

**Al Rajhi GCC Equity Fund  
(Managed by Al Rajhi Capital)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

## AUDITORS' REPORT TO THE UNITHOLDERS OF AL RAJHI GCC EQUITY FUND

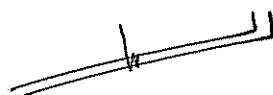
### Scope of audit

We have audited the accompanying balance sheet of Al Rajhi GCC Equity Fund (the Fund) as at 31 December 2009 and the related statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's Management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

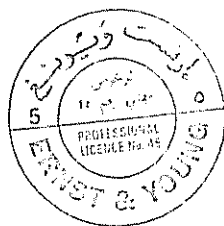
### Unqualified opinion

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the financial position of the Fund as at 31 December 2009 and the results of its operations, cash flows and changes in its net assets for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young



Fahad M. Al-Toaimi  
Certified Public Accountant  
Registration No. 354



Riyadh 12 Rabi' II 1431H  
(28 March 2010)

# Al Rajhi GCC Equity Fund

## BALANCE SHEET

As at 31 December 2009

	<i>Note</i>	<b>2009 SR</b>	<b>2008 SR</b>
<b>ASSETS</b>			
Bank balances		<b>41,309,945</b>	57,799,528
Trading investments	4	<b>369,936,923</b>	328,970,763
Dividend receivable		<b>12,258,380</b>	8,362,552
		<b><u>423,505,248</u></b>	<u>395,132,843</u>
<b>LIABILITIES</b>			
Management fee payable		<b>657,310</b>	1,084,199
Accrued expenses		<b>17,000</b>	20,000
		<b><u>674,310</u></b>	<u>1,104,199</u>
<b>UNIT HOLDERS' FUND</b>			
Net assets		<b><u>422,830,938</u></b>	<u>394,028,644</u>
Units in issue		<b><u>5,812,506</u></b>	<u>6,062,560</u>
Per unit value		<b><u>SR 72.75</u></b>	<u>SR 64.99</u>

The accompanying notes 1 to 11 form part of these financial statements.

Al Rajhi GCC Equity Fund  
STATEMENT OF OPERATIONS  
Year ended 31 December 2009

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	<i>Note</i>	2009 SR	2008 SR
<b>INVESTMENT INCOME (LOSS)</b>			
Trading income (loss), net	5	<u>53,907,567</u>	<u>(277,725,340)</u>
<b>EXPENSES</b>			
Management fees	6	(7,719,512)	(12,261,931)
Purification charges	7	(562,467)	(2,517,775)
Others		(48,780)	(33,370)
		<u>(8,330,759)</u>	<u>(14,813,076)</u>
<b>NET INCOME (LOSS) FROM OPERATIONS</b>		<u><u>45,576,808</u></u>	<u><u>(292,538,416)</u></u>

The accompanying notes 1 to 11 form part of these financial statements.

Al Rajhi GCC Equity Fund  
**STATEMENT OF CASH FLOWS**  
Year ended 31 December 2009

	2009 SR	2008 SR
<b>OPERATING ACTIVITIES</b>		
Net income (loss) from operations	45,576,808	(292,538,416)
Adjustment for:		
Movement in unrealised (gain) loss on trading investments	(146,282,042)	322,064,944
Movement in unrealised foreign exchange gain	(186,130)	(411,902)
Changes in operating assets and liabilities:		
Trading investments	105,502,012	111,201,713
Dividend receivable	(3,895,828)	(5,527,214)
Management fee payable	(426,889)	18,244
Accrued expenses	(3,000)	(67,200)
Net cash from operating activities	<u>284,931</u>	<u>134,740,169</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from units sold	9,293,091	32,348,192
Value of units redeemed	(26,067,605)	(191,263,179)
Net cash used in financing activities	<u>(16,774,514)</u>	<u>(158,914,987)</u>
<b>DECREASE IN BANK BALANCE</b>	<b>(16,489,583)</b>	<b>(24,174,818)</b>
Bank balance at the beginning of the year	<u>57,799,528</u>	<u>81,974,346</u>
<b>BANK BALANCE AT THE END OF THE YEAR</b>	<b><u>41,309,945</u></b>	<b><u>57,799,528</u></b>
<b><u>Operational cash flows from dividends</u></b>		
Dividends received	<u>7,414,134</u>	<u>16,438,930</u>

The accompanying notes 1 to 11 form part of these financial statements.

Al Rajhi GCC Equity Fund

STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2009

	2009 SR	2008 SR
<b>NET ASSET VALUE AT THE BEGINNING OF THE YEAR</b>	<u>394,028,644</u>	<u>845,482,047</u>
<b>CHANGES FROM OPERATIONS</b>		
Net income (loss) from operations	<u>45,576,808</u>	<u>(292,538,416)</u>
<b>CHANGES FROM UNIT TRANSACTIONS</b>		
Proceeds from units sold	9,293,091	32,348,192
Value of units redeemed	<u>(26,067,605)</u>	<u>(191,263,179)</u>
Net change from unit transactions	<u>(16,774,514)</u>	<u>(158,914,987)</u>
<b>NET ASSET VALUE AT THE END OF THE YEAR</b>	<u><u>422,830,938</u></u>	<u><u>394,028,644</u></u>

**UNIT TRANSACTIONS**

Transactions in units for the year ended 31 December are summarised as follows:

	2009 Units	2008 Units
<b>UNITS AT THE BEGINNING OF THE YEAR</b>	<u>6,062,560</u>	<u>7,481,863</u>
Units sold	136,106	291,092
Units redeemed	<u>(386,160)</u>	<u>(1,710,395)</u>
Net decrease in units	<u>(250,054)</u>	<u>(1,419,303)</u>
<b>UNITS AT THE END OF THE YEAR</b>	<u><u>5,812,506</u></u>	<u><u>6,062,560</u></u>

The accompanying notes 1 to 11 form part of these financial statements.

**1 GENERAL**

Al Rajhi GCC Equity Fund (the "Fund") (previously known as the Middle East Equity Fund) is an open-ended investment fund created by an agreement between Al Rajhi Capital, (the Fund Manager), a wholly owned subsidiary of the Al Rajhi Banking and Investment Corporation (the Bank), and investors (the Unitholders) in the Fund. The Fund Manager was previously known as Al Rajhi Financial Services Company. As of 23 March 2009, the name was changed to Al Rajhi Capital pursuant to an approval from relevant authority.

The Fund is designed for investors seeking capital appreciation over long term. The assets of the Fund are invested in publicly traded stocks in GCC markets in accordance with Sharia principles. All the trading profits are reinvested in the Fund. The Fund was established on 21 Shawal 1418H (corresponding to February 18, 1998). Effective October 2, 2005, SAMA approved the change of the Fund's name from Middle East Equity to Al Rajhi GCC Equity Fund and its functional currency from the United States dollar to Saudi riyal. Also, the Fund adjusted the unit price at that date to SR 100 per unit.

The Fund Manager has entered into an asset management agreement with Vision Investment Services Co. (the Portfolio Manager) to manage the investments of the Fund in Oman. Fees paid to the Portfolio Manager are borne by the Fund Manager.

The books and records of the Fund are maintained in Saudi Riyals (SR).

**2 REGULATING AUTHORITY**

The Fund is governed by the Investment Fund Regulations (the regulations) published by CMA on 22 Dhul Hijja 1427H (corresponding to 12 January 2007) detailing requirements for all funds within the Kingdom of Saudi Arabia.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

***Accounting convention***

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments.

***Revenue recognition***

Dividend income is recognised when declared (i.e. when the Fund's right to receive the dividend is established).

Trading income includes all unrealized gains and losses from changes in fair value and related dividends from trading investments. Realised gains and losses on trading investments sold are determined on a weighted average cost basis.

***Investment valuation***

Equity Investments which are purchased for trading purposes are valued at their market price as at the balance sheet date. Investment in mutual funds are valued on the basis of net assets value published by the fund manager. Unrealised gains and losses on the revaluation of trading investments and realised gains and losses on the disposal of trading investments are recognised in the statement of operations.

***Investment transactions***

Investment transactions are accounted for as of the trade date.

***Zakat and income tax***

Zakat and income tax are the obligations of the Unitholders and are not provided for in the accompanying financial statements.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)*****Foreign currencies***

Transactions in foreign currencies are recorded in Saudi Riyal at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Resulting exchange gains and losses are taken to the statement of operations.

**4 TRADING INVESTMENTS**

The composition of the trading investments portfolio is summarised below:

		<u>2009</u>	
	<i>% of Market value</i>	<i>Market value SR</i>	<i>Cost SR</i>
<b><i>Equity investments by Country:</i></b>			
Kingdom of Saudi Arabia	68.20	252,307,368	284,687,209
Qatar	14.73	54,493,190	80,716,210
Oman	8.98	33,208,033	28,178,420
Kuwait	3.78	13,986,131	45,382,846
United Arab Emirates	2.79	10,326,746	22,761,024
	<u>98.48</u>	<u>364,321,468</u>	<u>461,725,709</u>
<b><i>Mutual Fund</i></b>			
Al Rajhi Commodities Mudaraba Fund – Saudi Riyal	1.52	5,615,455	5,605,589
<b>Total trading investments</b>	<u>100.00</u>	<u>369,936,923</u>	<u>467,331,298</u>

		<u>2008</u>	
	<i>% of Market value</i>	<i>Market value SR</i>	<i>Cost SR</i>
<b><i>Equity investments by Country:</i></b>			
Kingdom of Saudi Arabia	56.46	185,723,827	342,134,155
Qatar	21.15	69,578,264	109,512,977
Oman	8.46	27,833,161	31,346,982
Kuwait	5.43	17,878,344	46,453,592
United Arab Emirates	1.80	5,927,559	21,460,649
	<u>93.30</u>	<u>306,941,155</u>	<u>550,908,355</u>
<b><i>Mutual Fund</i></b>			
Al Rajhi Commodities Mudaraba Fund – Saudi Riyal	6.70	22,029,608	21,924,955
<b>Total trading investments</b>	<u>100.00</u>	<u>328,970,763</u>	<u>572,833,310</u>

Investment in equity instruments and mutual funds are unrated. The Fund also does not have an internal grading mechanism. However, the Fund Manager seeks to limit its risk by monitoring investments for the country and sector exposures and setting limits for country, sector and investments.

**5 TRADING INCOME (LOSS), NET**

	<u>2009</u>	<u>2008</u>
	<i>SR</i>	<i>SR</i>
Realised (loss) gain	(101,616,518)	20,535,587
Dividend income	11,309,962	21,966,144
Realised exchange (loss) gain	(2,254,049)	1,425,971
Unrealised exchange gain	186,130	411,902
Movement in unrealised gain (loss)	146,282,042	(322,064,944)
	<u>53,907,567</u>	<u>(277,725,340)</u>

**6 TRANSACTIONS WITH RELATED PARTIES**

A subscription fee of 1% are paid directly by the subscribers to the Fund Manager. In addition, the Fund Manager has the right to collectively charge the Fund at any time with any charges relating to the Fund.

The Fund pays the Fund Manager a management fee calculated at an annual rate of 1.75% per annum on the total assets at each valuation date. The management fees reflected in the statement of operations represent the fees charged by the Fund Manager during the year.

Trade transactions on tadawul are executed through the Fund Manger. The Fund Manager also acts as the custodian of the Fund's investments.

The Fund Manager has entered into an asset management agreement with Vision Investment Services Co. (the Portfolio Manager) to manage the investments of the Fund in Oman. Fees paid to the Portfolio Manager in this respect are borne by the Fund Manager.

The Bank acts as the Fund's banker.

The employees of the Fund Manager hold 1,796.40 Units as of 31 December 2009 (2008: Nil) in the Fund.

**7 PURIFICATION CHARGES**

These represents charges incurred in respect of purification of the income generated from the investee companies in order to achieve a Sharia compliant return. These charges are calculated based on the Fund's Sharia Board approved formula and paid to charities recommended by the Fund's Sharia Board through the Fund Manager.

**8 RISK MANAGEMENT*****Special commission rate risk***

Special commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of financial instruments.

As of the balance sheet date, the Fund is not exposed to commission rate risk as its assets and liabilities are non-commission bearing.

***Credit risk***

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

The Fund is exposed to credit risk for its bank balances and dividends receivable. The Fund Manager seeks to limit its credit risk by monitoring credit exposures.

The table below shows the maximum exposure to credit risk for the components of the balance sheet.

	2009 SR	2008 SR
Bank balances due from the Bank	41,309,945	57,799,528
Dividend receivable	12,258,380	8,362,552
<b>Total exposure to credit risk</b>	<b>53,568,325</b>	<b>66,162,080</b>

**8 RISK MANAGEMENT (continued)****Equity price risk**

Equity price risk is the risk that the fair value of equities changes as the result of changes in the levels of equity indices and the value of individual stocks.

The Fund's trading investments are subject to equity price risk. According to the Fund's management, the effect on the statement of operations as a result of a change in fair value of equity instruments due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

	<i>Change in equity price 2009 %</i>	<i>Effect on statement of operations 2009 SR</i>	<i>Change in equity price 2008 %</i>	<i>Effect on statement of operations 2008 SR</i>
S & P GCC Shariah Index	10%	13,158,831	10%	28,719,148

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Fund's terms and conditions provide for subscriptions and redemptions of units once in a week and is therefore exposed to the liquidity risk of meeting unit holder redemptions. The Fund's securities are considered to be readily realisable as they are listed on the recognised GCC stock exchanges. The Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet commitments as they arise.

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund views the Saudi Riyal as its functional currency.

The Fund's financial assets and liabilities are also denominated in currencies other than its functional currency. Accordingly, the value of the Fund's assets may be affected favorably or unfavorably by fluctuations in currency rates and therefore, the Fund will necessarily be subject to currency risk.

The table below indicates the Fund's foreign currency exposure at 31 December 2009 and 2008, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Saudi Riyal currency rate against the Arab Emirates Dirham (AED), Kuwaiti Dinar (KWD), Omani Riyal (OMR) and Qatari Riyal (QTR), with all other variables held constant, on the statement of operations due to the fair value of currency sensitive monetary assets and liabilities.

	<i>Increase/decrease in currency rate (%)</i>	<i>Effect on statement of operations SR</i>
<b>2009</b>		
AED	10%	1,032,675
OMR	10%	3,320,803
KWD	10%	1,398,613
QTR	10%	5,449,319
<b>2008</b>		
AED	10%	592,756
OMR	10%	2,783,316
KWD	10%	1,787,834
QTR	10%	6,957,826

**9 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of bank balances, trading investments and dividend receivable.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

Trading investments are carried at fair value. The fair values of other financial instruments are not expected to be materially different from their carrying values.

**10 LAST VALUATION DAY**

The last valuation day of the year was 31 December 2009 (2008: 31 December 2008).

**11 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Fund's Board of Directors on 12 Rabi' II 1431H (Corresponding to 28 March 2010).