

# **INDIA AND CHINA EQUITY FUND**

**Financial Statements for the Year  
Ended December 31, 2009 and  
Report of Independent Auditors**

## **REPORT OF INDEPENDENT AUDITORS**

March 28, 2010

To the Unit Holders of the India and China Equity Fund:

We have audited the accompanying statement of assets and liabilities of India and China Equity Fund (the "Fund") as of December 31, 2009, and the related statements of operations, changes in net assets and cash flows for the year then ended along with the notes which form an integral part of the financial statements. These financial statements, which were prepared by the Fund's management and presented to us with all information and explanations which we required, are the responsibility of the Fund's management. 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 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 our audit provides a reasonable basis for our opinion.

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

**PricewaterhouseCoopers Al Juraid**

By: \_\_\_\_\_  
Rashid S. Al Rashoud  
License Number 366

**INDIA AND CHINA EQUITY FUND****STATEMENTS OF ASSETS AND LIABILITIES  
AS OF DECEMBER 31**

	<u>NOTES</u>	<u>2009</u>	<u>2008</u>
<b><u>ASSETS</u></b>			
Cash at bank		US\$ 8,816	US\$ 6,180
Cash with Portfolio Managers		1,798,450	4,186,826
Investments in equity securities with Portfolio Managers	5	20,294,174	6,333,712
Dividends income receivable		<u>2,015</u>	<u>3,820</u>
Total assets		<u>22,103,455</u>	<u>10,530,538</u>
<b><u>LIABILITIES</u></b>			
Accrued management fees		80,259	53,172
Accrued professional fees	4	4,000	4,000
Payable on investment purchase		79,014	-
Brokerage fees payable		35,164	-
Other liabilities		<u>5,904</u>	<u>-</u>
Total liabilities		<u>204,341</u>	<u>57,172</u>
Net assets value		<u>US\$ 21,899,114</u>	<u>US\$ 10,473,366</u>
Units in issue		<u>2,178,356</u>	<u>1,618,703</u>
Per unit value		<u>US\$ 10.053</u>	<u>US\$ 6.470</u>

Authorized signatories:

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William Van Buren  
Chief Operating Officer

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Gaurav Shah  
Head of Asset Management

The notes on pages 6 to 12 form an integral part of these financial statements.

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**INDIA AND CHINA EQUITY FUND****STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31**

	<u>NOTES</u>	<u>2009</u>	<u>2008</u>
<b>INVESTMENT REVENUE -</b>			
Dividends income - Net	6	<u>US\$ 253,239</u>	<u>US\$ 169,218</u>
<b>EXPENSES:</b>			
Management fees	4	(385,208)	(311,357)
Professional fees	4	(6,667)	(6,000)
Performance incentive reversal	4	-	630,874
Other expenses		<u>(23,365)</u>	<u>(1,440)</u>
Net (expenses) reversal		<u>(415,240)</u>	<u>312,077</u>
<b>REALIZED AND MOVEMENT IN UNREALIZED GAINS (LOSSES) ON INVESTMENTS:</b>			
Realized gains (losses)		401,842	(3,318,280)
Movement in unrealized gains (losses)		<u>8,254,835</u>	<u>(10,553,427)</u>
Net realized and movement in unrealized gains (losses)		<u>8,656,677</u>	<u>(13,871,707)</u>
<b>NET INCOME (LOSS) FROM OPERATIONS</b>		<u><u>US\$ 8,494,676</u></u>	<u><u>US\$(13,390,412)</u></u>

Authorized signatories:

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William Van Buren  
Chief Operating Officer

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Gaurav Shah  
Head of Asset Management

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**INDIA AND CHINA EQUITY FUND****STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31**

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	<u>2009</u>	<u>2008</u>
<b>NET ASSETS AT BEGINNING OF THE YEAR</b>	US\$ 10,473,366	US\$ 32,697,081
Add: Proceeds from units sold during the year	5,663,999	6,210,976
Less: Payments on units redeemed during the year	(2,732,927)	(15,044,279)
Net income (loss) from operations	<u>8,494,676</u>	<u>(13,390,412)</u>
<b>NET ASSETS AT END OF THE YEAR</b>	<u>US\$ 21,899,114</u>	<u>US\$ 10,473,366</u>
<b>NET ASSETS PER UNIT AT END OF THE YEAR</b>	<u>US\$ 10.053</u>	<u>US\$ 6.470</u>

**UNIT TRANSACTIONS**

Transactions in units for the years ended December 31 are summarized as follows:

	<u>2009</u>	<u>2008</u>
<b>UNITS AT BEGINNING OF THE YEAR</b>	<u>1,618,703</u>	<u>1,980,597</u>
Add: Units sold	878,487	730,175
Less: Units redeemed	<u>(318,834)</u>	<u>(1,092,069)</u>
Net increase (decrease) in units	<u>559,653</u>	<u>(361,894)</u>
<b>UNITS AT END OF THE YEAR</b>	<u><u>2,178,356</u></u>	<u><u>1,618,703</u></u>

The notes on pages 6 to 12 form an integral part of these financial statements.

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**INDIA AND CHINA EQUITY FUND****STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31**

	<u>2009</u>	<u>2008</u>
<b>OPERATING ACTIVITIES:</b>		
Net income (loss) from operations	US\$ 8,494,676	US\$(13,390,412)
Adjustment for movement in unrealized (gains) losses on investments	(8,254,835)	10,553,427
Changes in operating assets and liabilities:		
Investments	(5,705,627)	12,926,578
Dividend income receivable	1,805	62,505
Accrued management fees	27,087	(48,622)
Performance incentive accrual	-	(878,499)
Payable on investment purchase	79,014	-
Brokerage fees payable	35,164	-
Other liabilities	<u>5,904</u>	<u>-</u>
Net cash (used in) provided by operating activities	<u>(5,316,812)</u>	<u>9,224,977</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from units sold	5,663,999	6,210,976
Payments on units redeemed	<u>(2,732,927)</u>	<u>(15,044,279)</u>
Net cash provided by (used in) financing activities	<u>2,931,072</u>	<u>(8,833,303)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,385,740)</b>	<b>391,674</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b><u>4,193,006</u></b>	<b><u>3,801,332</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b><u>US\$ 1,807,266</u></b>	<b><u>US\$ 4,193,006</u></b>

The notes on pages 6 to 12 form an integral part of these financial statements.

## **INDIA AND CHINA EQUITY FUND**

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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#### **1. GENERAL**

India and China Equity Fund (the "Fund") is an open-ended investment fund established under an agreement between Al Rajhi Banking and Investment Corporation ("Al Rajhi Bank") and investors in the Fund ("Unit Holders"). The Fund is governed by the terms and conditions of its prospectus and is designed for investors seeking to invest in India and China listed equity securities in accordance with Islamic principles ("Sharia"). The Fund's net income is to be reinvested in the Fund which affects the value and price per unit.

The Fund was established on 2 Rabi Al Awal 1427H (corresponding to April 1, 2006).

On March 18, 2008 and in accordance with the Capital Market Authority's ("CMA") decision number 1-83-2005 dated 21 Jumada Awal 1426H corresponding to June 28, 2005 issued by the CMA Board in connection with the regulations for "Authorized Persons", Al Rajhi Bank transferred its asset management operations to Al Rajhi Capital Company (Formerly, Al Rajhi Financial Services Company) (the "Fund Manager"), majority owned by Al Rajhi Bank.

The Fund is managed by the Fund Manager. The Fund Manager entered into an Asset Management Agreement with a financial management advisor ("Portfolio Manager") to manage the investments of the Fund. Fees paid to the Portfolio Manager are borne by the Fund Manager. The securities purchased under this agreement are held by a custodian in accordance with an agreement between the Fund Manager and the custodian.

The address of the Fund Manager is as follows:

Al Rajhi Capital Company  
P.O. Box 5561  
Riyadh 11432  
Saudi Arabia

In dealing with the Unit Holders, the Fund Manager considers the Fund as an independent unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. The Fund's books and records are also administered by the Fund Manager. Furthermore, the Unit Holders are considered owners of the assets of the Fund and any income distribution is made in relation to their respective ownership share to the total number of units.

The Fund Manager is responsible for the overall management of the Fund's activities. The Fund Manager can also enter into arrangements with other institutions for the provision of investment, custody or other administrative services on behalf of the Fund.

## **2. REGULATING AUTHORITY**

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **a) Basis of preparation**

The accompanying financial statements have been prepared under the historical cost convention, except for the measurement of investments at fair value, on the accrual basis of accounting and in conformity with generally accepted accounting principles in Saudi Arabia as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

### **b) Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### **c) Revenue recognition**

The Fund's income is recognized on accrual basis except dividends income which is recognized when the Fund's right to receive payment is established.

### **d) Investments**

Investments are revalued at mid-market value at the date of statement of assets and liabilities. Realized gains and losses on investments sold are determined on the weighted-average cost basis.

Investments in other funds are revalued based on the prices of the units as provided by these funds at the date of statement of assets and liabilities. Unrealized gains or losses are credited or charged to income.

### **e) Trade date accounting**

All purchases and sales of investments are recognized on the trade date, which is the date the Fund commits to purchase or sell the asset.

**f) Foreign currency translation**

The Fund's books of account are maintained in United States dollar. Transactions denominated in foreign currencies, if any, are translated into United States dollar at rates of exchange prevailing on the dates of such transactions. Assets and liabilities denominated in foreign currencies are translated into United States dollar at rates prevailing on the date of statement of assets and liabilities.

**g) Liabilities**

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the provider or not.

**h) Provisions**

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

**i) Zakat and income tax**

Under the provisions of the Saudi income tax law, the income and gains of mutual funds are to be subjected to tax / zakat at the applicable rates. This law has not been implemented yet pending clarifications from the department of Zakat and Income Tax and from the CMA.

**j) Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprise cash in bank and with the Portfolio Managers and other highly liquid investments with maturities of less than 90 days at acquisition.

**4. TRANSACTIONS WITH RELATED PARTIES**

The Fund pays the Manager a management fee of 2% per annum payable at the end of each month, calculated on the net assets of the Fund under management. This fee is intended to compensate the Manager for administration of the Fund. Additionally, the Fund Manager charges a subscription fee up to 2% of all new subscriptions.

In addition, the Fund Manager charges the Fund with any accounting charges such as, audit fees, board of directors remuneration or any legal charges paid on behalf of the Fund.

The Fund also maintains its operating cash account with the Al Rajhi Bank.

Investments in the Fund by other Al Rajhi Investment funds, which are managed by the Fund Manager at December 31, were as follows:

<u>2009</u>	<u>Number of units</u>	<u>Market value</u>
Al Rajhi Balanced Fund 1	742,318	US\$ 7,386,060
Al Rajhi Balanced Fund 2	309,647	3,080,991
Al Jawhara Ladies Fund - United States Dollar	82,577	821,641
Children Fund - United States Dollar	<u>38,231</u>	<u>380,403</u>
	<u>1,172,773</u>	<u>US\$ 11,669,095</u>

#### 2008

Al Rajhi Balanced Fund 1	214,794	US\$ 1,351,055
Al Rajhi Balanced Fund 2	213,281	1,341,538
Al Jawhara Ladies Fund - United States Dollar	21,800	137,121
Children Fund - United States Dollar	<u>13,490</u>	<u>84,854</u>
	<u>463,365</u>	<u>US\$ 2,914,568</u>

## 5. INVESTMENTS

The composition of the investments as of December 31, is summarized below:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
<b>Investment in equity securities with the Portfolio Managers:</b>				
China	US\$ 10,145,716	US\$ 12,857,069	US\$ 7,024,589	US\$ 4,465,704
India	<u>5,427,457</u>	<u>7,437,105</u>	<u>2,842,957</u>	<u>1,868,008</u>
Total investments	<u>US\$ 15,573,173</u>	<u>US\$ 20,294,174</u>	<u>US\$ 9,867,546</u>	<u>US\$ 6,333,712</u>

The composition of investments in equity securities on December 31 by country / company is summarized below:

<b>Company</b>	<b>2009</b>		<b>2008</b>	
	<b>%</b>	<b>Market value US\$</b>	<b>%</b>	<b>Market value US\$</b>
<b>CHINA</b>				
Cnooc Ltd.	10.09	1,297,379	12.55	560,463
China Mobile Ltd.	8.76	1,126,844	13.04	582,190
China Unicom Ltd.	8.66	1,113,077	8.06	359,966
China overseas Land & Invest.	8.41	1,081,502	2.80	125,175
Tingyi (Cayman Island) Co.	6.74	866,208	3.11	139,032
Belle International Holdings	5.27	677,344	3.24	144,760
Want Want China Holding	4.92	632,497	-	-
Hengan Intl. Group Co. Ltd.	4.04	519,725	-	-
China Merchants Hids Intl.	3.20	411,609	3.31	147,785
Zijin Mining Group Co. Ltd.	2.98	382,575	4.64	207,387
MTR Corporation	2.45	314,361	-	-

Company	2009		2008	
	%	Market value US\$	%	Market value US\$
<b>CHINA (Continued)</b>				
China Dongxiang Group Co.	2.41	309,360	-	-
Country Garden Co.	2.38	305,467	1.81	80,896
Lenovo Group Ltd.	2.29	294,433	1.65	73,503
Anta Sports Products Ltd.	2.29	294,016	1.41	62,851
Yanzhou Coal Mining Co.	2.24	287,550	0.82	36,706
Fushan International Energy Group	2.19	281,853	-	-
Hidili Industry Intl Development	2.15	277,058	-	-
Jiangling Motors	2.06	265,328	-	-
Li Ning Co. Ltd.	1.77	228,153	-	-
Chaoda Modern Agriculture - Holding	1.66	213,974	-	-
CNPC - Hong Kong	1.66	212,840	-	-
China High Speed Transmission	1.62	207,735	-	-
Shandong Weigao Group Medical	1.45	186,957	-	-
AAC Acoustic Technology Holding	1.41	181,775	1.11	49,389
SA SA International Holding	1.34	172,262	-	-
Daphne International Holding	1.25	161,125	-	-
China BlueChemical Ltd.	1.14	146,946	-	-
Xinyi Glass Holding Co. Ltd.	1.10	141,360	-	-
City Telecom - Hong Kong	1.08	138,310	-	-
China Shineway Pharmaceutical	0.99	127,446	-	-
Neo-China Land Group Ltd.	-	-	0.20	8,941
Petrochina Co Ltd.	-	-	12.36	551,909
Tencent Holdings Ltd.	-	-	4.33	193,531
Kery properties Ltd.	-	-	4.18	186,498
China Communications	-	-	3.09	137,948
China Coal Energy Co - H	-	-	2.50	111,447
Foxconn International	-	-	2.23	99,474
Shimao Property Holdings Ltd.	-	-	2.02	90,237
Byd Electronic Intl Ltd.	-	-	1.89	84,534
China Recourse Land Ltd.	-	-	1.76	78,444
Agile Property Ltd.	-	-	1.75	78,186
Gome Electrical Appliances	-	-	1.70	75,864
China Shipping Development	-	-	1.69	75,503
Soho China Ltd.	-	-	1.64	73,038
China Oilfield Services	-	-	1.12	49,995
China Overseas Land & Invest. Ltd. Right Form	-	-	0.00	52
<b>Total</b>	<b>100</b>	<b>12,857,069</b>	<b>100</b>	<b>4,465,704</b>
<b>INDIA</b>				
Gail India Ltd.	5.60	416,355	-	-
Reliance Industries Ltd.	5.57	414,540	8.40	156,966
Infosys Technologies Ltd.	5.42	402,814	8.35	155,973
Bharat Electronics Ltd.	4.88	362,595	-	-
TATA Power	4.79	355,928	-	-
Dishman Pharma & Chemicals	4.71	352,685	-	-
Bharat Heavy Electricals Ltd.	4.59	341,291	8.45	157,892
PTC India Ltd.	4.58	340,596	-	-
Cummins India Ltd.	4.52	336,044	-	-
Glaxosmithkline Consumer Healthcare Ltd.	3.91	290,517	-	-
Lupin Ltd.	3.90	289,831	-	-
Mphasis Ltd.	3.86	287,275	-	-

Company	2009		2008	
	%	Market value US\$	%	Market value US\$
<b>INDIA (Continued)</b>				
TATA Consultancy Services Ltd.	3.82	283,835	-	-
Eicher Motors Ltd.	3.76	279,688	-	-
Indrapratha Gas	3.73	277,039	-	-
Mahindra & Mahindra Ltd.	3.68	273,639	-	-
Jyotis Structures Ltd.	3.44	255,513	-	-
Max India Ltd.	3.37	250,853	-	-
Shree Renuka Sugars Ltd.	3.23	240,225	-	-
HCL Technologies Ltd.	3.20	237,622	-	-
Larsen & Toubro Ltd.	3.15	234,246	12.00	224,218
TATA Tea Ltd.	3.09	229,819	-	-
Steel Authority of India Ltd.	2.69	200,029	-	-
Hero Honda Motors Ltd.	2.13	158,707	-	-
Voltas Ltd.	2.29	170,174	5.26	98,214
IVRCL Infra and Projects Ltd.	2.09	155,245	-	-
Bharati Airtel Ltd.	-	-	13.98	261,158
Ongc Corporation Ltd.	-	-	7.58	141,587
Tulip Telecom Ltd.	-	-	6.18	115,467
United Phosphorous Ltd.	-	-	5.29	98,856
Sadbhav Engineering Ltd.	-	-	4.04	75,410
Tech Mahindra Ltd.	-	-	3.63	67,817
Nagarjauna Constriction Co. Ltd.	-	-	3.56	66,526
Jindal Steel & Power Ltd.	-	-	3.49	65,147
ABG Shipyard Ltd.	-	-	3.30	61,593
Dishman Pharma and Chemicals	-	-	3.28	61,361
Bombay Rayons Fashions Ltd.	-	-	3.20	59,823
<b>Total</b>	<b>100</b>	<b>7,437,105</b>	<b>100</b>	<b>1,868,008</b>

## 6. INCOME EXCLUDED FROM THE STATEMENT OF OPERATIONS

As per the agreement between the Fund and Unit Holders in the Fund, income prohibited by Sharia, as defined, is excluded from the statement of operations and paid to charities. Such information is determined based on the information available to management upon preparation of these financial statements.

## 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management is carried out by senior management. The most important types of risk are summarized below:

**Credit risk** is the risk that the counterparty will fail to discharge its financial obligation and cause the Fund to incur a financial loss. The Fund has no significant concentration of credit risk. Cash is placed with financial institutions with sound ratings.

**Liquidity risk** is defined as the risk that the Fund will be unable to meet its net funding requirements for redemptions.

The Fund is exposed to bi-weekly cash redemptions of the units. It, therefore, invests all of its assets in investments that are quoted in an active market and local

investment funds which can be easily liquidated. The Fund Manager monitors the liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise.

**Market risk** is the risk that the fair value or the future cash flows of the financial instruments will fluctuate due to changes in market variables such as capitalization size in market commission rates, foreign exchange rates, and equity prices. The Fund's market risk is managed through diversification of the investment portfolio.

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund holds assets denominated mainly in United States dollar, the functional currency, and in Indian Rupees. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

**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. As the Fund's financial instruments are compiled at fair value, the fair values of on-balance sheet financial instruments are not significantly different from the carrying values included in the financial statements.

#### **8. LAST VALUATION DAY**

The Fund's units are valued on a bi-weekly basis on every Monday and Wednesday (the valuation day). The value of the Fund's units is announced on the day following the valuation day (the announcement day).

The last valuation day of the year was December 30, 2009 (2008: December 27, 2008).

#### **9. MANAGEMENT'S APPROVAL**

These financial statements were approved by the Fund Manager on March 28, 2010.

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