

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)

Financial Statements
For the year ended 31 December 2010
together with the
Independent Auditor's Report to the Unitholders

**KPMG Al Fozan & Al Sadhan**

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INDEPENDENT AUDITOR'S REPORT

To: **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 2010 and the related statements of income, changes in net assets attributable to unitholders and cash flows 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.

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 2010 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: 25 Rabi I 1432H
Corresponding to 28 February 2011

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
BALANCE SHEET
As at 31 December 2010
(Saudi Riyals)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>			
Cash at bank		3,051,815	14,365,486
Investments - held for trading	6	83,848,660	117,873,698
Total assets		86,900,475	132,239,184
<u>LIABILITIES</u>			
Management and custody fees	8	533,183	863,743
Board of Directors fee	8	250,000	263,523
Accrued expenses		15,141	15,000
Total liabilities		798,324	1,142,266
Net assets value attributable to unit holders		86,102,151	131,096,918
Units in issue (numbers)		115,230,348	182,165,928
Net assets value - per unit		0.7472	0.7196

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

These financial statements shown in the pages from 1 to 8 have been approved by the Board of Directors on 28 February 2011 and signed on their behalf by:



Beshr Bakheet
Chief Executive Officer and Chairman



Hesham H. Abo-Jamee
Chief Investment Officer

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
STATEMENT OF INCOME

For the year ended 31 December 2010
(Saudi Riyals)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<u>INCOME</u>			
Trading gain, net	7	6,319,205	30,073,560
Dividend income		1,835,900	1,380,875
Murabaha income		277	17,300
Other income		178	--
Total income, net		<u>8,155,560</u>	<u>31,471,735</u>
<u>EXPENSES</u>			
Management fee	8	1,954,034	2,565,749
Custody fee		488,509	641,107
Others		294,748	288,605
Total expenses		<u>2,737,291</u>	<u>3,495,461</u>
NET INCOME		<u>5,418,269</u>	<u>27,976,274</u>

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

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE
TO UNIT HOLDERS

For the year ended 31 December 2010

	<u>2010</u>	<u>2009</u>
	<u>In Saudi Riyals</u>	
Net assets value, beginning of the year	131,096,918	118,660,215
Add: New subscriptions during the year	30,000	294,000
Less: Redemptions during the year	(50,443,036)	(15,833,571)
Net income	5,418,269	27,976,274
Net assets value, end of the year	<u>86,102,151</u>	<u>131,096,918</u>
	<u>In numbers</u>	
Units, beginning of the year	182,165,928	206,814,897
Add: Units subscribed	40,436	429,515
Less: Units redeemed	(66,976,016)	(25,078,484)
Net decrease in units	(66,935,580)	(24,648,969)
Units, end of the year	<u>115,230,348</u>	<u>182,165,928</u>

The accompanying notes (1) through (11) 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 2010
(Saudi Riyals)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	5,418,269	27,976,274
Adjustment for movement in unrealised gain on investments	(3,111,361)	(15,042,240)
<i>Changes in operating assets and liabilities:</i>		
Investments - held for trading	37,136,399	(44,846,733)
Commission receivable	--	733
Management and custody fees	(330,560)	(30,906)
Board of Directors fee	(13,523)	65,831
Accrued expenses	141	(10,000)
Net cash provided by / (used in) operating activities	<u>39,099,365</u>	<u>(31,887,041)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from units subscribed	30,000	294,000
Payments on units redeemed	(50,443,036)	(15,833,571)
Net cash used in financing activities	<u>(50,413,036)</u>	<u>(15,539,571)</u>
Net decrease in cash and cash equivalents	<u>(11,313,671)</u>	<u>(47,426,612)</u>
Cash and cash equivalents, beginning of the year	14,365,486	61,792,098
Cash and cash equivalents, end of the year	<u>3,051,815</u>	<u>14,365,486</u>

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

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

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").

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 initial public offerings in the Kingdom of Saudi Arabia, and investing the available liquidity in low-risk assets 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.

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 (the "CMA") approval was obtained on 27 Muharram 1429H (corresponding to 5 February 2008). The Fund commenced operations on 15 March 2008.

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 business day (each a "Dealing Day") immediately preceding the 16th day of each calendar month or the last business day of each calendar month. 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 investments 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 Riyal, which is also the functional currency of the Fund.

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010
(Saudi Riyals)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Investments - held for trading

Investments which are purchased for trading are initially recognized at cost and are 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 dividends are declared.

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>	<u>% of market value</u>
	2010		
Industrial investment	40,469,162	41,162,545	49.09
Building and construction	12,724,904	14,632,255	17.45
Petrochemical industries	14,587,789	14,436,620	17.22
Retail	7,976,384	8,462,400	10.09
Agriculture and food industries	4,979,060	5,154,840	6.15
	80,737,299	83,848,660	100.00
	2009		
Industrial investment	43,250,854	50,339,720	42.71
Building and construction	18,038,759	17,625,650	14.95
Petrochemical industries	31,822,027	37,576,750	31.88
Retail	6,524,806	8,191,558	6.95
Agriculture and food industries	3,195,012	4,140,020	3.51
	102,831,458	117,873,698	100.00

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010
(Saudi Riyals)

7. TRADING GAIN, NET

	<u>2010</u>	<u>2009</u>
Realized gain on investments, net	3,207,844	15,031,320
Unrealized gain on investments, net	<u>3,111,361</u>	<u>15,042,240</u>
	<u>6,319,205</u>	<u>30,073,560</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 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 as audit fee, board compensation and other similar charges. The Fund manager also receives a subscription fee of 2% for all new subscriptions.

The unitholders' account at 31 December included units (in numbers) held as follows:

	<u>2010</u>	<u>2009</u>
Held by employees and Staff Saving Account of Fund Manager	914,066	914,066
Held by members of the Board of Directors	<u>245,200</u>	<u>245,200</u>
	<u>1,159,266</u>	<u>1,159,266</u>

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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Bakheet Investment Group	Management and custody fees	<u>2,442,543</u>	<u>3,206,856</u>	<u>533,183</u>	<u>863,743</u>
Bakheet Investment Group	Board of Directors fee	<u>250,000</u>	<u>263,523</u>	<u>250,000</u>	<u>263,523</u>

BAKHEET IPO FUND
(MANAGED BY BAKHEET INVESTMENT GROUP)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

9. RISK MANAGEMENT POLICIES

Credit risk

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

The Fund is exposed to credit risk for its investment portfolio. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and setting limits for individual investments.

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's held for trading investments are susceptible to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of industry concentration.

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.

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 29 December 2010 (2009: 30 December 2009).