

Audi Capital
Al Safwa Shariah Saudi Index Fund

FINANCIAL STATEMENTS

31 DECEMBER 2010

**AUDITORS' REPORT TO THE UNITHOLDERS OF
AUDI CAPITAL - AL SAFWA SHARIAH SAUDI INDEX FUND**

Scope of audit:

We have audited the accompanying balance sheet of Audi Capital- Al Safwa Shariah Saudi Index Fund (the Fund) as of 31 December 2010 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 2010 and the results of its operations, cash flows and changes in 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: 28 Safar 1432H
(2 February 2011)

AUDI SAUDI ARABIA –AL SAFWA SHARIAH SAUDI INDEX FUND

BALANCE SHEET

As at 31 December 2010

	Note	2010 SR	2009 SR
ASSETS			
Bank balances		472,450	533,538
Trading investments	4	8,712,324	7,632,103
Prepaid expense		32,798	14,062
TOTAL ASSETS		9,217,572	8,179,703
LIABILITIES			
Accrued expenses and other liabilities		77,832	39,555
NET ASSETS		9,139,740	8,140,148
Units in issue		794,422	767,059
Per unit value		11.50	10.61

The attached notes 1 to 10 form part of these financial statements.

AUDI SAUDI ARABIA –AL SAFWA SHARIAH SAUDI INDEX FUND

STATEMENT OF OPERATIONS

For the year ended 31 December 2010

		2010	19 May 2008 to
	Note	SR	31 December 2009
			SR
INVESTMENT INCOME			
Trading income:	5	<u>1,195,378</u>	<u>734,403</u>
EXPENSES			
Management fees	6	<u>(110,665)</u>	<u>(52,275)</u>
Other expenses	7	<u>(385,121)</u>	<u>(210,114)</u>
		<u>(495,786)</u>	<u>(262,389)</u>
NET INCOME FROM OPERATIONS		<u><u>699,592</u></u>	<u><u>472,014</u></u>

The attached notes 1 to 10 form part of these financial statements.

AUDI SAUDI ARABIA –AL SAFWA SHARIAH SAUDI INDEX FUND

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 SR	19 May 2008 to 31 December 2009 SR
OPERATING ACTIVITIES		
Net income from operations	699,592	472,014
Adjustment for:		
Unrealized gain on investments	(650,396)	(625,531)
	<u>49,196</u>	<u>(153,517)</u>
Changes in operating assets and liabilities:		
Trading investment, net	(429,825)	(7,006,572)
Prepaid expense	(18,736)	(14,062)
Accrued expenses	38,277	39,555
	<u>(361,088)</u>	<u>(7,134,596)</u>
Net cash used in operating activities		
FINANCING ACTIVITIES		
Proceeds from units sold	300,000	7,843,999
Value of units redeemed	-	(175,865)
	<u>300,000</u>	<u>7,668,134</u>
Net cash from financing activities		
(DECREASE) INCREASE IN BANK BALANCE	(61,088)	533,538
Bank balance at the beginning of the year / period	<u>533,538</u>	<u>-</u>
BANK BALANCES AT THE END OF THE YEAR / PERIOD	<u>472,450</u>	<u>533,538</u>

The attached notes 1 to 10 form part of these financial statements.

AUDI SAUDI ARABIA –AL SAFWA SHARIAH SAUDI INDEX FUND

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2010

	2010 SR	19 May 2008 to 31 December 2009 SR
NET ASSET VALUE AT THE BEGINNING OF THE YEAR / PERIOD	8,140,148	-
CHANGES FROM OPERATIONS		
Net income from operations	699,592	472,014
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	300,000	7,843,999
Value of units redeemed	-	(175,865)
Net change from unit transactions	300,000	7,668,134
NET ASSET VALUE AT THE END OF THE YEAR / PERIOD	9,139,740	8,140,148

UNIT TRANSACTIONS

Transactions in units for the year / period are summarised as follows:

	2010 Units	19 May 2008 to 31 December 2009 Units
UNITS AT THE BEGINNING OF THE YEAR / PERIOD	767,059	-
Units subscribed	27,363	783,340
Units redeemed	-	(16,281)
UNITS AT THE END OF THE YEAR / PERIOD	794,422	767,059

The attached notes 1 to 10 form part of these financial statements.

AUDI SAUDI ARABIA –AL SAFWA SHARIAH SAUDI INDEX FUND

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

1 GENERAL

Audi Capital– Al Safwa Shariah Saudi Index Fund (the Fund) is an open-ended fund created by an agreement between Audi Capital Company (formerly known as Audi Saudi Arabia Company) (the Fund Manager) and investors (unit holders) in the Fund. The investment objective of the Fund is to provide investment results that generally correspond to the price and yield performance of the S&P Saudi Arabia Shariah Index.

The Fund was established on 14 Jumada I 1429H (corresponding to 19 May 2008) as per approval from the Capital Market Authority (CMA) and commenced its operations on 22 June 2009. As per information memorandum (prospectus) of the Fund, the first financial year ends on 31 December 2008, however, there were no activities during the period from 19 May till 31 December 2008. Therefore, the comparative figures of last year cover the period from 19 May 2008 to 31 December 2009.

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) issued by 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 at fair value of trading investments.

Revenue recognition

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

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

Investment valuation

Investments which are purchased for trading purposes are valued at their market price as at the balance sheet 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/income tax is the obligation of the unit holders and is not provided for in the financial statements.

AUDI CAPITAL– AL SAFWA SHARIAH SAUDI INDEX FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2010

4 TRADING INVESTMENTS

Trading investments comprise the following sectors as at 31 December:

	<i>% of Market value</i>	<i>Market value SR</i>	<i>% of Market value</i>	<i>Market value SR</i>
Petrochemical	27.11%	2,361,610	9.7%	740,400
Banks	24.38%	2,124,208	29.71%	2,267,702
Telecommunication	13.86%	1,207,180	11.53%	879,676
Cement	8.67%	755,354	12.68%	967,379
Food Products	7.68%	669,007	26.19%	1,998,784
Real Estate Development and Construction	5.68%	494,968	0.88%	67,335
Fertilizer	5.41%	471,742	4.36%	332,871
Electricity	3.43%	298,886	2.72%	207,821
Trading	2.94%	256,486	1.6%	121,980
Manufacturing	0.84%	72,883	0.63%	48,155
	100.00	8,712,324	100.00	7,632,103

Equity investments are listed on the Saudi stock exchange (Tadawul). The Fund Manager seeks to limit its risk by monitoring investments sector exposures and setting limits for individual sectors.

5 TRADING INCOME

	<i>2010 SR</i>	<i>19 May 2008 to 31 December 2009 SR</i>
Unrealised gain	650,396	625,531
Dividend income	326,096	76,579
Realised gain	218,886	32,293
	1,195,378	734,403

6 TRANSACTIONS WITH RELATED PARTIES

The Fund pays a management fee calculated at an annual rate of 1.25% of the net asset value on the last valuation day of the relevant month. Additionally, the Fund Manager also charges an administration fee at an annual rate of 0.15% of the net asset value on the last valuation day of the relevant month, subject to a minimum of SR 112,500 per annum. The Fund also pays a custodian fee calculated at an annual rate of 0.1% of the net asset value on the last valuation day of the relevant month, subject to a minimum of SR 112,500 per annum. Expenses paid by the Fund Manager on behalf of the Fund are reimbursed from the Fund.

Trade transactions on the Saudi stock exchange are executed through the Fund Manager.

The unit holders' account at 31 December 2010 included 750,000 units held by the Fund Manager.

AUDI CAPITAL– AL SAFWA SHARIAH SAUDI INDEX FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2010

7 OTHER EXPENSES

	2010	19 May 2008 to 31
	SR	December 2009
		SR
Administration and custodian fee	225,000	118,972
Professional fees	31,875	32,042
Others	128,246	59,100
	<u>385,121</u>	<u>210,114</u>

8 RISK MANAGEMENT

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 only.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices. Since it is an indexed fund, the Fund will be subject to the same general risk as the Index securities.

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 the subscriptions and redemptions of units throughout the week and it 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 investments in traded equities which, can be easily sold 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 will fluctuate due to a change in foreign exchange rates. The Fund's functional currency is the Saudi Riyal. As the Fund's investments are denominated in its functional currency, the Fund is not subject to currency risk.

9 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets and liabilities consist of bank balances and trading investments. The Fund's financial liabilities consist of accrued expenses and other liabilities. 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.

10 LAST VALUATION DAY

The last valuation day of the period was 31 December 2010.