

BAKHEET SAUDI TRADING EQUITY FUND

**Financial Statements for the Year Ended
December 31, 2008 and for the Period
from May 7, 2007 (Date of Commencement
of Operations) to December 31, 2007 and
Independent Auditors' Report**

REPORT OF INDEPENDENT AUDITORS

To the Unitholders and the Fund Manager of
The Bakheet Saudi Trading Equity Fund:

We have audited the accompanying balance sheet of the Bakheet Saudi Trading Equity Fund (the "Fund") as of December 31, 2008 and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements which were prepared by the Fund's management and presented to us with all the information and explanations which we required, are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as of December 31, 2008, the results of its operations, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Fund.

PricewaterhouseCoopers Al Juraid



By

Rashid S. Al Rashoud
License Number 366



March 25, 2009



BAKHEET SAUDI TRADING EQUITY FUND**BALANCE SHEETS**
AS OF DECEMBER 31

	<u>NOTES</u>	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>			
Cash and cash equivalents		SR 16,309,093	SR 10,794,475
Commission receivable		367	-
Investments	5	<u>38,778,035</u>	<u>103,265,650</u>
Total assets		<u>55,087,495</u>	<u>114,060,125</u>
<u>LIABILITIES</u>			
Management and custody fees	4	334,556	177,554
Audit fee		25,000	25,000
Board of Directors fees		153,293	-
Sharia committee member fees		26,250	36,310
Other		<u>-</u>	<u>4,860</u>
Total liabilities		<u>539,099</u>	<u>243,724</u>
NET ASSETS VALUE		<u>SR 54,548,396</u>	<u>SR 113,816,401</u>
Units in issue		<u>59,907,862</u>	<u>65,461,031</u>
Per unit value		<u>SR 0.9105</u>	<u>SR 1.7387</u>


Authorized signatories:


General Manager
Fund ManagerThe accompanying notes form an integral part of these financial statements.

BAKHEET SAUDI TRADING EQUITY FUND**STATEMENTS OF OPERATIONS****FOR THE YEAR ENDED DECEMBER 31, 2008 AND FOR THE PERIOD FROM MAY 7, 2007 (DATE OF COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 2007**

	<u>NOTE</u>	<u>2008</u>	<u>2007</u>
INVESTMENT INCOME:			
Dividend income	SR	2,419,502	SR 169,606
Commission income		20,342	-
Early redemption fee income		17,557	6,454
Other income		<u>384</u>	<u>-</u>
Total investment income		<u>2,457,785</u>	<u>176,060</u>
EXPENSES:			
Management fee	4	1,595,978	254,778
Custody fee		201,670	-
Other		<u>438,890</u>	<u>108,470</u>
Total expenses		<u>2,236,538</u>	<u>363,248</u>
INCREASE (DECREASE) IN ASSETS FROM OPERATIONS		<u>221,247</u>	<u>(187,188)</u>
NET REALIZED AND UNREALIZED GAINS (LOSSES):			
Realized gains and (losses)		(44,322,064)	11,888,430
Unrealized gains and (losses)		<u>(20,828,472)</u>	<u>9,606,166</u>
Total realized and unrealized gains and (losses)		<u>(65,150,536)</u>	<u>21,494,596</u>
NET (LOSS) / INCOME FROM OPERATIONS		<u>SR (64,929,289)</u>	<u>SR 21,307,408</u>

Authorized signatories:


General Manager
Fund ManagerThe accompanying notes form an integral part of these financial statements.

BAKHEET SAUDI TRADING EQUITY FUND**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008 AND FOR THE PERIOD FROM MAY 7,
2007 (DATE OF COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 2007**

	<u>2008</u>	<u>2007</u>
NET ASSETS, BEGINNING OF THE YEAR / PERIOD	SR 113,816,401	SR -
Add: New subscriptions during the year / period	60,076,137	97,394,551
Less: Redemptions during the year / period	(54,414,853)	(4,885,558)
Net (loss) / income from operations	<u>(64,929,289)</u>	<u>21,307,408</u>
NET ASSETS, END OF THE YEAR / PERIOD	<u>SR 54,548,396</u>	<u>SR 113,816,401</u>
UNITS, BEGINNING OF THE YEAR / PERIOD	<u>65,461,031</u>	<u>-</u>
Add: Units subscribed	37,246,123	67,528,084
Less: Units redeemed	<u>(42,799,292)</u>	<u>(2,067,053)</u>
Net decrease / increase in units	<u>(5,553,169)</u>	<u>65,461,031</u>
UNITS, END OF THE YEAR / PERIOD	<u>59,907,862</u>	<u>65,461,031</u>

The accompanying notes form an integral part of these financial statements.

BAKHEET SAUDI TRADING EQUITY FUND**STATEMENTS OF CASH FLOWS****FOR THE YEAR ENDED DECEMBER 31, 2008 AND FOR THE PERIOD FROM MAY 7, 2007 (DATE OF COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 2007**

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES:		
Net (loss) / income from operations	SR (64,929,289)	SR 21,307,408
Adjustment for movement in unrealized Losses / (gains) on investments	<u>20,828,472</u> (44,100,817)	<u>(9,606,166)</u> 11,701,242
Changes in operating assets and liabilities:		
Investments	43,659,143	(93,659,484)
Commission receivable	(367)	-
Audit fee	-	25,000
Board of Directors fees	153,293	-
Management and custody fees	157,002	177,554
Sharia committee member fees	(10,060)	36,310
Other	<u>(4,860)</u>	<u>4,860</u>
Net cash used in operating activities	<u>(146,666)</u>	<u>(81,714,518)</u>
FINANCING ACTIVITIES:		
Proceeds from units subscribed	60,076,137	97,394,551
Payments on units redeemed	<u>(54,414,853)</u>	<u>(4,885,558)</u>
Net cash provided by financing activities	<u>5,661,284</u>	<u>92,508,993</u>
NET INCREASE IN CASH	5,514,618	10,794,475
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR / PERIOD	<u>10,794,475</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR / PERIOD	<u>SR 16,309,093</u>	<u>SR 10,794,475</u>

The accompanying notes form an integral part of these financial statements.

BAKHEET SAUDI TRADING EQUITY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008 AND FOR THE PERIOD FROM MAY 7, 2007 (DATE OF COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 2007

1. GENERAL

Bakheet Saudi Trading Equity Fund (the "Fund") is an investment fund established by the Investment Services Department of The Bakheet Investment Group (the "Fund Manager") and the Fund Investors (the "Unitholders"). The Fund operates in accordance with Fund Regulations and the laws of the Kingdom of Saudi Arabia with the primary objective to increase capital by achieving a positive return and incurring minimum risk while investing in selected publicly traded joint stock companies in Saudi Arabia, which fit the Sharia rules, and investing 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 unitholders. Instead, the income will be reinvested in the Fund, which will be reflected in the Fund's unit price.

The address of the Fund Manager is as follows:

Bakheet Investment Group
Head Office
P.O. Box 63762
Riyadh 11526
Saudi Arabia

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.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Funds Regulations (the regulations) promulgated by the CMA on Dhul Hijja 22, 1427H (corresponding to January 12, 2007) establishing requirements for all investment funds within the Kingdom of Saudi Arabia.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention, except for the measurement of investments at fair value, on the accrual basis of accounting and in conformity with generally accepted accounting principles in Saudi Arabia as promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

b) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

c) Revenue recognition

Dividend income is recognized when the Fund's right to receive payment is established. Realized gains and losses on investments sold are determined on the weighted average cost basis. Commission income is recognized on an effective yield basis. Results arising from trading activities include all gains and losses from changes in fair value and dividends for financial assets held for trading.

d) Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and highly liquid investments including Murabaha investments, with original maturities of three months or less from the date of origination.

e) Investments

The Fund's investments are in equities traded on the Saudi Stock Market.

Equities are valued at quoted market prices at the balance sheet date. Changes in fair values of listed equities, comprising realized and unrealized gains and losses are included in the statement of operations.

f) Trade date accounting

All purchases and sales of equity investments are recognized on the trade date, which is the date the Fund commits to purchase or sell the asset.

g) Foreign currency translation

The Fund's books of accounts are maintained in Saudi Riyals. Transactions denominated in foreign currencies, if any, are translated into Saudi Riyals at rates of exchange prevailing on the date of such transactions. Assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the balance sheet date.

h) Liabilities

Liabilities are recognized on an accrual basis for amounts to be paid in the future in return for services received, whether billed by the provider or not.

i) Provisions

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

j) Zakat and income tax

Under certain provisions of the Saudi Income Tax Law, the income and gains of investment funds are subject to income tax at the applicable rates. The provisions of the Saudi Income Tax Law relating to investment funds have not been enforced pending clarification from The Department of Zakat and Income Tax ("DZIT") and the CMA.

k) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Fund intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

l) Reclassification

Certain amounts in 2007 financial statements have been reclassified to conform with the 2008 presentation.

4. TRANSACTIONS WITH RELATED PARTIES

The management of the Fund is the responsibility of the Fund Manager who 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. For management services, 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 and custody fees. In addition, the Fund Manager charges the Fund with any operating charges (such as auditing fees) or any legal charges paid on behalf the Fund.

The Fund Manager has agreed voluntarily to waive some of the fees incurred on behalf of the Fund for the year / period ended December 31, 2008 and 2007. Fees waived are as follows:

2008

Board of Directors fees	SR	61,731
Legal fees		14,085
Periodic reporting printing fees		25,166

2007

Custody fees	SR	130,000
Board of Directors fees		65,000
Legal fees		3,900
Periodic reporting printing fees		16,250

The unitholders' account at 31 December 2008 and 2007 included units held as follows:

2008

Held by members of the Board of Directors	SR 1,201,002
Held by employees and the Pension Fund of the Fund Manager	<u>567,041</u>
Total	<u>SR 1,768,043</u>

2007

Held by the Fund Manager	SR 20,789,571
Held by members of the Board of Directors	2,749,813
Held by employees and the Pension Fund of the Fund Manager	<u>1,302,809</u>
Total	<u>SR 24,842,193</u>

5. INVESTMENTS

All of the Fund's investments are in Saudi public companies that are listed on the Saudi stock market. The Composition of the investment portfolio is summarized below:

Company Name	December 31, 2008			December 31, 2007		
	% of Market Value	Cost	Market Value	% of Market Value	Cost	Market Value
Al Rajhi Bank	16.20	SR 7,476,641	SR 6,283,200	13.19	SR 12,034,815	SR 13,624,150
Alimna Bank	2.76	1,211,253	1,070,040	-	-	-
Abdullah Al Othaim Markets Co.	7.20	2,431,165	2,792,000	-	-	-
Astra Industrial Group Co.	7.38	3,212,554	2,863,095	-	-	-
Bank Al Jazira	-	-	-	3.55	3,544,816	3,661,450
Bank Al Bilad	-	-	-	2.64	2,673,566	2,724,925
Dar AlArkan Real Estate Development Co.	7.38	4,380,321	2,860,800	-	-	-
Halwani Brothers Co.	5.77	1,691,179	2,237,160	-	-	-
Mohammad Al Mojil Group Co.	11.02	5,833,490	4,237,290	-	-	-
Saudi Arabian Basic Industries Corporation	17.26	12,924,521	6,695,000	35.27	32,496,524	36,424,750
Saudi Arabian Fertilizers Co.	9.40	3,820,848	3,643,850	4.54	4,041,119	4,684,600
Saudi Industrial Investment Group	-	-	-	3.67	3,061,549	3,792,900
National Industrialization Co.	-	-	-	3.40	3,018,079	3,510,000
Al Marai	-	-	-	3.14	3,198,940	3,245,225
Zamil Industrial Investment Co.	-	-	-	3.10	3,169,848	3,193,350
Yanbu National Petrochemical Co.	-	-	-	1.83	1,643,436	1,893,725
Saudi Kayan Petrochemical Co.	-	-	-	1.42	1,240,451	1,466,400
Savola Group Co.	-	-	-	1.37	1,332,310	1,418,175
Yanbu Cement Company	-	-	-	2.20	2,153,355	2,271,425
Saudi Cement Co.	-	-	-	1.96	1,815,000	2,019,300
Eastern Province Cement Co.	3.22	1,247,953	1,248,000	1.85	1,913,766	1,913,500
National Shipping Co.	4.24	2,095,733	1,643,400	2.38	2,166,744	2,460,000
Asser Trading, Tourism and Manufacturing Co.	-	-	-	-	-	-
The Economic City Company of Emaar.	-	-	-	1.70	1,696,599	1,753,375
Jarir Marketing Co.	-	-	-	1.66	1,566,582	1,715,350
Saudi Electric Co.	-	-	-	1.48	1,502,523	1,527,750
Saudi Telecom Co.	-	-	-	2.09	2,137,063	2,162,350
Etihad Etisalat Co.	-	-	-	4.98	4,700,985	5,142,250
	8.17	3,674,685	3,168,200	2.58	2,551,414	2,660,700
Total	100.00	SR 50,000,343	SR 38,778,035	100.00	SR 93,659,484	SR 103,265,650

6. FINANCIAL RISK MANAGEMENT

The Fund's activities in the normal course of business expose it to market, credit and liquidity risks. The Fund's overall risk management program seeks to minimize the potential adverse effects on the Fund's financial performance.

The primary objective is to achieve long-term capital appreciation through a diversified portfolio, principally of equity securities of Saudi Arabian companies traded on the Saudi Stock Market.

Market Risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as equity prices. Equity price risk refers to the risk of decrease in fair values of equities as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. The Fund's market price risk is managed through diversification of the investment portfolio into different industry classifications. All of the net assets are invested in quoted Saudi equities.

Commission Rate Risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments.

The majority of the Fund's financial assets and liabilities are non-commission bearing instruments. As a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market commission rates. In the normal course of business, the Fund invests in short-term Murabaha securities.

Credit risk

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay the amounts in full when due. The Fund's main credit risk concentration is spread on fixed commission Murabaha securities.

The securities are placed with Saudi banks of sound ratings. In addition, the Fund's management monitors outstanding balances and historically has not incurred losses on such securities.

Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available.

The Fund is exposed to daily cash redemptions of the units. It therefore invests all of its assets in investments that are quoted in an active market and can be easily liquidated. The fund manager monitors the liquidity requirements on a daily basis and ensures sufficient funds are available to meet requirements as they arise.

The Fund's investments in quoted equities are considered readily realizable as they are listed on the Saudi Stock Market.

7. 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. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of on balance sheet financial instruments are not significantly different from the carrying values included in the financial statements.

8. LAST VALUATION DAY

The last valuation day of the year was December 31, 2008 (2007: December 31, 2007).

9. MANAGEMENT'S APPROVAL

These financial statements were approved by the Fund Manager on March 25, 2009.
