

KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

KHALEEJ EQUITY FUND

(a sub-fund of SICO Funds Company B.S.C (c))

Information about the Fund

Directors of the Fund Company	Anthony C. Mallis Najla Al Shirawi Shakeel Sarwar Butt Samir Sami	- Chairman - Director - Director - Director
Registered office	2 nd floor, BMB Centre, PO Box 1331, Diplomatic Area, Kingdom of Bahrain	
Bankers	Bank of Bahrain and Kuwait B.S.C. Mashreq Bank PSC National Bank of Kuwait Bank Muscat S.A.O.G Shuaa Capital PSC HSBC Bank Middle East Limited (Bahrain Branch)	
Investment managers	Securities & Investment Company B.S.C (c)	
Administrators	HSBC Bank Middle East Limited (Bahrain Branch)	
Custodians	HSBC Bank Middle East Limited (Bahrain Branch)	
Registrar	APEX funds service company	
Auditors	PricewaterhouseCoopers 9 th Floor, BMB Centre, PO Box 21144, Diplomatic Area, Kingdom of Bahrain	

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Financial statements for the year ended 31 December 2010

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KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))

Directors' report for the year ended 31 December 2010

The Directors have the pleasure in submitting their report together with the audited financial statement of Khaleej Equity Fund ("the Fund") for the year ended 31 December 2010.

Financial Position

The financial position of the Fund as at 31 December 2010 is set out in the accompanying financial statements.

The Fund continued its good performance during the year and appreciated by 14.1% in 2010. This was achieved through a combination of good asset allocation and superior stock selection.

Directors

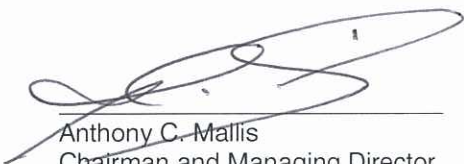
The following were Directors of SICO Funds Company B.S.C as at 31 December 2010 and to the date of this report:

Anthony C. Mallis
Najla Al Shirawi
Samir Sami
Shakeel Sarwar

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

By order of the Board of Directors



Anthony C. Mallis
Chairman and Managing Director
SICO Funds Company B.S.C (c)



Najla Al Shirawi
Director
SICO Funds Company B.S.C (c)

Independent Auditor's Report to the Unitholders of
Khaleej Equity Fund
(a sub-fund of SICO Funds Company B.S.C. (c))

Report on the financial statements

We have audited the accompanying financial statements of Khaleej Equity Fund (the Fund), a sub-fund of SICO Funds Company B.S.C. (c) (the Company) which comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes

The Company's Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditor's Report to the Unitholders of
Khaleej Equity Fund
(a sub-fund of SICO Funds Company B.S.C. (c)) (continued)

Report on regulatory requirements

Further, as required by the Central Bank of Bahrain Rule Book 6 Collective Investment Undertakings (CIU Module), we report that the financial statements have been properly prepared in accordance with the relevant provisions of the rules in the CIU Module; the Fund has maintained proper books and records and the financial statements are in agreement therewith; and nothing has come to our attention which causes us to believe that the Fund has breached any of the applicable provisions of the CIU Module or the Fund's Private Placement Memorandum which would materially affect its activities or its financial position as at 31 December 2010.



27 April 2011
Manama, Kingdom of Bahrain

KHALEEJ EQUITY FUND
Statement of financial position
(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	As at 31 December	
		2010	2009
ASSETS			
Current assets			
Financial assets at fair value through profit or loss	4	33,393,919	23,853,003
Prepayments and other receivables		5	4,917
Cash and bank balances	5	1,746,666	7,207,541
Total assets		<u>35,140,590</u>	<u>31,065,461</u>
LIABILITIES			
Current liabilities			
Accruals and other payables	6	910,378	134,790
Liabilities (excluding net assets attributable to holders of redeemable units)		<u>910,378</u>	<u>134,790</u>
Net assets attributable to holders of redeemable units	7	<u>34,230,212</u>	<u>30,930,671</u>
Total liabilities		<u>35,140,590</u>	<u>31,065,461</u>

These financial statements have been approved for issue by the Board of Directors of SICO Funds Company B.S.C. (c) on 24 April 2011 and signed on its behalf by:



Anthony C. Mallis
Chairman and Managing Director
SICO Funds Company B.S.C (c)



Najla Al Shirawi
Director
SICO Funds Company B.S.C (c)

The notes on pages 8 to 19 are an integral part of these financial statements.

KHALEEJ EQUITY FUND**Statement of comprehensive income**

(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	For the year ended 31 December	
		2010	2009
Income			
Dividend income		1,271,349	739,458
Interest income		62,488	6,670
Other income		25,533	39,410
Net changes in fair value of financial assets at fair value through profit or loss	4	3,085,616	3,663,933
		<u>4,444,986</u>	<u>4,449,471</u>
Operating expenses			
Management fee	9	(478,796)	(431,950)
Custodian fee	8	(44,656)	43,195
Administration fee		(38,447)	50,342
Transaction cost		(8,780)	15,229
Registrar fee		(3,150)	1,995
Audit fees		(4,000)	5,200
Other fees and expenses		(4,964)	8,146
		<u>(582,793)</u>	<u>(556,057)</u>
Increase in net assets attributable to holders of redeemable units from operations being total comprehensive income		<u>3,862,193</u>	<u>3,893,414</u>

These financial statements have been approved for issue by the Board of Directors of SICO Funds Company B.S.C. (c) on 24 April 2011 and signed on its behalf by:



Anthony C. Mallis
Chairman and Managing Director
SICO Funds Company B.S.C (c)



Najla Al Shirawi
Director
SICO Funds Company B.S.C (c)

The notes on pages 8 to 19 are an integral part of these financial statements.

KHALEEJ EQUITY FUND**Statement of changes in the net assets attributable to holders of redeemable units**
(Expressed in Bahrain Dinars, unless otherwise stated)

	Nominal value of units	Unit premium/ (discount)	Retained earnings	Total
At 1 January 2009	16,215,299	13,421,271	(3,201,424)	26,435,146
Issue of units during the year	2,969,076	2,956,607	-	5,925,683
Redemption of units during the year	(2,955,560)	(2,368,012)	-	(5,323,572)
Net increase from unit transactions	13,516	588,595	-	602,111
Increase in net assets attributable to holders of redeemable units from operations	-	-	3,893,414	3,893,414
At 31 December 2009	16,228,815	14,009,866	691,990	30,930,671
At 1 January 2010	16,228,815	14,009,866	691,990	30,930,671
Issue of units during the year	2,182,673	2,418,742	-	4,601,415
Redemption of units during the year	(2,667,088)	(2,496,979)	-	(5,164,067)
Net decrease from unit transactions	(484,415)	(78,237)	-	(562,652)
Increase in net assets attributable to holders of redeemable units from operations	-	-	3,862,193	3,862,193
At 31 December 2010	15,744,400	13,931,629	4,554,183	34,230,212

The notes on pages 8 to 19 are an integral part of these financial statements.

KHALEEJ EQUITY FUND**Statement of cash flows**

(Expressed in Bahrain Dinars, unless otherwise stated)

	Year ended 31 December	
Note	2010	2009
Cash flows from operating activities		
Increase in net assets attributable to holders of redeemable units from operations	3,862,193	3,893,414
<u>Adjustments for non-cash items:</u>		
Changes in fair value of financial assets at fair value through profit or loss	(3,894,038)	(5,524,122)
<u>Net changes in:</u>		
Financial assets at fair value through profit or loss	(5,646,878)	(6,800,147)
Prepayments and other receivables	4,912	31,279
Accruals and other payables	775,588	(308,184)
Net cash used in operating activities	<u>(4,898,223)</u>	<u>(8,707,760)</u>
Cash flow from financing activities		
Proceeds from issue of units	4,601,415	5,925,683
Redemption of units during the year	(5,164,067)	(5,323,572)
Net cash used in financing activities	<u>(562,652)</u>	<u>602,111</u>
Net decrease in cash and cash equivalents	(5,460,875)	(8,105,649)
Cash and cash equivalents at the beginning of the year	<u>7,207,541</u>	<u>15,313,190</u>
Cash and cash equivalents at the end of the year	5 <u>1,746,666</u>	<u>7,207,541</u>

The notes on pages 8 to 19 are an integral part of these financial statements.

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

1 Incorporation and background information

In accordance with an instrument dated 13 January 2004, SICO Funds Company B.S.C (the Company) created Khaleej Equity Fund (KEF or the Fund), an open-ended fund, which was launched with the principal objective of achieving long-term capital appreciation for holders of units by investing principally in equity securities listed on the stock markets of GCC Countries.

From time to time, the Fund may also invest in equity related hybrid and debt securities listed in the GCC Countries in addition to unlisted debt securities issued by the governments or quasi government institutions of GCC Countries. The Fund does not have any employees.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements of the Fund are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in Note 3.5.

(a) New and amended standards adopted by the Fund

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009); and
- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009).

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Fund (although they may affect the accounting for future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the Fund's accounting periods beginning on or after 1 January 2010 or later periods, but the Fund has not early adopted them:

- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009);
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009);
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement' (effective 1 July 2009);
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective 1 July 2009);
- IAS 1 (amendment), 'Presentation of financial statements';
- IAS 36 (amendment), 'Impairment of assets', (effective 1 January 2010);
- IFRS 2 (amendment), 'Share-based payment'; and
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2009

(Expressed in Bahrain Dinars, unless otherwise stated)

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

The Fund's assessment of the impact of these new standards and interpretations is set out below:

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Fund's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.
- IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.
- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Fund will apply the amended standard from 1 January 2011.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Fund will apply the interpretation from 1 January 2011.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Fund will apply these amendments for the financial reporting period commencing on 1 January 2011.

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

2 Summary of significant accounting policies (continued)

Financial assets

(a) Classification

The Fund classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

The Fund classifies its investments in equity securities as financial assets designated at fair value through profit or loss at inception.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Fund's loans and receivables comprise cash and cash equivalents on the statement of financial position.

Financial assets designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

(b) Recognition, derecognition and measurement

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investments. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of comprehensive income in the period in which they arise.

(c) Fair value estimation

The fair values of financial assets traded in active markets (such as publicly traded securities) are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Fund is the current bid price.

Interest income and dividend income

Interest income is recognised on a time-proportion basis using the effective interest method and includes interest income from cash and cash equivalents.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income when the Fund's right to receive the payment is established.

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

2 Summary of significant accounting policies (continued)

Due to brokers

Amounts due to brokers represent payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date. These are recorded initially at fair value and are subsequently measured at amortised cost.

Accruals and other payables

Accruals and other payables are recognised when the Fund has a present legal or constructive obligation as a result of past events; it is more likely that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

Foreign currency translation

(a) Functional and presentation currency

The financial statements are prepared in Bahrain Dinars (BHD), which is the functional and presentation currency of the Fund.

(b) Transactions and balances

Transactions denominated in foreign currencies are translated into Bahraini Dinars at the rates of exchange prevailing on the date of the transaction while assets and liabilities are translated into Bahraini Dinars at the rates of exchange on the statement of financial position date.

The foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

Foreign exchange gains and losses relating to financial assets at fair value through profit or loss are presented in the statement of comprehensive incomes within "gain/(loss) on financial assets at fair value through profit or loss".

Transaction costs

Transaction costs are incurred to acquire/sell financial assets or liabilities at fair value through profit or loss. They include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts.

Increase/(decrease) in net assets attributable to holders of redeemable units from operations

Income not distributed is included in net assets attributable to holders of redeemable units.

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

2 Summary of significant accounting policies (continued)

Redeemable units

Units are redeemable at the unitholder's option and are accordingly classified as financial liabilities. The dividend distribution on these units is recognised in the statement of comprehensive income as finance costs.

The units can be put back to the Fund at any time for cash equal to a proportionate unit of the Fund's net asset value. The units are carried at the redemption amount that is payable at the statement of financial position date if the unitholders exercised their right to put the unit back to the Fund.

The units are issued and redeemed at the holders' option at the prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the holder of redeemable units with the total number of outstanding redeemable units.

3 Financial risk management

The Fund is a sub-fund of SICO Funds Company B.S.C (c) (the Company). Accordingly, the risk management policies of the Fund are governed by the Company.

The Fund's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Fund's risk management policies are based on a simplified framework with non-complex transactions to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realisable and up-to-date information systems.

Risk management activities are carried out by the senior management under policies that are approved by the Company's Board of Directors. Management regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

3.1 Market risk

The Fund is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

3.1.1 Price risk

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where equity securities are denominated in currencies other than USD, the price initially expressed in foreign currency and then converted into USD will also fluctuate because of changes in foreign exchange rates. Paragraph (3.1.2) below sets out how this component of price risk is managed and measured.

To manage its price risk from investment securities, the Fund attempts to diversify its investment portfolio. There are well defined investment policies and procedures approved by the Company's Board of Directors which govern the trading securities. Formal valuation policies that specify appropriate and sound portfolio valuation methodologies have been established for investments in listed companies. Marking the equity portfolio to market on each valuation day ensures that the unrealised gains and losses are accounted for on a daily basis.

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)

3.1 Market risk (continued)

3.1.1 Price risk (continued)

At 31 December 2010, the fair value of equities exposed to price risk was BHD 33,393,919 (2009: BHD 23,823,795).

All the Fund's equity securities are publicly listed and the table below summarises the sensitivity of the Fund's net assets attributable to holders of redeemable units to equity price movements, including the effect of movements in foreign currency exchange rates on equity prices, as at 31 December. The analysis is based on the assumption that all other variables will remain constant and the market price of all the securities held in the portfolio moves up or down by 10%. This represents management's best estimate of a reasonable possible shift in the market of the securities held in the portfolio.

	Reasonable shift	Impact on the Fund's results for the year ended 31 December		Impact on net assets attributable to holders of redeemable units as at 31 December	
		2010	2009	2010	2009
Financial assets at fair value through profit or loss	± 10% change in equity prices	±3,339,392	± 2,382,380	±3,339,392	± 2,382,380

3.1.2 Foreign exchange risk

Foreign exchange risk, as defined in IFRS 7, arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of the market price risk and not foreign currency risk.

The Fund is exposed to currency risk with respect to its trading securities. However, the Fund has very limited exposures to currency risk as a significant portion of the foreign currency trading securities are in currencies pegged to the US Dollar.

3.1.3 Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows.

The Fund's call deposit has a maturity of less than three months and its other assets and liabilities are not sensitive to interest rate risk. Therefore, the Fund is not significantly exposed to interest rate risk.

3.2 Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main concentration to which the Fund is exposed arises from cash and bank balances and due from brokers. Cash and cash equivalents are held by parties with a credit rating of A or higher. Additionally, reputed entities are appointed as the custodian of the Fund.

KHALEEJ EQUITY FUND**Notes to the financial statements for the year ended 31 December 2010**

(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)**3.2 Credit risk (continued)**

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities is made by the custodian only on receipt of payment from the broker. Payment is made by the custodian for the purchase of securities only on receipt of security from the broker. The trade will fail if either party fails to meet its obligations.

3.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to the weekly cash redemptions of redeemable units. Its policy is therefore to invest its assets in investments that are traded in an active market and can be readily disposed. As per the prospectus of the Fund, the investment manager has the right to scale down redemptions to 10% of the net asset value of the Fund if the redemption request on any valuation day exceeds more than 10% of the net asset value of the Fund.

The Fund's securities are considered readily realisable as they are listed on stock exchanges.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

2010	Less than 1 month	1-12 months	Total
Liabilities			
Current liabilities			
Payables and accrued expenses		910,378	910,378
Liabilities (excluding net assets attributable to holders of redeemable units)	-	910,378	910,378
Net assets attributable to holders of redeemable units	34,230,212	-	34,230,212
	34,230,212	910,378	35,140,590

2009	Less than 1 month	1-12 months	Total
Liabilities			
Current liabilities			
Payables and accrued expenses	-	134,790	134,790
Liabilities (excluding net assets attributable to holders of redeemable units)	-	134,790	134,790
Net assets attributable to holders of redeemable units	30,930,671	-	30,930,671
	30,930,671	134,790	31,065,461

Redeemable units are redeemed on demand at the holder's option. However, the Company's Board of Directors does not envisage that the contractual maturity disclosed in the table above will be representative of actual cash outflows, as the holders of these instruments typically retain them for the medium to long term.

The Fund manages its liquidity risk by investing in securities that it expects to be able to liquidate within 1 month. Accordingly, all the Fund's financial assets are realizable within a maximum period of one month.

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)

3.4 Capital risk management

The capital of the Fund is represented by the net assets attributable to holders of redeemable units. The amount of net assets attributable to holders of redeemable units can change significantly on a weekly basis as the Fund is subject to weekly subscriptions and redemptions at the discretion of the unitholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

3.5 Fair value estimation

The fair value of financial assets traded in active markets is based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Fund is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The carrying values of other assets and liabilities are assumed to approximate their fair values.

The Fund adopted the amendment to IFRS 7, effective 1 January 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety required judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be the market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

At 31 December 2010 and 31 December 2009 all the financial assets at fair value through profit or loss of the Fund were investments whose values are based on quoted market prices in active markets, and therefore, classified within Level 1 of the fair value hierarchy.

KHALEEJ EQUITY FUND**Notes to the financial statements for the year ended 31 December 2010**

(Expressed in Bahrain Dinars, unless otherwise stated)

4 Financial assets at fair value through profit or loss

All financial assets are listed securities in the GCC region, which have been designated at fair value through profit or loss at inception:

	2010		2009	
	BHD	%	BHD	%
<u>Investments in debt securities:</u>				
- Oman	-	-	29,208	0.12
<u>Investments in equity securities:</u>				
- Saudi Arabia	16,744,761	50.14	12,030,078	50.43
- Qatar	8,958,995	26.83	5,583,888	23.41
- United Arab Emirates	2,375,146	7.11	2,276,455	9.55
- Kuwait	2,464,822	7.39	1,881,363	7.89
- Oman	2,144,295	6.42	2,014,704	8.44
- Bahrain	705,900	2.11	37,307	0.16
Total financial assets designated at fair value through profit or loss	33,393,919	100.00	23,853,003	100

Financial assets at fair value through profit or loss represent 95.03% (2009: 76.79%) of the Fund's total assets.

Other net changes in fair value of financial assets at fair value through profit or loss:

	2010	2009
Realised	(808,422)	(1,860,189)
Unrealised	3,894,038	5,524,122
	3,085,616	3,663,933

5 Cash and bank balances

	External credit rating	2010	2009
Current account with banks	AA	946,846	3,098,785
Call deposits with banks	AA	799,820	4,108,756
		1,746,666	7,207,541

External credit ratings are as per Fitch ratings or equivalent.

6 Accruals and other payables

	2010	2009
Amounts due to related parties (Note 9)	123,509	119,643
Due to brokers	776,525	-
Accrued custody and administration fees	6,539	10,856
Other accruals	3,805	4,291
	910,378	134,790

Amounts due to related parties are unsecured, bear no interest and are repayable on demand.

KHALEEJ EQUITY FUND**Notes to the financial statements for the year ended 31 December 2010**

(Expressed in Bahrain Dinars, unless otherwise stated)

7 Fund units and unit valueNominal value

The initial offer price of the fund units was USD 100 each. The subscription price following the initial offer and the redemption price is the price at which the units are offered to subscribers which is based upon the net asset value (NAV) per unit of the Fund at close of business on the relevant valuation day.

The net asset value per unit of the Fund is calculated as follows:

	31 December 2010	31 December 2009
Number of units subscribed	414,926	430,472
Nominal value of units subscribed (BD)	15,642,710	16,228,815
Nominal value per unit subscribed (BD)	37.700	37.700
Nominal value per unit subscribed (USD)	100.00	100.00
Net asset value of the Fund (BD) *	34,230,212	30,930,671
Net asset value per unit (BD)	82.497	71.853
Net asset value per unit (US Dollar)	218.825	190.59

* Net asset value is determined based upon the accounting policies contained in these financial statements

8 Custody and administration fees

(a) A custodian fee is paid to HSBC Bank Middle East Limited (Bahrain Branch), the custodian and administrator of the Fund. This fee is payable at the higher of a minimum monthly fee of BD 377 (annual minimum fee of BD 4,524) and a percentage of the yearly net asset value of the Fund. The percentage applies are as follows:

Yearly NAV range	Annual administration fee percentage
\$0-10 million	15bps
\$10-25 million	14bps
\$25-50 million	13bps
\$50-100 million	12bps
Greater than \$100	11bps

(b) An administration fee is paid to HSBC Bank Middle East Limited (Bahrain Branch), the custodian and administrator of the Fund. This fee is payable at the higher of a minimum monthly fee of BD 377 (annual minimum fee of BD 4,524) and a percentage of the yearly net asset value of the Fund. The percentages applied are as follows:

Yearly NAV range	Annual administration fee percentage
\$0-20 million	8bps
\$20-50 million	7bps
\$50-100 million	6bps
Greater than \$100	5bps

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

9 Related party transactions

Parties are considered related if one party has the ability to control the other party or exercises significant influence over the other party in making financial or operational decisions. The Fund is a sub-fund of SICO Funds Company B.S.C. (c), which is a wholly owned subsidiary of Securities & Investment Company B.S.C. (c) (SICO), which provides fund management services to the Fund. Related parties comprise SICO and its shareholders, unit holders of the Fund and the shareholders of SICO Funds Company B.S.C. (c).

Directors' remuneration is fully accounted for by SICO on behalf of the Company and no amounts are recharged to the Fund.

- (a) Unit holders of the Fund include SICO and its shareholders who have subscribed as follows to the units of the Fund at the nominal value of BD 37.700 per unit:

	<u>31 December 2010</u>		<u>31 December 2009</u>	
	<u>Units</u>	<u>BD</u>	<u>Units</u>	<u>BD</u>
SICO's holdings in the fund	8,635	325,540	-	-

- (b) Management fees, calculated at 1.5% per annum of the daily net asset value of the Fund, is payable to SICO. The management fees for the year ended 31 December 2010, amounted to BHD 478,796 (2009: 431,950).

At 31 December 2010 the amount of management fees payable to SICO was BHD 123,509 (2009: BHD 119,643).

- (c) Performance fees, calculated at 10% profit sharing in incremental increases over 10% appreciation in net asset value per unit of the Fund for every fiscal year net of performance fees, as accrued on each valuation day, is payable to SICO. No Performance fee was paid to SICO for the year ended 31 December 2010 (2009: BHD Nil).

KHALEEJ EQUITY FUND

Notes to the financial statements for the year ended 31 December 2010

(Expressed in Bahrain Dinars, unless otherwise stated)

10 Financial instruments by category

	Loans and receivables at amortised cost	Assets at fair value through the profit and loss	Total
As at 31 December 2010			
Assets as per statement of financial position			
Financial assets at fair value through profit or loss	-	33,393,919	33,393,919
Other receivables and prepayments	5	-	5
Cash and cash equivalents	1,746,666	-	1,746,666
Total	1,746,671	33,393,919	35,140,590
As at 31 December 2009			
Assets as per statement of financial position			
Financial assets at fair value through profit or loss	-	23,853,003	23,853,003
Other receivables and prepayments	4,917	-	4,917
Cash and cash equivalents	7,207,541	-	7,207,541
Total	7,212,458	23,853,003	31,065,461
2010			
	Financial liabilities at amortised cost	Total	
Liabilities as per statement of financial position			
Accruals and other payables	910,378	910,378	
Liabilities (excluding net assets attributable to holders of redeemable units)	910,378	910,378	
Net assets attributable to holders of redeemable units	34,230,212	34,230,212	
	35,140,590	35,140,590	
2009			
Liabilities as per statement of financial position			
Accruals and other payables	134,790	134,790	
Liabilities (excluding net assets attributable to holders of redeemable units)	134,790	134,790	
Net assets attributable to holders of redeemable units	30,930,671	30,930,671	
	31,065,461	31,065,461	