

**Mulhia Saudi Equity Fund**  
**(Managed by Mulhia Investment Company)**

**FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 26 AUGUST 2014 TO  
31 DECEMBER 2015**

## AUDITORS' REPORT TO THE UNITHOLDERS OF MULKIA SAUDI EQUITY FUND


### Scope of audit:

We have audited the accompanying balance sheet of Mulkia Saudi Equity Fund (the "Fund") as at 31 December 2015 and the related statements of operations, cash flows and changes in net assets for the period from 26 August 2014 to 31 December 2015. 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 2015 and the results of its operations, cash flows and changes in net assets for the period from 26 August 2014 to 31 December 2015 in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young



Rashid S. AlRashoud  
Certified Public Accountant  
Registration No. 366



Riyadh: 20 Jumad Thani 1437H  
(29 March 2016)

# Mulkia Saudi Equity Fund

## BALANCE SHEET

As at 31 December 2015

	<i>Notes</i>	<b>2015 SR</b>
<b>ASSETS</b>		
Bank balances		3,957,012
Trading investments	4	11,178,092
Prepayments		16,734
<b>TOTAL ASSETS</b>		<b>15,151,838</b>
<b>LIABILITIES</b>		
Fees payable	6	164,580
Accrued expense		20,000
<b>TOTAL LIABILITIES</b>		<b>184,580</b>
<b>UNITHOLDERS' FUNDS</b>		
Net assets		14,967,258
Units in issue		2,174,910
Per unit value		6.88

The accompanying notes 1 to 10 form part of these financial statements

# Mulkia Saudi Equity Fund

## STATEMENT OF OPERATIONS

For the period from 26 August 2014 to 31 December 2015

		<i>For the period from 26 August 2014 to 31 December 2015</i>
	<i>Notes</i>	<i>SR</i>
Trading loss, net	5	<u>(8,622,020)</u>
<b>EXPENSES</b>		
Management fee	6	(472,840)
Custody fee	6	(78,807)
Other expenses		<u>(146,240)</u>
<b>TOTAL EXPENSES</b>		<u>(697,887)</u>
<b>NET LOSS FROM OPERATIONS</b>		<u><u>(9,319,907)</u></u>

## Mulkia Saudi Equity Fund

### STATEMENT OF CASH FLOWS

For the period from 26 August 2014 to 31 December 2015

	<i>Notes</i>	<i>For the period from 26 August 2014 to 31 December 2015 SR</i>
<b>OPERATING ACTIVITIES</b>		
Net loss from operations		(9,319,907)
Adjustment for:		
Movement in unrealised loss on trading investments	5	850,160
		<u>(8,469,747)</u>
Changes in operating assets and liabilities:		
Trading investments	4	(12,028,252)
Prepayments		(16,734)
Accrued expense		20,000
Fees payable	6	164,580
		<u>(20,330,153)</u>
Net cash used in operating activities		
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of units		59,185,937
Payment on redemption of units		(34,898,772)
		<u>24,287,165</u>
Net cash from financing activities		
		3,957,012
<b>NET INCREASE IN BANK BALANCES</b>		
Bank balances at the beginning of the period		-
		<u>3,957,012</u>
<b>BANK BALANCES AT THE END OF THE PERIOD</b>		
		<u><u>3,957,012</u></u>

The accompanying notes 1 to 10 form part of these financial statements

## Mulkia Saudi Equity Fund

### STATEMENT OF CHANGES IN NET ASSETS

For the period from 26 August 2014 to 31 December 2015

	<i>For the period from 26 August 2014 to 31 December 2015</i> SR
<b>NET ASSET VALUE AT THE BEGINNING OF THE PERIOD</b>	-
<b>NET LOSS FROM OPERATIONS</b>	<b>(9,319,907)</b>
<b>CHANGES FROM UNIT TRANSACTIONS</b>	
Proceeds from issuance of units	59,185,937
Redemption of units	<b>(34,898,772)</b>
Net change from unit transactions	<b>24,287,165</b>
<b>NET ASSET VALUE AT THE END OF THE PERIOD</b>	<b>14,967,258</b>

#### UNIT TRANSACTIONS

Transactions in units for the period from 26 August 2014 to 31 December 2015 are summarised as follows:

	<i>Units</i>
<b>UNITS AT THE BEGINNING OF THE PERIOD</b>	-
Units issued	7,327,604
Units redeemed	<b>(5,152,694)</b>
Net increase in units	<b>2,174,910</b>
<b>UNITS AT THE END OF THE PERIOD</b>	<b>2,174,910</b>

# Mulkia Saudi Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

### 1 GENERAL

Mulkia Saudi Equity Fund (the "Fund") is an open-ended fund created by an agreement between Mulkia Investment Company (the "Fund Manager") and investors (the "Unitholders") in the Fund. The objective of the Fund is to generate medium to long term capital growth for investors and to achieve return higher than the performance of Benchmark Index (Ideal Ratings Saudi Equity Legitimacy).

The Fund was established on 22 Ramadhan 1435 (corresponding to 20 July 2014) as per approval from the Capital Market Authority ("CMA") and commenced its operations on 26 August 2014. 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 the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all funds operating 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 of trading investments at fair value.

#### *Revenue recognition*

Dividend income is recognised when the Fund's right to receive the dividend is established.

Trading income includes unrealised gains and losses from changes in fair value and realised gains and losses from sale of trading investments and dividends from such investment. Realised gains and losses on trading investments sold are determined on a weighted average cost basis.

Special commission income is recognised on an effective yield basis.

#### *Investment valuation*

Equity investments which are purchased for trading purposes are valued at their market price as at the valuation date. Unrealised gains and losses on the revaluation of investments and realised gains and losses on the disposal of investments are recognised in the statement of operations.

#### *Investment transactions*

Investments 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.

#### *Foreign currencies*

Transactions in foreign currencies are translated into US Dollars at the rates of exchange prevailing at the dates of the transaction. Assets and liabilities in foreign currencies at the balance sheet date are retranslated into US Dollars at the rates of exchange ruling at that date. Resulting exchange gains and losses are taken to the statement of operations.

#### *Expenses*

Expenses are recognised on an accrual basis. The management fee and custody fee, payable quarterly in arrears is calculated and accrued at each valuation date based on the Fund's net asset value.

## Mulkia Saudi Equity Fund

### NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2015

#### 4 TRADING INVESTMENTS

The composition of the trading investments portfolio by sectors is summarised below:

<i>Sectors</i>	<i>% of holding</i>	<i>As at 31 December 2015</i>		
		<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain (loss) SR</i>
Banks and financial services	21%	2,621,075	2,377,359	(243,716)
Agriculture and food industries	18%	2,249,340	2,112,250	(137,090)
Insurance	18%	1,877,404	1,962,160	84,756
Transport	15%	1,960,186	1,673,541	(286,645)
Multi-investment	8%	916,027	880,200	(35,827)
Real estate development	8%	849,546	849,546	-
Building and construction	7%	909,508	759,050	(150,458)
Retail	5%	645,166	563,986	(81,180)
<b>Total investments</b>	<b>100%</b>	<b>12,028,252</b>	<b>11,178,092</b>	<b>(850,160)</b>

Trading investments are listed on the Saudi stock exchange (Tadawul). The Fund Manager seeks to limit risk of the Fund by monitoring exposures in each investment sector and individual securities.

#### 5 TRADING LOSS, NET

	<i>For the period from 26 August 2014 to 31 December 2015 SR</i>
Realised loss on sale of trading investments, net	(8,261,563)
Movement in unrealised losses on trading investments	(850,160)
Dividend income	489,703
	<b>(8,622,020)</b>



# Mulkia Saudi Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2015

### 6 TRANSACTIONS WITH RELATED PARTIES

Significant related party transactions during the period and balances arising therefrom are described below:

<i>Transactions with</i>	<i>Nature of transactions</i>	<i>Amount of transactions for the period from 26 August 2014 to 31 December 2015</i>	<i>Balances at 31 December 2015</i>
		<i>SR</i>	<i>SR</i>
Mulkia Investment Company	Management fees	472,840	150,125
	Custody fees	78,807	25,020
	Expenses recharged by the Fund	10,565	(10,565)
			<u>164,580</u>

The Fund pays a management fee at the rate of 1.5% per annum calculated on the total net assets at each valuation date. In addition, the Fund Manager also charges custody fees at a rate of 0.25% per annum calculated on the total net assets at each valuation date. The management fee and custody fee are charged according to the Fund's terms and conditions.

Trade transactions on the Saudi stock exchange are executed through the Fund Manager. The Fund Manager also acts as the custodian of the Fund's investments.

The Unitholders' account at 31 December 2015 included 2,000,000 units held by the Fund Manager. Fund board member also holds 9,840 units in the Fund as at 31 December 2015.

### 7 RISK MANAGEMENT

#### *Special commission rate risk*

Special commission rate risk is the risk that the fair value of financial instruments will fluctuate due to changes in the market commission rates. The Fund does not have any special commission bearing financial assets or liabilities as at 31 December 2015 and is therefore not exposed to special commission rate risk.

#### *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 on its bank balances. The Fund Manager seeks to limit credit risk of the Fund by monitoring credit exposures of the Fund and ensuring that the Fund deals with reputed counterparties only. The table below shows the Fund's maximum exposure to credit risk for the components of the balance sheet.

	<i>2015</i>
	<i>SR</i>
Bank balances	<u>3,957,012</u>

The Fund maintains bank accounts with a reputable credit worthy bank having an investment grade credit rating.

# Mulkia Saudi Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2015

### 7 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. According to the Fund's management, the improvement of the Fund's results (as a result of a change in fair value of equity instruments held in the trading portfolio) due to a reasonable possible increase in equity indices, with all other variables held constant, is as follows:

<i>Market index</i>	<i>Increase in equity price 2015 %</i>	<i>Improvement in results of the Fund 2015 SR</i>
Tadawul	10	1,208,333

The sensitivity analysis presented above is based on a historical comparison of unit price and underlying index volatilities. This sensitivity analysis relies upon assumptions including a correlation of the equity holdings of the Fund with the index composition. A decrease in equity price would have an equal and opposite effect on the results of the Fund.

#### *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 redemptions of units twice a week and it is, therefore, exposed to the risk of meeting Unitholder's redemptions. The Fund's trading investments are considered to be readily realisable, as the equity investments are listed on the Saudi stock market and investments, if any, in mutual funds and can be redeemed any time throughout the week. The Fund Manager monitors liquidity requirements of the Fund on a regular basis and seeks to ensure that sufficient funds are available including bank facilities 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's functional currency is the Saudi Riyal. As the Fund's financial assets and financial liabilities are denominated in its functional currency, the Fund is not subject to any currency risk.

### 8 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of bank balances and trading investments. The financial liabilities consist of payables and accrued expense. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

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

### 9 LAST VALUATION DAY

The last valuation day was 31 December 2015.

### 10 FUND'S BOARD APPROVAL

The financial statements of the Fund were approved by the Fund's Board on 29 March 2016.