

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

Financial statements for the year ended 31 December 2011

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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	- Chairman
Najla Al Shirawi	- Director
Shakeel Sarwar Butt	- Director
Samir Sami	- Director

Registered office

2nd 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 Services Company

Auditors

PricewaterhouseCoopers
9th Floor, BMB Centre,
PO Box 21144,
Diplomatic Area,
Kingdom of Bahrain.

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

Directors' report for the year ended 31 December 2011

The Directors have pleasure in submitting their report together with the audited financial statements of Khaleej Equity Fund (the Fund) (a sub-fund of SICO Funds Company B.S.C. (c)) (the Company) for the year ended 31 December 2011.

Principal activity

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. 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

Financial position

The financial position of the Fund as at 31 December 2011 is set out in the accompanying financial statements.

Directors

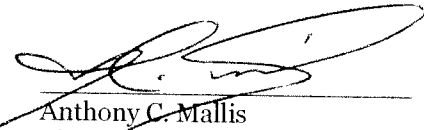
The following were Directors of the Company as at 31 December 2011 and to the date of this report:

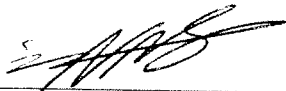
Anthony C. Mallis - Chairman and Managing Director
Najla Al Shirawi - Director
Shakeel Sarwar Butt - Director

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)

26 April 2012

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 2011 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 Company's 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 2011 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 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 2011.



29 April 2012
Manama, Kingdom of Bahrain

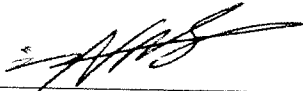
KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C. (c))
Statement of financial position
(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	As at 31 December	
		2011	2010
ASSETS			
Current assets			
Financial assets at fair value through profit or loss	4	23,591,678	33,393,919
Prepayments and other receivables		28,434	5
Cash and bank balances	5	830,312	1,746,666
Total assets		<u>24,450,424</u>	<u>35,140,590</u>
LIABILITIES			
Current liabilities			
Accruals and other payables	6	111,832	910,378
Liabilities (excluding net assets attributable to holders of redeemable units)		<u>111,832</u>	<u>910,378</u>
Net assets attributable to holders of redeemable units	7	<u>24,338,592</u>	<u>34,230,212</u>
Total liabilities		<u>24,450,424</u>	<u>35,140,590</u>

These financial statements have been approved for issue by the Board of Directors of SICO Funds Company B.S.C. (c) on 26 April 2012 and signed on its behalf by:



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



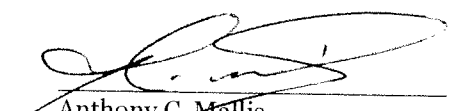
Najla Al-Shirawi
Director
SICO Funds Company B.S.C (c)

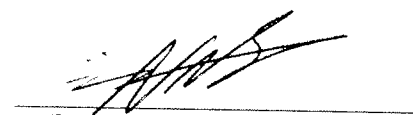
The notes on pages 8 to 20 are an integral part of these financial statements.

KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))
Statement of comprehensive income
(Expressed in Bahrain Dinars, unless otherwise stated)

		For the year ended 31 December	
	Note	2011	2010
Income			
Dividend income			
Interest income		1,292,443	1,271,349
Other income		2,224	62,488
Net changes in fair value of financial assets at fair value through profit or loss		26,002	25,533
	4	<u>(3,024,232)</u>	<u>3,085,616</u>
		<u>(1,703,563)</u>	<u>4,444,986</u>
Operating expenses			
Management fee	9	(417,592)	(478,796)
Custodian fee	8	(36,612)	(44,656)
Administration fee		(19,343)	(38,447)
Audit fees		(8,100)	(4,000)
Transaction costs		(6,069)	(8,780)
Registrar fee		(3,217)	(3,150)
Other fees and expenses		481	(4,964)
		<u>(490,452)</u>	<u>(582,793)</u>
(Decrease)/ increase in net assets attributable to holders of redeemable units from operations being total comprehensive income		<u>(2,194,015)</u>	<u>3,862,193</u>

These financial statements have been approved for issue by the Board of Directors of SICO Funds Company B.S.C. (c) on 26 April 2012 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 20 are an integral part of these financial statements.

KHALEEJ EQUITY FUND**(a sub-fund of SICO Funds Company B.S.C (c))****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)	Increase / (decrease) in net assets attributable to holders of redeemable units	Total net assets attributable to holders of redeemable units l
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
At 1 January 2011	15,744,400	13,931,629	4,554,183	34,230,212
Issue of units during the year	1,881,599	2,094,068	-	3,975,667
Redemption of units during the year	(5,749,601)	(5,923,671)	-	(11,673,272)
Net decrease from unit transactions	(3,868,002)	(3,829,603)	-	(7,697,605)
Decrease in net assets attributable to holders of redeemable units from operations	-	-	(2,194,015)	(2,194,015)
At 31 December 2011	11,876,398	10,102,026	2,360,168	24,338,592

The notes on pages 8 to 20 are an integral part of these financial statements.

KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))
Statement of cash flows
(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	Year ended 31 December	
		2011	2010
Cash flows from operating activities			
Decrease/increase in net assets attributable to holders of redeemable units from operations		(2,194,015)	3,862,193
<u>Adjustments for non-cash items:</u>			
Changes in fair value of financial assets at fair value through profit or loss		(149,968)	(3,894,038)
<u>Net changes in:</u>			
Financial assets at fair value through profit or loss		9,952,209	(5,646,878)
Prepayments and other receivables		(28,429)	4,912
Accruals and other payables		(798,546)	775,588
Net cash provided by /(used in) operating activities		<u>6,781,251</u>	<u>(4,898,223)</u>
Cash flow from financing activities			
Proceeds from issue of units		3,975,667	4,601,415
Redemption of units during the year		(11,673,272)	(5,164,067)
Net cash used in financing activities		<u>(7,697,605)</u>	<u>(562,652)</u>
Net decrease in cash and cash equivalents		(916,354)	(5,460,875)
Cash and cash equivalents at the beginning of the year		<u>1,746,666</u>	<u>7,207,541</u>
Cash and cash equivalents at the end of the year	5	<u>830,312</u>	<u>1,746,666</u>

The notes on pages 8 to 20 are an integral part of these financial statements.

KHALEEJ EQUITY FUND

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

Notes to the financial statements for the year ended 31 December 2011

(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. 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 has no employees. The Fund's units are listed in the Bahrain Bourse.

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.

Standards, amendments and interpretations to existing standards effective in 2011

- The amendment to IAS 24, 'Related party disclosures', clarifies the definitions of a related party. The new definition clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related-party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Fund.
- IFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was part of the IASB's annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Adoption of this amendment did not have a significant impact on the Fund's financial statements.
- There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Fund.
- 'Improvements to IFRS' were issued in May 2010 and contain several amendments to IFRS, which the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There were no material changes to accounting policies as a result of these amendments.

KHALEEJ EQUITY FUND

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

Notes to the financial statements for the year ended 31 December 2011

(Expressed in Bahrain Dinars, unless otherwise stated)

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The Fund management is currently evaluating the impact the adoption of this standard will have on the Fund's financial statement.
- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities will be carried forward unchanged. The standard will apply a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which has its own classification criteria. The standard is not expected to have a significant impact on the Fund's financial position or performance, as it is expected that the Fund will continue to classify its financial assets and financial liabilities as being at fair value through profit or loss.
- IFRS 10, 'Consolidated financial statements', effective for annual periods beginning on or after 1 January 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not expected to have any impact on the Fund's financial position or performance.
- IFRS 12, 'Disclosures of interests in other entities', effective for annual periods beginning on or after 1 January 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard is not expected to have any impact on the Fund's financial position or performance.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Fund.

KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))
Notes to the financial statements for the year ended 31 December 2011
(Expressed in Bahrain Dinars, unless otherwise stated)

2 Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss

(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

Financial assets designated at fair value through profit or loss are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund classifies its investments in equity securities as financial assets designated at fair value through profit or loss.

(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. The Fund's loans and receivables comprise cash and cash equivalents on the statement of financial position.

(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. However, due to market illiquidity, the fair value of financial assets traded in active markets may not necessarily represent realizable value. The quoted market price used for financial assets held by the Fund is the closing 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
(a sub-fund of SICO Funds Company B.S.C (c))
Notes to the financial statements for the year ended 31 December 2011
(Expressed in Bahrain Dinars, unless otherwise stated)

2 Summary of significant accounting policies (continued)

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.

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.

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 holders of redeemable units with the total number of outstanding redeemable units.

KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))
Notes to the financial statements for the year ended 31 December 2011
(Expressed in Bahrain Dinars, unless otherwise stated)

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.

At 31 December 2011, the fair value of equities exposed to price risk was BHD 23,591,678 (2010: BHD 33,393,919).

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	
		2011	2010	2011	2010
Financial assets at fair value through profit or loss	± 10% change in equity prices	±2,359,168	±3,339,392	±2,359,168	±3,339,392

KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))
Notes to the financial statements for the year ended 31 December 2011
(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)

3.1 Market risk (continued)

3.1.1 Foreign exchange risk

Foreign exchange risk 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.

The Fund is not exposed to significant currency risk with respect to its trading securities as a significant portion of the foreign currency trading securities are in currencies pegged to the US Dollar. The Bahrain Dinar is effectively linked 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.

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.

KHALEEJ EQUITY FUND
(a sub-fund of SICO Funds Company B.S.C (c))
Notes to the financial statements for the year ended 31 December 2011
(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

2011	Less than 1 month	1-12 months	Total
Liabilities			
Current liabilities			
Payables and accrued expenses	5,798	106,034	111,832
Liabilities (excluding net assets attributable to holders of redeemable units)	5,798	106,034	111,832
Net assets attributable to holders of redeemable units	24,338,592	-	24,338,592
	24,344,390	106,034	24,450,424
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

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.

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 hierarchy

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.

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3 Financial risk management (continued)

3.5 Fair value estimation (continued)

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

The Fund classifies 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 2011 and 31 December 2010 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.

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:

	2011		2010	
	BHD	%	BHD	%
<u>Investments in equity securities:</u>				
- Saudi Arabia	12,549,352	53.19	16,744,761	50.14
- Qatar	5,473,728	23.20	8,958,995	26.83
- United Arab Emirates	2,621,268	11.11	2,375,146	7.11
- Kuwait	1,272,761	5.39	2,464,822	7.39
- Oman	1,276,589	5.41	2,144,295	6.42
- Bahrain	397,980	1.69	705,900	2.11
Total financial assets designated at fair value through profit or loss	23,591,678	100.00	33,393,919	100.00

Financial assets at fair value through profit or loss represent 96.52% (2010: 95.02%) of the Fund's total assets.

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4 Financial assets at fair value through profit or loss (continued)

	2011		2010	
	BHD	%	BHD	%
Qatar Industries	1,232,485	5.22	-	-
Etihad Etisalat	1,207,927	5.12	1,608,055	4.82
Saudi Basic Industries	1,121,390	4.75	1,679,897	5.03
Saudi Dairy & Foodstuff Company	1,004,257	4.26	-	-
Qatar National Bank	987,264	4.18	1,049,651	3.14
Jarir Marketing	933,260	3.96	-	-
National Industrialization	891,243	3.78	1,220,692	3.66
First Gulf Bank	855,283	3.63	-	-
Arab National Bank	844,330	3.58	-	-
National Bank of Kuwait	822,743	3.49	1,386,221	4.15
Riyad Bank	799,606	3.39	651,174	1.95
Bank Muscat SAOG	764,125	3.24	1,014,683	3.04
Qatar Navigation	752,416	3.19	-	-
Drake & Scull International	746,437	3.16	-	-
Al Rajhi Bank	734,064	3.11	1,027,032	3.08
Yanbu National Petrochemicals	733,150	3.11	-	-
Doha Bank	732,736	3.11	1,563,643	4.68
Commercial Bank of Qatar	724,962	3.07	1,360,701	4.07
Saudi Ceramic	706,304	2.99	692,354	2.07
Banque Saudi Fransi	628,260	2.66	-	-
Samba Financial Group	599,187	2.54	932,746	2.79
Almarai	566,033	2.40	-	-
Qatar Islamic Bank	553,677	2.35	1,091,763	3.27
Saudi Chemical	538,354	2.28	522,843	1.57
Aramex PJSC	519,672	2.20	-	-
Alinma Bank	514,201	2.18	1,272,922	3.81
Oman Telecommunications	512,464	2.17	-	-
Emaar Properties	499,877	2.12	-	-
Qatar Electricity & Water	490,188	2.08	1,071,208	3.21
Red Sea Housing	465,907	1.97	814,429	2.44
Mobile Telecommunications Co	404,726	1.72	959,832	2.87
Aluminium Bahrain	397,980	1.69	705,900	2.11
Taiba Holding	261,879	1.11	-	-
Kipco Asset Management Company	45,291	0.19	118,770	0.36
National Shipping Co of Saudi Arabia	-	-	912,589	2.73
Saudi Arabian Amiantit Co	-	-	1,893,283	5.67
Saudi Intl Petrochemical Co	-	-	940,819	2.82
Saudi Electricity Co	-	-	900,899	2.70
Saudi Telecom Company	-	-	693,893	2.08
Yanbu National Petrochemicals Co	-	-	981,135	2.94
Renaissance Services Co	-	-	1,129,610	3.38
Industries Qatar	-	-	1,034,191	3.10
Qatar Gas Transport Co Ltd	-	-	621,173	1.86
Masraf al Rayan	-	-	1,166,666	3.49
Air Arabia	-	-	1,063,689	3.19
Drake & Scull International	-	-	1,311,456	3.93
	23,591,678	100.00	33,393,919	100.00

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4 Financial assets at fair value through profit or loss (continued)

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

	2011	2010
Realised	(3,174,200)	(808,422)
Unrealised	149,968	3,894,038
	<u>(3,024,232)</u>	<u>3,085,616</u>

5 Cash and bank balances

	External credit rating	2011	2010
Current account with banks	AA	(402,292)	946,846
Call deposits with banks	AA	1,232,604	799,820
		<u>830,312</u>	<u>1,746,666</u>

External credit ratings are as per Fitch ratings or equivalent.

6 Accruals and other payables

	2011	2010
Management fees	99,933	123,509
Due to brokers	-	776,525
Accrued custody and administration fees	5,289	6,539
Other accruals	6,610	3,805
	<u>111,832</u>	<u>910,378</u>

7 Fund units and unit value

Nominal value

The initial offer price of the fund units was USD 100 each.

Net asset value

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:

	2011	2010
Number of units subscribed	<u>315,025</u>	<u>417,623</u>
Nominal value of units subscribed (BD)	<u>11,876,398</u>	<u>15,744,400</u>
Nominal value per unit subscribed (BD)	<u>37.700</u>	<u>37.700</u>
Nominal value per unit subscribed (USD)	<u>100.00</u>	<u>100.00</u>
Net asset value of the Fund (BD)	<u>24,338,592</u>	<u>34,230,212</u>
Net asset value per unit (BD)	<u>77.259</u>	<u>82.497</u>
Net asset value per unit (US Dollar)	<u>204.932</u>	<u>218.825</u>

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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

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).

- (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:

	31 December 2011		31 December 2010	
	Units	BD	Units	BD
SICO's holdings in the fund	9,716	750,667	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 2011, amounted to BHD 417,592 (2010: 478,796).

At 31 December 2011 the amount of management fees payable to SICO was BHD 99,933 (2010: BHD 123,509).

- (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 2011 (2010: BHD Nil).

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10 Financial instruments by category

31 December 2011	Assets at fair value			Total
	Loans and receivables	through profit or loss	Other financial liabilities at amortised cost	
Assets as per the statement of financial position				
Financial assets at fair value through profit or loss	-	23,591,678	-	23,591,678
Other receivables	28,434	-	-	28,434
Cash and cash equivalents	830,312	-	-	830,312
	<u>858,746</u>	<u>23,591,678</u>	<u>-</u>	<u>24,450,424</u>
Liabilities as per the statement of financial position				
Accruals and other payables	-	-	111,832	111,832
Net assets attributable to holders of redeemable units	-	-	24,338,592	24,338,592
	<u>-</u>	<u>-</u>	<u>24,450,424</u>	<u>24,450,424</u>

31 December 2010	Assets at fair value			Total
	Loans and receivables	through profit or loss	Other financial liabilities at amortised cost	
Assets as per the statement of financial position				
Financial assets at fair value through profit or loss	-	33,393,919	-	33,393,919
Other receivables	5	-	-	5
Cash and cash equivalents	1,746,666	-	-	1,746,666
	<u>1,746,671</u>	<u>33,393,919</u>	<u>-</u>	<u>35,140,590</u>
Liabilities as per the statement of financial position				
Accruals and other payables	-	-	910,378	910,378
Net assets attributable to holders of redeemable units	-	-	34,230,212	34,230,212
	<u>-</u>	<u>-</u>	<u>35,140,590</u>	<u>35,140,590</u>

11 Fund's financial performance

a) The following are the total net asset value of the Fund and net asset value per unit of the Fund for the past three financial years:

For the year ended	Total net asset value	Net asset per unit
2011	24,338,592	77.285
2010	34,230,212	82.497
2009	30,930,483	72.007

b) The following is the performance record of the Fund over the entire life of the Fund:

For the year ended	Highest NAV per holding	Lowest NAV per holding
2011	81.73	74.03
2010	81.96	70.35
2009	79.77	56.39
2008	107.29	61.46
2007	92.97	64.73
2006	76.97	60.38
2005	77.19	50.66
2004	47.89	37.70