| Building and construction | 8,774,182 | 7,983,013 | 9.30 |
| Cement | 8,106,514 | 7,937,018 | 9.24 |
| Agriculture and food industries | 13,868,661 | 16,559,277 | 19.29 |
| Retail | 18,833,073 | 24,241,211 | 28.24 |
| Hotel and tourism | 7,432,882 | 8,003,149 | 9.32 |
| Transport | 7,847,842 | 8,119,255 | 9.46 |
| Insurance | -- | -- | -- |
| Industrial investment | 12,352,843 | 13,005,841 | 15.15 |
| | 77,215,997 | 85,848,764 | 100.00 |

## 7. TRADING GAIN, NET

| | 2013 | 2012 |
|---|---|---|
| Unrealized gain on investments, net | **37,428,897** | 8,632,767 |
| Realized gain on investments, net | **22,031,102** | 8,850,750 |
| | **59,459,999** | 17,483,517 |

## 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 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 2% 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 such as audit fee, board compensation and other similar charges. The board compensation is calculated as 5% of the Fund's annual management fee subject to a maximum of SR 30,000 per member.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Units *(in numbers)*** | **Net Asset Value SAR** | Units *(in numbers)* | Net Asset Value SAR |
| Held by the Fund Manager | **2,257,230** | **3,720,255** | 8,029,286 | 8,447,124 |
| Held by members of the Board of Directors of the Fund | **1,191,640** | **1,964,003** | 1,600,478 | 1,683,765 |
| Held by employees of the Fund Manager | **42,873** | **70,661** | 9,577 | 10,075 |
| | **3,491,743** | **5,754,919** | 9,639,341 | 10,140,964 |

During the year 2013, the above-mentioned unit holders' have subscribed and redeemed units amounting to SR 4.3 million (2012: SR 8.5 million) and SR 13.4 million (2012: SR 27,239), respectively.

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

| Related party | Nature of transactions | Amount of transaction during the year | | Closing balance payable | |
|---|---|---|---|---|---|
| | | **2013** | 2012 | **2013** | 2012 |
| Bakheet Investment Group | Management fee | **2,852,179** | 1,712,991 | **850,833** | 454,349 |
| | Custody fee | **713,045** | 428,248 | **212,708** | 113,587 |
| Board of Directors | Annual remuneration | **43,678** | 60,000 | **60,000** | 60,000 |

## 9. OTHER OPERATING EXPENSES

| | 2013 | 2012 |
|---|---|---|
| Audit fee | 30,000 | 30,00 |
| Benchmark calculation fee | 26,250 | 26,250 |
| CMA monitoring and reviewing fees | 7,500 | 7,500 |
| Other expenses | 750 | 137 |
| | 64,500 | 63,887 |

## 10. RISK MANAGEMENT POLICIES

**Credit risk**

Credit risk is the risk that the counter party to a financial instrument may 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 since the cash balance is maintained with a local bank which has sound credit rating and a stock exchange broker.

**Equity price risk**

Equity price risk is the risk that the fair value of an equity investment may 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 may encounter difficulty in arranging funds to meet its 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 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 consist of cash at bank and held for trading investments and financial liabilities consist of management and custody fees, Board of Directors' fee 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.

## 12. LAST VALUATION DAY

The last valuation day of the year was 31 December 2013 (2012: 31 December 2012).