

SICO GULF EQUITY FUND
(a sub-fund of SICO Funds Company III B.S.C. (e))

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

Financial statements for the year ended 31 December 2011

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SICO GULF EQUITY FUND
(a sub-fund of SICO Funds Company III 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

HSBC Bank Middle East Limited (Bahrain Branch)

Investment managers

Securities & Investment Company B.S.C (c)

Administrators

HSBC Bank Middle East Limited (Bahrain Branch)

Custodian

HSBC Bank Middle East Limited (Bahrain Branch)

Registrar

APEX Funds Service Company

Auditors

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

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

Directors' report for the year ended 31 December 2011

The Company's Directors have pleasure in submitting their report together with the audited financial statements of SICO GULF EQUITY FUND (a sub-fund of SICO Funds Company III B.S.C (c)) (the Company) for the year ended 31 December 2011.

Principal activity

In accordance with an instrument dated 26 September 2005, the Company created the SICO Gulf Equity Fund (SGEF 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 Kuwait, Bahrain, Oman, Qatar and the UAE.

Financial position

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

Directors

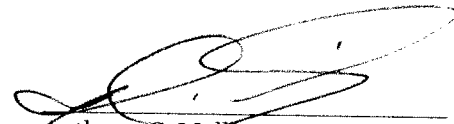
The following were Directors of the Company as at 31 December 2011 and to the date of this report:

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

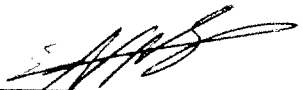
Auditors

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 III B.S.C (c)



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

26 April 2012

Independent auditor's report to the Unitholders of
SICO Gulf Equity Fund
(a sub-fund of SICO Funds Company III B.S.C. (c))

Report on the financial statements

We have audited the accompanying financial statements of SICO Gulf Equity Fund (the Fund) a sub-fund of SICO Funds Company III 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
SICO Gulf Equity Fund
(a sub-fund of SICO Funds Company III 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 accompanying 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

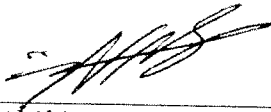
SICO GULF EQUITY FUND
Statement of financial position
(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	As at 31 December	
ASSETS		2011	2010
Current assets			
Financial assets at fair value through profit or loss	4	8,329,089	9,470,204
Prepayments and other receivables		15,623	13,849
Cash and bank balances	5	147,910	428,755
Total assets		<u>8,492,622</u>	<u>9,912,808</u>
LIABILITIES			
Current liabilities			
Accruals and other payables	6	47,954	296,001
Liabilities (excluding net assets attributable to holders of redeemable units)		<u>47,954</u>	<u>296,001</u>
Net assets attributable to holders of redeemable units	7	<u>8,444,668</u>	<u>9,616,807</u>
Total liabilities		<u>8,492,622</u>	<u>9,912,808</u>

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



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




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

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

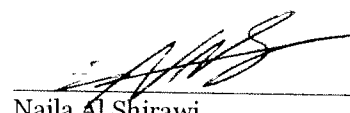
SICO GULF EQUITY FUND
Statement of comprehensive income
(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	For the year ended 31 December	
		2011	2010
Income			
Dividend income		365,808	437,153
Interest income		902	1,480
Other income		4,730	27,206
Net changes in fair value of financial assets at fair value through profit or loss	4	<u>(959,335)</u>	<u>695,606</u>
		<u>(587,895)</u>	<u>1,161,445</u>
Operating expenses			
Management fee	9	(175,558)	(180,433)
Custodian fee	8	(12,883)	(13,819)
Administration fee	8	(8,797)	(14,710)
Transaction costs		(3,450)	(6,658)
Registrar fee		(3,205)	(3,276)
Audit fees		(4,200)	(4,700)
Other fees and expenses		(7,365)	(4,806)
		<u>(215,458)</u>	<u>(228,402)</u>
Decrease / increase in net assets attributable to holders of redeemable units from operations being total comprehensive income		<u>(803,353)</u>	<u>933,043</u>

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



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



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

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

SICO GULF EQUITY FUND**Statement of changes in the net assets attributable to holders of redeemable units**

(Expressed in Bahrain Dinars, unless otherwise stated)

	Note	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
At 1 January 2010		9,985,678	380,483	(480,009)	9,886,152
Issue of units during the year		39,256	(1,567)	-	37,689
Redemption of units during the year		(1,297,478)	57,401	-	(1,240,077)
Net decrease from unit transactions		(1,258,222)	55,834	-	(1,202,388)
Increase in net assets attributable to holders of redeemable units from operations		-	-	933,043	933,043
At 31 December 2010	7	8,727,456	436,317	453,034	9,616,807
At 1 January 2011		8,727,456	436,317	453,034	9,616,807
Redemption of units during the year being net decrease from unit transactions		(338,024)	(30,762)	-	(368,786)
Decrease in net assets attributable to holders of redeemable units from operations		-	-	(803,353)	(803,353)
At 31 December 2011	7	8,389,432	405,555	(350,319)	8,444,668

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

SICO GULF EQUITY FUND**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		(803,353)	933,043
<u>Adjustments for non-cash items:</u>			
Changes in fair value of financial assets at fair value through profit or loss		106,310	(1,285,380)
<u>Net changes in:</u>			
Financial assets at fair value through profit or loss		1,034,805	(281,280)
Prepayment and other receivable		(1,774)	(9,302)
Accruals and other payables		(248,047)	234,763
Net cash provided by (used in) operating activities		<u>87,941</u>	<u>(408,156)</u>
Cash flows from financing activities			
Proceeds from issue of units		-	37,689
Redemption of units during the year		(368,786)	(1,240,077)
Net cash used in financing activities		<u>(368,786)</u>	<u>(1,202,388)</u>
Net decrease in cash and cash equivalents		(280,845)	(1,610,544)
Cash and cash equivalents at the beginning of the year		<u>428,755</u>	<u>2,039,299</u>
Cash and cash equivalents at the end of the year	5	<u>147,910</u>	<u>428,755</u>

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

SICO GULF EQUITY FUND

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 26 September 2005, the Company created the SICO Gulf Equity Fund (SGEF 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 Kuwait, Bahrain, Oman, Qatar and the UAE.

The Fund may also invest in equity related hybrid debt securities listed in GCC countries excluding the Kingdom of Saudi Arabia in addition to unlisted debt securities issued by governments or quasi governments in the GCC countries excluding the Kingdom of Saudi Arabia. The Fund has no employees. The fund's units are listed on 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. No material changes to accounting policies are expected as a result of these amendments.

SICO GULF EQUITY FUND

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

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.

SICO GULF EQUITY FUND

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

(Expressed in Bahrain Dinars, unless otherwise stated)

3 Summary of significant accounting policies (continued)

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

(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.

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.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. 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 within net changes in fair value of financial assets at fair value through profit or loss in the period in which they arise. Loans and receivables are carried at amortised cost using the effective interest method.

(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.

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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

SICO GULF EQUITY FUND

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses arising from translation of monetary items are included in the statement of comprehensive income

Foreign exchange gains and losses relating to the financial assets carried at fair value through profit or loss are presented in the statement of comprehensive income within 'net changes in fair value 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.

Redeemable units

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 units back to the Fund.

The units are issued and redeemed at the unitholders' 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.

3 Financial risk management

The Fund is a sub-fund of SICO Funds Company III 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.

SICO GULF EQUITY FUND

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

(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)

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 8,329,089 (2010: BHD 9,470,204).

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		Impact on net assets attributable to holders of redeemable units as at	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
Financial assets at fair value through profit or loss	± 10% change in equity prices	±832,909	± 947,020	±832,909	± 947,020

SICO GULF EQUITY FUND

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

(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)

3.1.2 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 Bahraini 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.

2011	Less than 1 month	1-12 months	Total
Liabilities			
Current liabilities			
Accruals and other payables	4,697	122,501	127,198
Liabilities (excluding net assets attributable to holders of redeemable units)	4,697	122,501	127,198
Net assets attributable to holders of redeemable units	8,444,668	-	8,444,668
	8,449,365	122,501	8,571,866

SICO GULF EQUITY FUND

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)

2010	Less than 1 month	1-12 months	Total
Liabilities			
Current liabilities			
Accruals and other payables	-	296,001	296,001
Liabilities (excluding net assets attributable to holders of redeemable units)	-	296,001	296,001
Net assets attributable to holders of redeemable units	9,616,807	-	9,616,807
	9,616,807	296,001	9,912,808

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 year.

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 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.

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 input used in making the measurement. 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).

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

(Expressed in Bahrain Dinars, unless otherwise stated)

3 Financial risk management (continued)

3.5 Fair value hierarchy (continued)

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>				
- Qatar	2,931,139	35.19	4,086,718	43.15
- United Arab Emirates	2,190,356	26.30	1,379,769	14.57
- Kuwait	1,615,046	19.39	2,256,664	23.83
- Oman	840,948	10.10	1,471,028	15.53
- Bahrain	751,600	9.02	276,025	2.92
Total financial assets designated at fair value through profit or loss	<u>8,329,089</u>	<u>100.00</u>	<u>9,470,204</u>	<u>100.00</u>

Financial assets at fair value through profit or loss represent 98.08% (2010: 95.53%) of the Fund's total assets.

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

(Expressed in Bahrain Dinars, unless otherwise stated)

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

	2011		2010	
	BHD	%	BHD	%
Qatar Industries	515,799	6.19	525,660	5.55
Bank Muscat SAOG	473,090	5.68	381,514	4.03
Qatar National Bank	467,509	5.61	411,077	4.34
National Bank of Kuwait	428,507	5.14	514,246	5.43
Commercial Bank of Qatar	426,510	5.12	477,890	5.05
Doha Bank	421,496	5.06	492,179	5.20
Qatar Navigation	392,048	4.71	338,075	3.57
Oman Telecommunications	367,857	4.42	291,815	3.08
First Gulf Bank	359,972	4.32	-	-
Drake & Scull International	354,811	4.26	487,565	5.15
Qatar Islamic Bank	346,604	4.16	437,538	4.62
National mobile Telecom	335,134	4.02	299,947	3.17
Mobile Telecommunications Co	307,900	3.70	571,815	6.04
Sico Money Market Fund	305,836	3.67	-	-
DP World	286,752	3.44	-	-
Aramex PJSC	281,038	3.37	72,883	0.77
Abu Dhabi Islamic Bank	269,716	3.24	-	-
Qatar Electricity & Water	260,255	3.12	613,710	6.48
Mabane Co	257,512	3.09	-	-
Ahli United Bank	244,475	2.94	-	-
Emaar Properties	244,000	2.93	-	-
Depa Ltd	228,486	2.74	322,752	3.41
Aluminium Bahrain	201,289	2.42	276,025	2.91
Agthia Group	165,581	1.99	139,336	1.47
Kuwait Projects Co	164,052	1.97	-	-
Kuwait Finance House	121,942	1.46	305,469	3.23
Masraf Al Rayan	100,918	1.21	459,298	4.85
Al Tamdeen Investment Co KSCC	-	-	258,499	2.73
Kuwait Investment Projects Co Holdings	-	-	306,687	3.24
National Bank of Oman Ltd	-	-	67,730	0.72
Omani Qatari Telecommunications Co SAOC	-	-	311,392	3.29
Renaissance Services Co SAOC	-	-	418,577	4.42
Air Arabia	-	-	357,233	3.77
Qatar Gas Transport Co Ltd	-	-	331,292	3.50
	8,329,089	100.00	9,470,204	100.00

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

	2011	2010
Realised	(853,025)	(589,774)
Unrealised	(106,310)	1,285,380
	(959,335)	695,606

5 Cash and bank balances

	External credit rating	2011	2010
Current accounts with banks	AA	115,716	294,973
Call deposits with banks	AA	32,195	133,782
		147,910	428,755

The external credit ratings are based on Fitch ratings or its equivalents.

SICO GULF EQUITY FUND**Notes to the financial statements for the year ended 31 December 2011**

(Expressed in Bahrain Dinars, unless otherwise stated)

6 Accruals and other payables

	2011	2010
Management fees	42,644	45,651
Due to brokers	-	201,752
Accrued custody and administration fees	1,752	2,329
Other accruals	3,558	46,269
	<u>47,954</u>	<u>296,001</u>

7 Net assets attributable to holders of redeemable unitsNominal value

The initial offer price of the fund unit 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	222,531	231,497
Nominal value of units subscribed (BD)	8,389,432	8,727,456
Nominal value per unit subscribed (BD)	37.700	37.700
Nominal value per unit subscribed (USD)	100	100.00
Net asset value of the Fund (BD)	8,444,668	9,616,807
Net asset value per unit (BD)	37.948	41.541
Net asset value per unit (US Dollar)	<u>100.658</u>	<u>110.190</u>

8 Custody and administration fees**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

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

SICO GULF EQUITY FUND

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

(Expressed in Bahrain Dinars, unless otherwise stated)

9 Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Fund is a sub-fund of SICO Funds Company III 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 III B.S.C. (c).

(a) Management fees

For the purpose of calculating management fees, the Fund distinguishes between: (i) Class A units, which represent the units issued to unitholders engaged directly by SICO, and (ii) Class B units, which represent the units issued to unitholders engaged through distribution channels.

Management fees with respect to Class A units, calculated at 1.5% per annum of the daily net asset value of the Fund, prior to the deduction of management fees is payable to SICO. The management fees for Class A units for the year ended 31 December 2011, amounted to BHD 9,534 (2010: BHD 21,870).

At 31 December 2011 the amount of management fee related to Class A units payable to SICO was BHD 1,953 (2011: BHD 3,531).

Management fees with respect to Class B units, calculated at 2% per annum of the daily net asset value of the Fund, prior to the deduction of management fees is payable to SICO. The management fees for Class B units for the year ended 31 December 2011, amounted to BHD 166,024 (2010: BHD 158,563).

At 31 December 2011 the amount of management fee related to Class B units payable to SICO was BHD 40,691 (2010: BHD 42,120).

(b) Performance fees, calculated at 10% profit sharing in incremental increases over 10% appreciation in net asset value per unit of the Fund accrued monthly on the basis of annualised returns net of performance fees as, are payable to SICO. No performance fee was paid to SICO for the year ended 31 December 2011 (2010: BHD NIL).

10 Financial instruments by category

	Loans and receivables	Assets at fair value through profit or loss	Other financial liabilities at amortised cost	Total
31 December 2011				
Assets as per the statement of financial position				
Financial assets at fair value through profit or loss	-	8,329,089	-	8,329,089
Prepayments and other receivables	15,623	-	-	15,623
Cash and cash equivalents	147,910	-	-	147,910
	<u>163,533</u>	<u>8,329,089</u>	<u>-</u>	<u>8,492,622</u>
Liabilities as per the statement of financial position				
Accruals and other payables	-	-	47,954	47,954
Net assets attributable to holders of redeemable units	-	-	8,444,668	8,444,668
	<u>-</u>	<u>-</u>	<u>8,492,622</u>	<u>8,492,622</u>

SICO GULF EQUITY FUND

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

(Expressed in Bahrain Dinars, unless otherwise stated)

10 Financial instruments by category (continued)

31 December 2010	Loans and receivables	Assets at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Assets as per the statement of financial position				
Financial assets at fair value through profit or loss	-	9,470,204	-	9,470,204
Other receivables	13,849	-	-	13,849
Cash and cash equivalents	428,755	-	-	428,755
	<u>442,604</u>	<u>9,470,204</u>	<u>-</u>	<u>9,912,808</u>
Liabilities as per the statement of financial position				
Accruals and other payables	-	-	-	-
Net assets attributable to holders of redeemable units	-	-	296,001	296,001
	<u>-</u>	<u>-</u>	<u>9,616,807</u>	<u>9,616,807</u>
	<u>-</u>	<u>-</u>	<u>9,912,808</u>	<u>9,912,808</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	8,444,668	37.835
2010	9,616,807	41.541
2009	9,886,152	37.545

- 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	42.43	37.74
2010	41.90	35.09
2009	43.73	29.87
2008	57.28	33.24
2007	48.01	35.21
2006	37.70	32.67