

**SICO SELECTED SECURITIES FUND**  
(a sub-fund of SICO Funds Company VII B.S.C (c))

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010

**SICO SELECTED SECURITIES FUND**  
(a sub-fund of SICO Funds Company VII B.S.C (c))

**Information about the Fund**

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

**SICO SELECTED SECURITIES FUND**  
(a sub-fund of SICO Funds Company VII B.S.C (c))

**Financial statements for the year ended 31 December 2010**

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**SICO SELECTED SECURITIES FUND**  
(a sub-fund of SICO Funds Company VII 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 SICO Selected Securities 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 4.8% 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 VII 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 VII B.S.C (c)

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

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

### **Report on the financial statements**

We have audited the accompanying financial statements of SICO Selected Securities Fund (the Fund), a sub-fund of SICO Funds Company VII 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  
**SICO Selected Securities Fund**  
(a sub-fund of SICO Funds Company VII 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

**SICO SELECTED SECURITIES FUND****Statement of financial position**

(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	As at 31 December	
		2010	2009
<b>ASSETS</b>			
<b>Current assets</b>			
Financial assets at fair value through profit or loss	4	2,682,840	2,559,248
Prepayments and other receivables		4,002	4,807
Cash and bank balances	5	100,053	124,486
<b>Total assets</b>		<b>2,786,895</b>	<b>2,688,541</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accruals and other payables	6	10,350	11,486
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>		<b>10,350</b>	<b>11,486</b>
<b>Net assets attributable to holders of redeemable units</b>	7	<b>2,776,545</b>	<b>2,677,055</b>
<b>Total liabilities</b>		<b>2,786,895</b>	<b>2,688,541</b>

These financial statements have been approved for issue by the Board of Directors of SICO Funds Company VII 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.

**SICO SELECTED SECURITIES FUND**  
**Statement of comprehensive income**  
(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009
<b>Income</b>			
Dividend income		132,125	118,071
Interest income		20,676	14,425
Other gain/(loss)		250	13
Net changes in fair value of financial assets at fair value through profit or loss	4	27,718	(418,371)
		180,769	(285,862)
<b>Operating expenses</b>			
Management fee	9	(27,990)	(29,363)
Custodian fee	8	(4,929)	(5,184)
Administration fee	8	(4,538)	(6,126)
Transaction cost		(601)	(843)
Registrar fee		(2,683)	(2,000)
Audit fees		(3,500)	(4,355)
Other fees and expenses		(2,496)	(3,274)
		(46,737)	(51,145)
<b>Finance costs</b>			
Distribution to holders of redeemable units		-	(87,792)
<b>Increase in net assets attributable to holders of redeemable units from operations being total comprehensive income</b>		134,032	(424,799)

These financial statements have been approved for issue by the Board of Directors of SICO Funds Company VII 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.

**SICO SELECTED SECURITIES FUND****Statement of changes in 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	1,755,847	(2,138,194)	3,759,291	3,376,944
Issue of units during the year	1,350	985	-	2,335
Redemption of units during the year	(161,294)	(116,131)	-	(277,425)
Net decrease from unit transactions	(159,944)	(115,146)	-	(275,090)
Decrease in net assets attributable to holders of redeemable units from operations	-	-	(424,799)	(424,799)
At 31 December 2009	1,595,903	(2,253,340)	3,334,492	2,677,055
At 1 January 2010	1,595,903	(2,253,340)	3,334,492	2,677,055
Issue of units during the year	-	-	-	-
Redemption of units during the year	(19,638)	(14,904)	-	(34,542)
Net decrease from unit transactions	(19,638)	(14,904)	-	(34,542)
Decrease in net assets attributable to holders of redeemable units from operations	-	-	134,032	134,032
At 31 December 2010	1,576,265	(2,268,244)	3,468,524	2,776,545

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

**SICO SELECTED SECURITIES FUND****Statement of cash flows**

(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009
<b>Cash flows from operating activities</b>			
Increase in net assets attributable to holders of redeemable units from operations		134,032	(424,799)
<u>Adjustments for non-cash items:</u>			
Changes in fair value of financial assets at fair value through profit or loss		214,930	91,453
<u>Net changes in:</u>			
Financial assets at fair value through profit or loss		(338,522)	269,211
Prepayments and other receivable		805	3,907
Accruals and other payables		(1,136)	(11,848)
Net cash provided by operating activities		<u>10,109</u>	<u>(72,076)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		-	2,335
Redemption of units during the year		(34,542)	(277,425)
Net cash used in financing activities		<u>(34,542)</u>	<u>(275,090)</u>
Net decrease in cash and cash equivalents		(24,433)	347,166
Cash and cash equivalents at the beginning of the year		124,486	471,652
Cash and cash equivalents at the end of the year	5	<u>100,053</u>	<u>124,486</u>

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

## **SICO SELECTED SECURITIES 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 30 March 1998, SICO Funds Company B.S.C. (the Company) created SICO Selected Securities Fund (SSSF or the Fund), a close-ended fund, which was launched with the principal objective of achieving medium to long-term capital appreciation for holders of units by investing in equity and debt securities listed or expected to be listed on the Bahrain Stock Exchange. Pursuant to a decision by the shareholders of the Company in their extraordinary meeting held on 28 May 2001, the Company has changed the status of the Fund to an open-ended fund. After the change of the status, the units became available for issue and redemption at a price based on the prevailing net asset value per unit. The Fund has no 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'.

## **SICO SELECTED SECURITIES 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)**

### **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.

## **SICO SELECTED SECURITIES 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.

## **SICO SELECTED SECURITIES 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.

## **SICO SELECTED SECURITIES 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 unitholders' 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: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, concentrations of 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.

## SICO SELECTED SECURITIES 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)

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.

At 31 December 2010, the fair value of equities exposed to price risk was BHD 2,313,304 (2009: BHD 2,390,180).

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	±231,330	± 239,018	±231,330	± 239,018

#### 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 US Dollars.

#### 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.

## SICO SELECTED SECURITIES 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

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.

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.

	<b>Less than 1 month</b>	<b>1-12 months</b>	<b>Total</b>
<b>2010</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accruals and other payables	-	10,350	10,350
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>	-	10,350	10,350
Net assets attributable to holders of redeemable units	2,776,545	-	2,776,545
	<b>2,776,545</b>	<b>10,350</b>	<b>2,786,895</b>
	<b>Less than 1 month</b>	<b>1-12 months</b>	<b>Total</b>
<b>2009</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accruals and other payables	-	11,486	11,486
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>	-	11,486	11,486
Net assets attributable to holders of redeemable units	2,677,055	-	2,677,055
	<b>2,677,055</b>	<b>11,486</b>	<b>2,688,541</b>

## **SICO SELECTED SECURITIES 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)**

### **3.3 Liquidity risk (continued)**

Redeemable units are redeemed on demand at the holders' 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.

### **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 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.

## SICO SELECTED SECURITIES 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)

##### 3.5 Fair value estimation (continued)

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 86.62 % and 93.3% respectively of the financial assets at fair value through profit or loss of the Fund were equity investments whose values are based on quoted market prices in active markets, and therefore, classified within Level 1 of the fair value hierarchy.

#### 4 Financial assets at fair value through profit or loss

A significant portion of 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	274,456	10.23	169,068	6.61
- United States	95,080	3.54	-	-
<u>Investments in equity securities:</u>				
- Qatar	-	-	-	-
- Bahrain	2,313,304	86.23	2,390,180	93.39
Total financial assets designated at fair value through profit or loss	2,682,840	100.00	2,559,248	100.00

Financial assets at fair value through profit or loss represent 96.27% (2009: 95.92%) of the Fund's total assets.

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

	2010	2009
Realised	(187,212)	(509,824)
Unrealised	214,930	91,453
	27,718	(418,371)

#### 5 Cash and bank balances

	External credit rating	2010	2009
Current account	AA	100,035	124,486
		100,035	124,486

The external ratings are based on Fitch ratings or equivalent.

**SICO SELECTED SECURITIES FUND****Notes to the financial statements for the year ended 31 December 2010**

(Expressed in Bahrain Dinars, unless otherwise stated)

**6 Accruals and other payables**

	2010	2009
Amounts due to related parties (Note 9)	7,042	6,753
Accrued custody and administration fees	1,162	943
Other accruals	2,146	3,790
	10,350	11,486

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

**7 Net assets attributable to holders of redeemable units**Nominal value

The initial offer price of the fund unit was BHD 0.100 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 assets 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	15,762,671	15,959,051
Nominal value of units subscribed (BD)	1,576,265	1,595,903
Nominal value per unit subscribed (fils)	100	100.000
<b>Net asset value of the Fund (BD) *</b>	<b>2,776,545</b>	<b>2,677,055</b>
Net asset value per unit (fils)	0.176	0.167

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

**8 Custody and administration fess**

(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 percentages applied 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:

## SICO SELECTED SECURITIES FUND

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

(Expressed in Bahrain Dinars, unless otherwise stated)

#### 8 Custody and administration fees (continued)

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

#### 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 the Company.

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

- (a) Unitholders 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 0.100 per unit:

	31 December 2010		31 December 2009	
	Units	BD	Units	BD
Pension Fund Commission – Military	5,429,914	542,991	5,429,914	542,991
Pension Fund Commission – Civil	5,429,914	542,991	5,429,914	542,991
	<u>10,859,828</u>	<u>1,085,982</u>	<u>10,859,828</u>	<u>1,085,982</u>
SICO's holdings in the fund	-	-	2,500,000	250,000
	<u>10,859,828</u>	<u>1,085,982</u>	<u>13,359,828</u>	<u>1,335,982</u>

- (b) Trading securities of the Fund includes the following investments in equity securities of the following financial institutions, which are also shareholders of SICO:

	31 December 2010		31 December 2009	
	Shares	BD	Shares	BD
Ahli United Bank BSC	1,123,502	300,728	1,366,422	224,086
Bank of Bahrain and Kuwait BSC	-	-	339,681	138,590
National Bank of Bahrain BSC	321,496	199,328	321,496	189,683
Arab Banking Corporation BSC	181,889	34,972	181,889	45,943
		<u>535,028</u>		<u>598,302</u>

- (c) Management fees, calculated at 1% per annum of the weekly net asset value of the Fund, is payable to SICO. The management fees for the year ended 31 December 2010 amounted to BHD 27,990 (2009: BHD 29,363).

At 31 December 2010 the amount of management fee payable to SICO was BHD 7,042 (2009: BHD 6,753).

- (d) Performance fees, calculated at 20% over and above the hurdle total rate of return of 10% for each class of units for each financial year, is payable to SICO. No performance fee was paid to SICO for the year ended 31 December 2010 (2009: BHD NIL).

**SICO SELECTED SECURITIES 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
<b>As at 31 December 2010</b>			
<b>Assets as per statement of financial position</b>			
Financial assets at fair value through profit or loss	-	2,682,840	2,682,840
Other receivables and prepayments	4,002	-	4,002
Cash and cash equivalents	100,053	-	100,053
<b>Total</b>	<b>104,055</b>	<b>2,682,840</b>	<b>2,786,895</b>

**As at 31 December 2009**

<b>Assets as per statement of financial position</b>			
Financial assets at fair value through profit or loss	-	2,559,248	2,559,248
Other receivables and prepayments	4,807	-	4,807
Cash and cash equivalents	124,486	-	124,486
<b>Total</b>	<b>129,293</b>	<b>2,559,248</b>	<b>2,688,541</b>

**2010**

**Liabilities as per statement of financial position**

	Financial liabilities at amortised cost	Total
Accruals and other payables	10,350	10,350
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>10,350</b>	<b>10,350</b>
Net assets attributable to holders of redeemable units	2,776,545	2,776,545
	<b>2,786,895</b>	<b>2,786,895</b>

**2009**

**Liabilities as per statement of financial position**

Accruals and other payables	11,486	11,486
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>11,486</b>	<b>11,486</b>
Net assets attributable to holders of redeemable units	2,677,055	2,677,055
	<b>2,688,541</b>	<b>2,688,541</b>