

OSOOL & BAKHEET
Parallel Market Trading Equity Fund
(Managed By Osool & Bakheet Investment Company)
Financial Statements
For the period from 6 April 2017
(date of commencement of operations)
to 31 December 2017
together with the
Independent Auditors' Report



KPMG Al Fozan & Partners
Certified Public Accountants
KPMG Tower
Salahudeen Al Ayoubi Road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com/sa

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Independent auditors' report

To the Unitholders of
Osool & Bakheet Parallel Market Trading Equity Fund
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of **Osool & Bakheet Parallel Market Trading Equity Fund** (the "Fund") managed by Osool & Bakheet Investment Company (the "Fund Manager"), which comprise the balance sheet as at 31 December 2017, the statements of income, cash flows and changes in net assets attributable to the unitholders for the period from 6 April 2017 (date of commencement of operation) to 31 December 2017 and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the the period from 6 April 2017 (date of commencement of operation) to 31 December 2017 in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Fund Manager and Those Charged with Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards as issued by SOCPA, Investment Fund Regulations issued by the Capital Market Authority and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Osool & Bakheet Parallel Market Trading Equity Fund ("the Fund")**.

For KPMG Al Fozan & Partners
Certified Public Accountants


Khalil Ibrahim Al Sedais
License No: 371



Riyadh on: 19 Rajab 1439H
Corresponding to: 5 April 2018

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)
BALANCE SHEET**

As at 31 December 2017

(Amounts in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and bank balances	6	33,341
Held for trading investments	7	1,144,015
Total assets		<u>1,177,356</u>
<u>LIABILITIES</u>		
Management and custody fees	8	(2,430)
Board of Directors' fee	8	(388)
Accrued expenses		(5,218)
Total liabilities		<u>(8,036)</u>
Net assets value attributable to unitholders		<u>1,169,320</u>
Units in issue (numbers)		<u>1,347,033</u>
Net asset value - per unit		<u>0.8681</u>

The accompanying notes (1) through (13) form an integral part of these financial statements.

OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)
STATEMENT OF INCOME

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017
(Amounts in Saudi Arabian Riyals)

	<i>Note</i>	<u>For the period from 6 April 2017 to 31 December 2017</u>
<u>INCOME</u>		
Realized loss on disposal of held for trading investments, net		(5,560)
Unrealised loss on held for trading investments, net		(193,235)
Dividend income		27,454
Other income		14
Total loss		<u>(171,327)</u>
<u>EXPENSES</u>		
Management fee	8	(1,944)
Custody fee	8	(486)
Board of Directors' fee	8	(388)
Other expenses	9	(8,693)
Total expenses		<u>(11,511)</u>
Net loss for the period		<u>(182,838)</u>

The accompanying notes (1) through (13) form an integral part of these financial statements.

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)
STATEMENT OF CASH FLOWS**

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017
(Amounts in Saudi Arabian Riyals)

	<u>For the period</u> <u>from</u> <u>6 April 2017 to</u> <u>31 December</u> <u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss for the period	(182,838)
<i>Adjustments for:</i>	
Realized loss on disposal of held for trading investments, net	5,560
Unrealised loss on held for trading investments, net	193,235
Changes in operating assets and liabilities:	
Purchase of held for trading investments	(2,202,422)
Proceeds from disposal of held for trading investments	859,612
Management and custody fees	2,430
Board of Directors' fee	388
Accrued expenses	5,218
Net cash used in operating activities	<u>(1,318,817)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from subscription of units	1,439,390
Payments for redemption of units	(87,232)
Net cash generated from financing activities	<u>1,352,158</u>
Net increase in cash and bank balances	33,341
Cash and bank balances at beginning of the period	--
Cash and bank balances at end of the period	<u><u>33,341</u></u>

The accompanying notes (1) through (13) form an integral part of these financial statements.

OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017

	<u>For the period</u> <u>from</u> <u>6 April 2017 to</u> <u>31 December</u> <u>2017</u>
	<i>Amounts in</i> <i>Saudi Arabian</i> <i>Riyals</i>
Net assets value at beginning of the period	--
Add: Subscriptions during the period	1,439,390
Less: Redemptions during the period	(87,232)
Net loss for the period	(182,838)
Net assets value at end of the period	<u>1,169,320</u>
	<i>In numbers</i>
Units at beginning of the period	--
Add: Units subscribed	1,450,740
Less: Units redeemed	(103,707)
Net increase in units	1,347,033
Units at end of the period	<u>1,347,033</u>

The accompanying notes (1) through (13) form an integral part of these financial statements.

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS**

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017
(Amount in Saudi Arabian Riyals)

1. GENERAL

Osool & Bakheet Parallel Market Trading Equity Fund (the "Fund") is an investment fund established through an agreement between Osool & Bakheet Investment Company (the "Fund Manager") and the Fund Investors (the "Unitholders") by virtue of approval of the Capital Market Authority (the "CMA") dated 11 Jumada al-Ula 1438H (corresponding to 8 February 2017). The Fund commenced its operations on 6 April 2017. The Fund has updated its terms and conditions which have been approved by CMA on 05 Ramadan 1438H (corresponding to 31 May 2017).

The Fund's primary objective is to maximize capital growth by achieving a positive return while minimizing potential risks through investing mainly in companies whose stocks are listed in Saudi Stock Exchange – Parallel Market (Nomu). Also, the Fund Manager may invest not more than 50% of the fund's net asset value in Small and Medium cap companies that are listed in the Main Market. In addition, the Fund is allowed to invest available liquidity in time deposits with licensed banks in the Kingdom of Saudi Arabia that are compliant with the shari'a criteria setup by the Fund's shari'a committee. Moreover, the Fund is allowed to invest in Saudi Equity Funds and Money Market Funds whose units are offered publicly and licensed by CMA (including the funds that managed by the Fund Manager).

In dealing with the Unit holders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

The address of the Fund Manager is as follows:

Osool & Bakheet Investment Company
P. O. Box 63762
Riyadh 11526
Kingdom of Saudi Arabia

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations ("the Regulations") published by the CMA on 3/12/1427 (corresponding to 24/12/2006) subsequently amended by Resolution of the Board of the Capital Market Authority Number 1 - 61 - 2016 Dated 16/8/1437 (corresponding to 23/5/2016) detailing requirements for all funds within the Kingdom of Saudi Arabia. During the year 2016, CMA has issued new Investment Fund Regulations effective from 6 November 2016.

3. SUBSCRIPTION / REDEMPTION (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions of units on weekly basis and for redemptions of units on a monthly basis (each being a "Dealing day"). The value of the Fund's portfolio is determined on each dealing day (each being a "Valuation Day"). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets minus fund liabilities) by the total number of outstanding fund units on the relevant valuation day.

4. BASIS OF PREPARATION

These are the first financial statements of the Fund covering the period from 6 April 2017 (date of commencement of operations) to 31 December 2017, accordingly, no comparative figures are presented.

4.1 Statement of compliance

These financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization of Certified Public Accountants (the "SOCPA").

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017

(Amount in Saudi Arabian Riyals)

4. BASIS OF PREPARATION (CONTINUED)

4.1 Statement of compliance (Continued)

As required by SOCPA, all mutual funds are required to transition to International Financial Reporting Standards (“IFRS”) as endorsed by SOCPA effective 1 January 2018 for preparation of their financial statements. In preparing the first set of IFRS, the Fund Manager will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments “to adopt certain accounting policies that may be different from current applicable accounting standards as issued by SOCPA” in the Fund’s first set of IFRS financial statements. As of balance sheet date, the impact of the said transition on the Fund’s financial statements is not known.

4.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for the investments classified as held for trading which are carried at fair value, using accrual basis of accounting and the going concern concept.

4.3 Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyals (SR), which is the functional currency of the Fund. All financial information has been presented in SR.

4.4 Use of estimates and judgments

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been adopted by the Fund and applied throughout the period:

5.1 Held for trading investments

Investments are classified as “held for trading” if they are purchased for the purpose of resale in the short term. Investments held for trading are initially recorded at cost which includes the purchase price plus all expenditures made by the Fund for the purpose of acquiring the securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognized in the income statements but excluding dividend income which are separately shown in the income statement. Realized gains or losses at disposal and unrealized gains or losses are determined on average cost basis.

5.2 Trade date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the market place.

5.3 Dividend income

Dividend income is recognized when the right to receive the dividend is established.

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017

(Amounts in Saudi Arabian Riyals)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Zakat / Income tax

Zakat / Income tax is the obligation of the unit holders and is not provided for in these financial statements.

5.5 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, cash with banks, custodian and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Fund without any restrictions.

5.6 Management fee and other expenses

Fund management fee and other expenses are charged at rates agreed with the Fund Manager. These charges are calculated on each valuation date at an annual percentage of the Fund's net assets value. These expenses are charged to the Statement of Income.

5.7 Net Assets Value

Net assets value per unit, as disclosed in balance sheet is calculated by dividing the net assets of the Fund by the numbers of units in issue at the period end.

5.8 Subscription / redemption of units

Units subscribed and redeemed are subscribed / redeemed at the net assets value (NAV) per unit on the valuation day for which the subscription request and redemption applications are received.

5.9 Financial instruments

Financial assets and liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of financial assets and financial liabilities are taken directly to the statement of income.

6. CASH AND BANK BALANCES

As at 31 December 2017, cash and cash equivalent includes an amount of SR 26,096 which is held with the Fund Manager as custodian. The Fund Manager is authorized to utilize these funds for the purpose of trading in securities on behalf of the Fund. The remaining balance is held in the current account with a local bank.

7. HELD FOR TRADING INVESTMENTS

The sector-wise composition of equity investments held for trading is summarized as follows:

<u>Sector</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of market value</u>
	2017		
Retailing	397,292	372,567	32.57
Consumer services	384,722	270,740	23.67
Consumer durables and apparel	199,689	200,138	17.49
Commercial and professional services	146,282	119,143	10.41
Banks	56,611	61,161	5.35
Software & Services	55,726	42,485	3.71
Materials	37,544	39,562	3.46
Capital goods	59,384	38,219	3.34
	<u>1,337,250</u>	<u>1,144,015</u>	<u>100</u>

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS**

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017
(Amounts in Saudi Arabian Riyals)

7. HELD FOR TRADING INVESTMENTS (CONTINUED)

- 7.1 The Fund incurred brokerage fees amounting to SR 1,503 during the period from 6 April 2017 to 31 December 2017 which were capitalized as part of the cost of held for trading investments upon acquisition.

8. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts with its related parties. The Fund Manager, its employees and the Fund's Board of Directors are considered to be related parties of the Fund.

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. The Fund Manager charges the Fund with a management fee of 2% per annum and custody fee of 0.5% per annum of the Fund's net assets, calculated on a daily basis. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund such as audit fee, board compensation and other similar charges. The board compensation is calculated as 5% of the Fund's annual management fee subject to a maximum of SR 30,000 per member.

The Fund Manager charges each investor an early redemption fee at the rate of 3% of the value of the redeemed Fund units.

The unitholders' account at 31 December included units held as follows:

	2017	
	Units	Net Asset
	(in numbers)	Value
		(SAR)
Held by members of the Board of Directors of the Fund	131,420	114,082
Held by employees of the Fund Manager	51,749	44,922
	183,169	159,004

During the period 6 April 2017 to 31 December 2017, the above-mentioned unitholders' have subscribed and redeemed units amounting to SR 181,749 and SR Nil, respectively.

Related party transactions for the period from 6 April 2017 to 31 December 2017 and balances arising there from are described as follows:

<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the period from 6 April 2017 to 31 December 2017</u>	<u>Closing balance payable 2017</u>
	Management fee (Note 8.1)	1,944	1,944
Osool & Bakheet Investment Company	Custody fee (Note 8.1)	486	486
	Cash at brokerage investment account	--	26,096
	Brokerage fee (Note 7.1)	1,503	--
Board of Directors	Annual remuneration (Note 8.1)	388	388

- 8.1 During the period ended 31 December 2017, the Fund Manager has absorbed Fund's management fee, custody fee and Board of Directors' fees amounting to SR 22,760 covering the period from 5 May 2017 and until 31 December 2017

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017
(Amounts in Saudi Arabian Riyals)

9. OTHER EXPENSES

	<u>For the period</u> <u>from</u> <u>6 April 2017 to</u> <u>31 December</u> <u>2017</u>
Audit fee	(4,010)
Shari'a Committee members fees	(3,384)
Tadawul listing fees	(573)
CMA monitoring and reviewing fees	(635)
Other expenses	(91)
	<u>(8,693)</u>

- 9.1** During the period ended 31 December 2017, the Fund Manager has absorbed Fund's other expenses and waived related amounts due to the Fund Manager amounting to SR 66,936 covering the period from 5 May 2017 and until 31 December 2017.

10. RISK MANAGEMENT POLICIES

Credit risk

Credit risk is the risk that the counter party to a financial instrument may fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk for its cash balance only. The exposure is not significant since the cash balance is maintained with a reputed local bank in the Kingdom of Saudi Arabia.

Equity price risk

Equity price risk is the risk that the fair value of an equity investment may fluctuate as a result of changes in market prices. The Fund is exposed to equity price risk arising from its held for trading investments. The Fund Manager endeavours to minimize this risk including concentration risk through continuous monitoring of market conditions and diversification of its investments across various sectors of Saudi Stock Exchange market.

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in arranging funds to meet its commitments associated with settlement of financial liabilities and redemption of units. The Fund's securities are considered to be readily realizable as investments are made in quoted equities and can easily be realized at any time. 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.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to change in the foreign exchange rates. The financial instruments of the Fund i.e. cash and payables are denominated in SR. Accordingly, the Fund is not exposed to any currency risk.

**OSOOL & BAKHEET PARALLEL MARKET TRADING EQUITY FUND
(MANAGED BY OSOOL & BAKHEET INVESTMENT COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS

For the period from 6 April 2017 (date of commencement of operations) to 31 December 2017
(Amounts in Saudi Arabian Riyals)

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. Financial instruments comprise of financial assets and financial liabilities.

The Fund's financial assets consist of investments held for trading and cash at bank; its financial liabilities are fees payable.

Investments held for trading are carried at fair value. The fair value of other financial instruments are not materially different from their carrying values.

12. LAST VALUATION DATE

The last valuation day of the period was 31 December 2017.

13. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Fund on 18 Rajab 1439H corresponding to 4 April 2018.