This Information Memorandum was approved by the BMA on January 13, 2004

The Bahrain Monetary Agency, the Bahrain Stock Exchange and the Ministry of Commerce of the Kingdom of Bahrain take no responsibility for the accuracy of the statements and information contained in this Information Memorandum or for the performance of this Fund, nor shall they have any liability to any person, an Investor or otherwise, for any loss or damage resulting from reliance on any statement or information contained herein.

KHALEEJ EQUITY FUND

(An open-ended collective investment scheme registered under the laws of the Kingdom of Bahrain and created by SICO Funds Company E.C.)

Offering of up to 200,000 Units each valued at a Subscription Price of US$ 100

(plus a subscription fee of US$ 2 per Unit)

Fund Company

SICO FUNDS COMPANY E.C.

Investment Manager

SECURITIES & INVESTMENT COMPANY BSC (C)

The date of this Information Memorandum is January 15, 2004

Potential Investors are strongly advised to take professional advice in relation to the contents of this Information Memorandum.

To the best of the knowledge and belief of the Directors of the Fund Company, having taken all reasonable care to ensure that this is the case, the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to materially affect the meaning of such information.

This Information Memorandum does not constitute an offer or solicitation of Units in any jurisdiction in which such offer or solicitation is not authorised. No action has been taken to permit the distribution of this Information Memorandum in any jurisdiction other than in the Kingdom of Bahrain. Accordingly, this Information Memorandum may not be used for the purpose of, and does not constitute, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Recipients of this Information Memorandum should inform themselves about and observe any applicable legal requirements.

NOTICE TO INVESTORS

This Information Memorandum is being furnished to selected sophisticated Investors primarily in GCC Countries on a confidential basis so that they may consider the opportunity to purchase the Units. This Information Memorandum is the lawful property of the Fund Company and may not be distributed, reproduced or copied, as a whole or in part, nor may any of its contents be disclosed without the prior written and express permission from the Fund Company or the Investment Manager.

No person has been authorised to give any information or to make any representations other than those contained in this Information Memorandum. If given or made, such information or representations must not be relied upon as having been authorised by the Fund Company, the Directors or the Investment Manager.

This Information Memorandum provides a summary of information relevant to investing in the Fund. The information in this document relating to the Articles of Association and Memorandum of Association of the Fund Company does not purport to be complete and this Information Memorandum is qualified by reference to such documents.

The Units being offered may not be purchased or held by, or purchased or held for the benefit of, any Non-Qualified Person as defined hereinafter at any time. "Non-Qualified Person" means any person to whom a transfer to, or holding by such person of, Units would:

(a) be in breach of any law or requirement of any country or governmental authority in any jurisdiction whether on its own or in conjunction with any other relevant circumstances;

(b) result in the Fund Company or the Fund incurring any tax liability which the Fund Company or the Fund would not otherwise have incurred or suffered;

(c) require the Fund Company or the Fund to be registered under any statute, law or regulation, whether as an investment company or trust scheme; or

(d) cause the Fund Company or the Fund to be required to apply for registration or comply with any registration requirements in respect of any of the Units in any jurisdiction other than in Bahrain.

Under Bahrain Law, an application must be made to the BMA to obtain its consent to offer to Investors in Bahrain participation in a new or in an existing collective investment scheme. The offering of the Units and this Information Memorandum was approved by the BMA on January 13, 2004.

Under Bahrain Law, the Fund is subject to periodic financial reporting requirements pursuant to which the Fund's un-audited semi-annual statements and audited annual statements must be filed with the BMA. The Fund's financial statements will be made available to Investors upon request.

Investing in the Fund involves risk. The Fund is an open-ended collective investment scheme designed for Investors seeking long-term capital appreciation primarily through investing in the equity markets of the GCC Countries. The Fund will actively purchase and sell equity, equity related, hybrid and debt securities listed in the GCC Countries. Therefore, investing in the Fund involves risks and Investors should be able to bear the economic risks of their investment in the Fund, including all or part thereof, and should not be dependent upon any returns from such investment for any basic financial needs.

Investors should be aware that the value of units might decrease as well as increase.

Each Investor may acquire Units solely for investment purposes. The Units may not be directly or indirectly sold, transferred, or assigned, by operation of law or otherwise, without the prior written consent of the Directors or, to the extent delegated by the Fund Company, the Investment Manager. Any attempt by an Investor to transfer Units constitutes a tender to the Directors for the redemption of such Units.

The Directors of the Fund Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors of the Fund Company, having taken all reasonable care to ensure that this is the case, the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to materially affect the meaning of such information.

The statements contained herein that are not historical facts are forward-looking statements. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which the Fund would operate, management's beliefs, and assumptions made by the management. Words such as "expects", "anticipates", "should", "intends", "plans", "believes", "seeks", "estimates", "projects", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements.

The Fund is not registered under the U.S. Investment Company Act of 1940, as amended. Neither the Investment Manager nor the Fund Company is registered under the U.S. Investment Advisers Act of 1940, as amended.

Neither the Fund nor the Units are or will be registered under the U.S. federal securities laws. The Units are offered outside of the U.S. to Investors who are not U.S. Persons. This Information Memorandum may not be delivered in the U.S., its territories or possessions to any prospective Investor except in a transaction that does not violate applicable U.S. laws. No person whether or not a U.S. Person may originate a purchase order for Units from within the U.S.

The Fund Company, in its sole discretion, may reject any subscription for Units in whole or in part at any time prior to acceptance thereof. Furthermore, the Fund Company may at any time and at its discretion redeem the Units and distribute to Investors their respective share of the proceeds thereof.

Legal counsel to the Fund Company and the Investment Manager, in assisting with the preparation of this Information Memorandum, have relied on information supplied by the Fund Company and the Investment Manager, have not independently verified the accuracy or completeness of any information contained herein, make no representation or warranty with respect thereto and assume no liability for the contents of, or any omission from, this Information Memorandum.

Applications for Units are subject to acceptance by the Fund Company.

This Information Memorandum is important and should be read in its entirety. Potential Investors are strongly advised to seek professional advice in relation to the contents of this Information Memorandum.

The contents of this Information Memorandum should not be construed as investment, legal or tax advice. Each potential Investor must seek independent investment, legal and tax advice with respect to the implications of investing in the Units.

The information in this Information Memorandum is given as of the date hereof, unless expressly otherwise specified herein.

TABLE OF CONTENTS

I. DEFINITIONS

The following definitions shall apply throughout this document unless the context requires otherwise:

"Administration Agreement"	means the administration agreement between Securities & Investment Company BSC(c) and the Fund Company dated January 13, 2004 in connection with the Fund;
"Administrator"	means Securities & Investment Company BSC(c) or its successor when acting as administrator to the Fund or such other entity appointed to act in such capacity from time to time by the Fund Company;
"Articles of Association"	mean the Articles of Association of the Fund Company;
"Auditor"	means PricewaterhouseCoopers, Bahrain or their successors when acting as auditors for the Fund or such other entity appointed to act in such capacity from time to time by the Fund Company;
"Bahrain"	means the Kingdom of Bahrain;
"Bahrain Law"	means the laws and regulations in force in Bahrain;
"Base Currency"	means the base currency of the Fund, which is the U.S. Dollar;
"BMA"	means Bahrain Monetary Agency;
"BMA Approval"	means the BMA letter approving the formation and marketing of the Fund;
"Board"	means the board of directors of the Fund Company;
"BSE"	means Bahrain Stock Exchange;
"Business Day"	means a day on which banks and financial institutions are open for general business in Bahrain;
"Certificates"	means certificates representing Units issued pursuant to the Instrument substantially in the form set out in the section headed "*XIX. Form of Instrument – First Schedule – Form of Unit Certificate*";
"Closing Date"	means the closing date for applications pursuant to the Initial Offering, being February 29, 2004 or such later date as the Directors, acting on their sole discretion, may determine;

"**Commercial Companies Law**"	means Bahrain's Commercial Companies Law No. (21) of 2001 as amended from time to time;
"Custodian"	means Gulf Clearing Company BSC(c) or its successor when acting as the custodian of the Fund or such other entity appointed to act in such capacity from time to time by the Fund Company;
"Custody Agreement"	means the Custody Agreement between Gulf Clearing Company BSC(c) and the Fund Company dated January 13, 2004 in connection with the Fund;
"Dealing Day"	means the first business day of each calendar month;
"Directors"	means the directors (Board Members) of the Fund Company;
"Effective Date"	means the day on which the BMA Approval is obtained being January 13, 2004 or such other later date as determined by the Directors, acting in their sole discretion, provided that it falls not later than 45 days from the date on which the BMA Approval is issued;
"Financial Year"	means a period of one year starting from January 1 and ending on December 31 of each year except for the first financial year that will begin on the Closing Date and expire on December 31, 2004;
"Fund"	means Khaleej Equity Fund, an open-ended collective investment scheme established by way of an Instrument as a contractual arrangement between the Fund Company and the Investors and registered with and supervised by the BMA;
"Fund Company"	means SICO Funds Company E.C., an exempt joint stock company incorporated with limited liability under the laws of Bahrain to act as an umbrella vehicle for funds including the Fund;
"GCC Countries"	means member countries of the Gulf Cooperation Council currently including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates;
"Information Memorandum"	means this Information Memorandum and all appendices, attachments and supplements thereto including, without limitation, the Subscription Agreement and the Redemption Request Form;

"Instrument"	means the instrument issued by SICO Funds Company E.C. dated January 13, 2004 in connection with the creation of Units in the Fund;
"Investment Manager"	means Securities & Investment Company BSC(c) or its successor when acting as investment manager to the Fund or such other entity appointed to act in such capacity from time to time by the Fund Company;
"Investment Management Agreement"	means the Investment Management Agreement between the Fund Company and Securities & Investment Company BSC(c) dated January 13, 2004 in connection with the Fund;
"**Investors"**	means subscribers to Units in the Fund; the term can be used interchangeably with the term Unitholders;
"Initial Offer Period"	means the initial offer period of Units commencing at 12 noon on the Effective Date and concluding on the Closing Date;
"Initial Offering"	means the offering of 200,000 units at US$ 100 per Unit plus a subscription fee of US$ 2 per Unit;
"Investment Committee"	has the meaning given to it in the section headed *"VIII. Management and Administration – Investment Committee"*;
"Investment Objective and Policy"	means the investment objective and policy of the Fund as set out in the section headed "*IV. Investment Policy – Investment Objective and Policy*";
"Memorandum of Association"	means the Memorandum of Association of the Fund Company;
"Money Laundering Regulations"	means regulations, ministerial orders and circulars in force in Bahrain in connection with the prevention and combating of money laundering, including, but not limited to, Legislative Decree No. (4) of the year 2001 with respect to Prohibition of and Combating Money Laundering and the various Ministerial Orders issued there under including, but not limited to, Ministerial Order No. (7) of 2001 with respect to the Institutions' Obligations Concerning the Prohibition of and Combating Money Laundering;
"Net Asset Value or NAV"	means the net asset value of the Units as determined in accordance with the principles set out in the section headed "*VII. Determination of Net Asset Value*";

"Placement Agency Agreement"	means the Placement Agency Agreement between the Fund Company and Securities & Investment Company BSC(c) dated January 13, 2004 in connection with the Fund;
"Placement Agent"	means Securities & Investment Company BSC(c) or its successor when acting as placement agent to the Fund or such other entity appointed in such capacity from time to time by the Fund Company;
"Quarter"	means a period of three months ending on the last day of March, June, September or December in any year;
"Redemption Day"	means each Valuation Day falling after the expiry of the six-month period directly succeeding the Closing Date. For the avoidance of doubt, redemption will not be permitted during the six-month period directly succeeding the Closing Date;
"Redemption Price"	means the price at which Units will be redeemable both in respect of redemptions at the option of the Unitholders and in respect of compulsory redemptions at the option of the Fund Company calculated as described in the section headed "*VI. Subscriptions and Redemptions*";
"Redemption Request Form"	means the redemption form approved by the Fund Company, which the Investors must submit, in the manner described in this Information Memorandum and attached to the Subscription Agreement, for purposes of redeeming Units in the Fund;
"Registrar"	means KPMG, Bahrain or its successors when acting as registrar for the Fund or such other entity appointed in such capacity from time to time by the Fund Company;
"Registrar Agreement"	means the Registrar Agreement between the Fund Company and KPMG, Bahrain dated January 13, 2004 in connection with the Fund;
"Settlement Date"	means the final date for receipt of subscription monies raised during the Initial Offer Period, being March 7, 2004 or such later date as the Directors may determine;
"SICO"	means Securities & Investment Company BSC(c)**;**
"Subscription Agreement"	means the Subscription Agreement to be prepared by the Fund Company in connection with the Fund and entered into with each Investor provided that the form of such agreement must first be approved by the BMA;

"Sub-Placement Agent"	means an entity appointed by the Placement Agent to act as a sub-placement agent to the Fund;
"Subscription Day"	means each Valuation Day falling after the Closing Date;
"Subscription Price"	means the price at which Units are being offered which is: (i) US$ 100 per Unit plus a subscription fee of US$ 2 per Unit in respect of the Initial Offering, and (ii) the price calculated as described in the section headed "*VII. Determination of NAV"* plus a subscription fee of up to 2% of the subscription amount;
"US$ or U.S. Dollar(s)"	means the lawful currency of the United States;
"U.S. Person"	has the meaning given in Regulation S under the U.S. Securities Act of 1933, as amended;
"United States" or "U.S."	means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia;
"Unitholders"	means the holder or holders of all or any of the Units, being the person or entity who is for the time being entered in the register maintained pursuant to the conditions as a Unitholder;
"Units"	means non-voting units in the Fund; and
"Valuation Day"	means the last Business Day of each calendar month.

II. SUMMARY OF TERMS

This summary should be read in conjunction with and is qualified entirely by reference to the information appearing in the full text of this Information Memorandum under the sections appearing below and by reference to the agreements and other documents described in this document.

The Fund

The Fund is an open-ended investment fund, created by the Fund Company and established as a collective investment scheme pursuant to the regulations for the operation and marketing of collective investment schemes issued by the BMA under Circular No. OG/356/92 of November 18, 1992 and subsequent supplementary circulars. The Fund was approved by the BMA on the Effective Date.

The Fund is a contractual arrangement between the Fund Company and the Investor. Such contractual arrangement will be registered with and supervised by the BMA. As such, the Fund does not have a separate legal status for purposes of Bahrain Law.

The Fund Company

SICO Funds Company E.C., is an exempt joint stock company incorporated with limited liability under the laws of Bahrain to act as an umbrella vehicle for the creation and management of collective investment schemes including the Fund. The Fund Company will, by way of the Instrument, create Units in the Fund for which Investors would be invited to subscribe. The monies raised in this offering of Units will be separated for accounting purposes from the Fund Company's other assets and from the assets of other collective investment schemes created, marketed or managed by the Fund Company.

The duration of the Fund Company is twenty five calendar years commencing from the date of registration of the Fund Company i.e. March 30, 1998 in the Commercial Registry. This duration may be extended by a resolution to be adopted by an extraordinary meeting of the general assembly, in the manner provided in the Commercial Companies Law, of the Fund Company with the approval of the Ministry of Commerce of the Kingdom of Bahrain and the BMA.

Investment Objective and Policy	The primary objective of the Fund is to seek long-term capital appreciation. The Fund will aim to achieve this investment objective by investing principally in equity securities listed on the stock markets of the GCC Countries. From time to time the Fund will also invest in equity related, hybrid and debt securities listed in the GCC Countries in addition to unlisted debt securities issued by the governments or quasi government institutions of the GCC Countries.
Investment Commitment	The Investment Manager commits to invest in the Fund by subscribing in cash for the Units on the Closing Date. The Investment Manager also commits to maintain a minimum investment of the lower of 10% of the Fund's NAV or US$ 2 million throughout the life of the Fund.
Base Currency	The Fund will be denominated in U.S. Dollars.
Units	The Units would be issued in registered form and rank *pari passu* in all respects with each other. The Units carry no voting rights at meetings of the general assembly of the Fund Company. The rights and obligations of all Units are in accordance with the Instrument. To the extent deemed practicable by the Directors and subject to the Instrument, Units will have the same attributes as bonds issued under the Commercial Companies Law.
Initial Offering	The Fund Company is offering 200,000 Units at US$ 100 per Unit plus a subscription fee of US$ 2 per Unit. The maximum number of Units available in the Initial Offering may be increased at the discretion of the Directors in accordance with the section headed "*XIV. General Information – Minimum and Maximum Subscription*". The minimum investment by any applicant is 1,000 units although the Directors may, in their sole discretion, accept applications for lesser amounts.
Initial Offer Period	The Initial Offer Period of Units will commence at 12 noon on the date of this document and close on the Closing Date as contemplated by this Information Memorandum.
Further Subscriptions	Subsequent to the Initial Offer Period, Units would be further issued on a monthly basis on each Valuation Day falling after the Closing Date at prices calculated as described in the section headed "*VII. Determination of Net Asset Value*" plus a subscription fee of up to 2% of the subscription amount.

Redemptions

The Units will not be redeemable for a period of six months after the Closing Date (save in the case of mandatory redemptions effected by the Fund as described in the section headed "*VI. Subscriptions and Redemptions – Mandatory Redemption*"). Thereafter monthly redemptions will be permitted at each Redemption Day.

Listing

The Fund Company may seek to list the Fund on the stock exchanges of any of the GCC Countries, including the BSE. The Fund Company does not intend at this time to make a secondary market in the Units.

Investment Manager

Pursuant to the Investment Management Agreement, Securities & Investment Co. BSC (c) has been appointed as the Fund's Investment Manager. The Investment Manager is, among other things, responsible for the implementation of the Investment Objective and Policy.

Custodian

Pursuant to the Custody Agreement, Gulf Clearing Company BSC(c) has been appointed as the Fund's custodian. The Custodian is, among other things, responsible for the safe keeping of and custody over the Fund's cash and securities.

Administrator

Pursuant to the Administration Agreement, Securities & Investment Co. BSC (c) has been appointed as the Fund's administrator. The Administrator is, among other things, in charge of the day-to-day administration of the Fund and for the calculation of the Next Asset Value.

Registrar

Pursuant to the Registrar Agreement, KPMG Bahrain has been appointed as the Fund's registrar. The Registrar is, among other things, in charge of providing registrar and transfer agency services including keeping copies of the register of Unitholders.

Placement Agent

Pursuant to the Placement Agency Agreement, Securities & Investment Company B.S.C. (c) has been appointed as the Fund's Placement Agent. The Placement Agent will use at all times its best endeavors to promote and extend sales of the Fund to all potential Investors and make available materials relating to the Fund to potential Investors as well as receive the Subscription Agreements together with the accompanying subscription amounts. The Placement Agent will have the discretion to appoint Sub-Placement Agent(s) subject to the terms of the Placement Agency Agreement.

Dividend Policy

The Fund Company intends to distribute part of the Fund's net investment income on an annual basis. The Fund Company may, acting at the sole discretion of the Directors, declare and pay dividends out of realised and unrealised capital gains achieved by the Fund. For the avoidance of doubt, the Directors may elect not to pay dividends at all over the life of the Fund.

Taxation

Under currently prevailing taxation law and practice no tax will be payable by the Fund in Bahrain.

Management Fees

Under the Investment Management Agreement, the Fund will pay the Investment Manager a fixed fee of 1.5% per annum of daily NAV (calculated for these purposes prior to the deduction of management fee) accrued daily but payable on the second Business Day of each Quarter.

Performance Fee

The Investment Manager will also be entitled to receive from the Fund a performance fee of 10% over and above the hurdle total rate of return of 10% for each Financial Year. The performance fees will be accrued monthly on the basis of annualised returns of the Fund taking into consideration the changes in the NAV of the Fund as well as the dividends declared by the Fund, if any as detailed in the section headed "*IX. Fees and Expenses – Management Fees*".

Subscription Fees

A subscription fee of 2% of the price of the Units will be charged by the Fund Company to the Investors as detailed in the section headed "*IX. Fees and Expenses – Subscription Fees*". The Placement Agent or the Directors, acting in their sole discretion, may reduce or waive the subscription fees payable by the Investors.

Other Fees

The Fund will pay other fees to the Administrator, Custodian and Registrar as well as to other providers of professional services as more fully described in the section headed "*IX. Fees and Expenses.*"

Risk Factors

Investing in the Fund involves risk and is only suitable for long-term Investors who understand the risks involved. As with any other investment fund there can be no assurance that the Fund will be profitable and Investors may not recover monies invested. For more detailed risk factor information regarding the Fund, see the section headed "*V. Risk Factors*".

III. THE FUND AND THE FUND COMPANY

The Fund

The Fund is an open-ended investment fund, created by the Fund Company and established as a collective investment scheme pursuant to the regulations for the operation and marketing of collective investment schemes issued by the BMA under Circular No. OG/356/92 of November 18, 1992 and subsequent supplementary circulars. The Fund was approved on the Effective Date, and is regulated, by the BMA.

The Fund is a contractual arrangement between the Fund Company and the Investor. Such contractual arrangement will be registered with and supervised by the BMA. As such, the Fund does not have a separate legal status for purposes of Bahrain Law.

There will only be one ordinary class of Units with a price per Unit of US$ 100 (plus a subscription fee of US$ 2 per Unit) on the Effective Date until the Closing Date. The Minimum Subscription amount during the Initial Offer is the value of 1,000 Units and additional units in multiples of 100 Units. The Fund, being open-ended, will offer Units on a continuous basis, on each Subscription Day, through the Placement Agent and through Sub-Placement Agents authorised by the Placement Agent. The Fund Company may seek to list the Fund on the BSE or stock exchanges of other GCC Countries. The Fund Company does not intend at this time to make a secondary market in the Units.

Proposed changes to this Information Memorandum must be made by the Directors and will be subject to the approval of the BMA and reported to Investors of the Fund.

For more information on these and other important matters related to the management and administration of the Fund, see section headed "*VIII. Management and Administration*".

The Fund Company

SICO Funds Company E.C., is an exempt joint stock company incorporated with limited liability under the laws of Bahrain to act as an umbrella vehicle for the creation and management of collective investment schemes including the Fund. The Fund Company approved by the BMA and incorporated in 1998 as a Bahrain Exempt Investment Share Company with Commercial Registration No. 40378, whose registered address is First Floor, BMB Center, P.O. Box 1331, Manama, Bahrain. Pursuant to the Commercial Companies Law, the Fund Company will be required, for purposes of conforming to the such law, to change its corporate status from an exempt company to a new form of company such as a limited liability company or a closed joint stock company by December 31, 2004.

The primary objective of the Fund Company is to issue Units in various funds by way of Instruments that are contractual obligations between the Investors and the Fund Company.

The establishment of the Fund Company and its Memorandum of Association and Articles of Association have been approved by the Ministry of Commerce in Bahrain in accordance with the Bahrain Commercial Companies Law No. 28 for 1975 and Ministerial Order No. 25 for 1977 (as amended), and by the BMA.

The fixed duration of the Fund Company is twenty-five years from the date of registration of the Fund Company i.e. March 30, 1998 in the Commercial Registry. Such duration may be extended by resolution of the Fund Company's shareholders with the prior approval of the Ministry of Commerce and the BMA.

The authorized share capital of the Fund Company is BD 20,000 divided into 200,000 shares. Except for one share, all shares of the Fund Company are owned by Securities & Investment Company BSC(c). The personal liability of the shareholders in the Fund Company for its debts or obligations is limited to the amounts they have subscribed to the capital of the Fund Company.

IV. INVESTMENT POLICY

Investment Objective and Policy

The primary objective of the Fund is to seek long-term capital appreciation. The Fund will aim to achieve this investment objective by investing principally in equity securities listed on the stock markets of GCC Countries. From time to time, the Fund may also invest in equity related, hybrid and debt securities listed in the GCC Countries in addition to unlisted debt securities issued by the governments or quasi government institutions of GCC Countries.

Investment Strategy

The Investment Manager believes that GCC Countries continue to offer strong capital appreciation opportunities for long-term Investors. Despite the rapid increase in market capitalization, trading activity and the number of companies listed in the GCC stock markets, the regional markets remain at an early stage of development. Additionally, these markets remain relatively inefficient with frequent mispricing of securities, which gives rise to stock picking opportunities for Investors with a research-intensive investment approach.

In light of this view, the Investment Manager intends to utilize a bottom-up approach to identify securities that are expected to generate long-term capital appreciation. The Investment Manager will adopt a stock picking approach to develop a concentrated portfolio of companies that are expected to meet the objective of the Fund. Instead of attempting to outperform a particular index, the Investment Manager will aim to achieve stable capital appreciation over the long-term by investing in a combination of companies at various stages of their life cycle in order to manage the overall risk profile of such portfolio. The Investment Manager will continuously assess market conditions and dynamically adjust asset class as well as country allocations in order to efficiently manage the Fund.

The Investment Manager has committed substantial resources to generate research internally both at a macro and micro level. The investment process would be research based where all investment decisions are made in light of detailed and in-depth equity research and analysis. The Investment Manager will attempt to visit companies across the region in order to gain a better understanding of the business dynamics of the companies that the Fund invests in. The Investment Manager will rely mainly on its proprietary research to make investment decisions; however, research produced by external sources will also be utilised in the process.

Typically, the Investment Manager will not try to actively trade the markets and will attempt to establish positions that will help in achieving the long-term objective of the Fund. The long-term bias in the investment process will enable the Investment Manager to minimize trading costs that can be substantial in emerging markets. This approach will also increase the investment manager’s focus on the fundamentals of the businesses that it invests in rather than on short-term market volatility.

General Restrictions

In attempting to achieve long-term capital appreciation for the Fund, the Investment Manager would be required to adhere to the following restrictions that have been stipulated by the Directors:

(a) The Fund shall not invest less than 50% of its NAV in equity securities listed on the stock markets of the GCC Countries;

(b) The Fund shall not invest more than 50% of its NAV in equity securities listed in any one GCC Country;

(c) The Fund shall not invest more than 20% of its NAV in securities of any one issuer;

(d) The Fund shall not invest more than 20% of its NAV in equity related and hybrid securities and not more than 40% of its NAV in debt securities provided that the aggregate of equity related, hybrid and debt securities does not exceed 50% of its NAV;

(e) The Fund shall not invest more than 20% of its NAV in equity or debt securities that are being offered for listing (initial public offering) on the stock markets of the GCC Countries;

(f) The Fund shall not invest more than 25% of its NAV in other collective investment schemes (provided that the Fund will not invest more than 10% in one collective investment scheme) that principally invest in equity, equity related or hybrid debt securities in the GCC Countries. This is with a primary focus to gain exposure to equities in which the Fund may not be allowed to invest directly;

(g) The Fund may borrow up to a maximum of 20% of its NAV by pledging assets of the Fund only as a temporary measure to finance its operations and not to seek leverage;

(h) The Fund shall not make any investments that would expose it to unlimited liability;

(i) The Fund shall not deal short or on margin;

(j) The Fund will not make any loan or give any guarantee;

(k) The Fund will not take or seek to take legal or management control over the issuers of any of its underlying investments; and

(l) The Fund will only purchase or sell stock or stock index derivatives for the purposes of hedging portfolio risk. The Fund will not use stock or stock index derivatives for the purposes of speculation provided always that the Fund will not invest more than 20% of its NAV in such instruments.

Legal Limitations

In managing the Fund, the Fund Company and the Investment Manager will comply with the requirements of Bahrain Law and other relevant laws. In particular, the Fund Company and the Investment Manager will, and will cause the Fund to, comply with the requirements of the Principles of Supervision, Operation and Marketing with respect to Collective Investment Schemes Issued Pursuant to BMA Circular No. OG/356/92 of November 18, 1992 and subsequent supplementary circulars and have been approved and regulated by the BMA. Derogation from such requirements is only permitted subject to the approval of the BMA.

V. RISK FACTORS

An investment in the Units involves certain risks relating to the investment strategies of the Fund Company and the Investment Manager. No representation is hereby made that the Fund's investment objective will be achieved. The following is intended as a summary of certain investment considerations and risks associated with this investment, but is not exhaustive and must be supplemented by the Investors' own analysis of, among other things, Investors' personal or corporate financial circumstances.

Emerging Market Risk

The prospects for economic growth in GCC Countries is considerable and equity returns have the potential to exceed those in mature markets as growth is achieved. However, generally accepted accounting, auditing and financial reporting practices in emerging markets may be significantly different from those in developed markets. In relation to mature markets, some GCC Countries may have a low level of regulation, enforcement of regulations and monitoring of investors' activities. The securities markets of GCC Countries are not as large as the more established securities markets and may at times have substantially less trading volume, resulting in a lack of liquidity and high price volatility. There may be a high concentration of market capitalisation and trading volume in a small number of stocks as well as a high concentration of investors and financial intermediaries. These factors may adversely affect the timing and pricing of the Fund's acquisition or disposal of securities. The GCC Countries have at times exhibited high volatility and sudden decline in prices of equities and therefore cannot be assured to give stable and/or positive returns in the future. Therefore, the Fund's return may be expected to fluctuate in response to changes in the value of the underlying investments.

Currency Risk

The Fund will invest in GCC Countries, which operate under a fixed exchange rate regime with their currencies pegged to that of the U.S. Dollar. The price of the Unit is denominated in U.S. Dollars and any shift in the fixed exchange rate of any country may potentially expose Investors to adverse fluctuation in returns.

Term of Investment

Equity investments by their very nature are high-risk investments with possible sudden decline in prices due to various factors resulting in a potential loss of capital. Therefore, investment in the Fund should be regarded as a high-risk investment, and there can be no guarantee that the Investment Manager will achieve the Fund's objective and the Investor will recover the full amount invested. Furthermore, an investment in the Fund should be viewed by applicants as of a long-term nature.

Liquidity

On many stock markets in the GCC countries, liquidity and marketability of quoted securities may be limited due to lack of depth and narrow investor participation. Trading value compared to market capitalization in some of these markets is lower than that exhibited by more developed markets. This among other things may also adversely affect the performance of the Fund especially in times of extreme market conditions or due to substantial redemptions by Investors forcing the Fund to involuntarily liquidate positions.

Operating History

The Fund Company was established in 1998 and does not have a long operating history. The results of the earlier investments made by collective investment schemes created by the Fund Company are not indicative of the results that the Fund may achieve as the Fund is likely to have a substantially different portfolio of investments. Accordingly, the Fund's results are independent of, and cannot be inferred from, the previous results obtained by collective investment schemes created by the Fund Company.

Absence of Voting Rights

Investors in the Units have no voting rights and do not participate in the management of the Fund Company or the Fund. Investors generally have no right to influence the management of the Fund whether by voting against, withdrawing, removing or replacing the Investment Manager or otherwise. Furthermore, Investors have no right to terminate any agreement to which the Fund is or may be a party.

Legal Status

The Fund is a collective investment scheme created by the Fund Company, and is structured as a contractual arrangement between the Fund Company and the Unitholders. This contractual arrangement is regulated and supervised by the BMA. The Fund is intended to be separate from the Fund Company and from other collective investment schemes launched or marketed by the Fund Company if any.

The Fund is not registered under the Commercial Companies Law. Therefore, the Fund does not have a separate legal status and the extent to which a Bahraini government agency or a Bahraini court, acting in the context of insolvency proceedings or proceedings for determining the Fund’s liabilities, would up-hold such distinction between the legal status of the Fund and that of the Fund Company and other collective investment schemes of the Fund Company is unclear and to our best knowledge untested.

Absence of Transferability of Units

It is not anticipated that there will be any public market for the Units. The Units may not be directly or indirectly sold, transferred or assigned, by operation of law or otherwise, in whole or in part, without the prior written consent of the Investment Manager, which may be granted or withheld in its sole discretion. Any attempt to transfer Units, other than by way of redemption in the manner described in this Information Memorandum, constitutes a tender to the Investment Manager for the redemption of Units.

Conflicts of Interest

Under Bahrain Law, an Investment Manager is obligated to act for the benefit of the Fund with respect to matters within the scope of the Investment Management Agreement. The Investment Manager, in connection with the Fund, will, to the extent described in this Information Memorandum, also act as seed investor in the Fund. Additionally, the Directors will seek to ensure that no actual conflict of interests will arise.

The Investment Manager may provide investment management services to funds and managed accounts other than the Fund. These funds and accounts may have fee structures or other features that are different from or more beneficial to the Investment Manager than those of the Fund. Although the Investment Manager has contractually committed to treating all accounts fairly, this may create the appearance of an incentive on the part of the Investment Manager to favour accounts with more beneficial structures, and it is therefore possible that any of them may in the course of business, have potential conflicts of interest with the Fund. In the event of an actual conflict arising, the Directors will endeavour that such a conflict will be resolved fairly.

Neither the Administrator nor the Investment Manager will be devoting their full business efforts to the activities of the Fund. This may involve a conflict of interest with respect to the commitment of resources. The Administrator and the Investment Manager intend to devote sufficient time to the Fund's activities to properly manage or provide investment advice to the Fund.

Custodial Risk

The Fund Company has appointed Gulf Clearing Company BSC (c) a subsidiary of Gulf Clearing Company, Kuwait as Custodian. The Custodian represents that it is capable of providing and licensed to offer custodial services throughout the GCC region. However, due to its short operating history, a certain amount of risk exists with respect to the operations and services offered by the Custodian.

Regulatory framework

The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in the GCC Countries may not provide the same degree of shareholder protection as would generally exist in more mature or developed markets. This may affect the valuation of the assets in which the Fund invests although every effort will be exerted to comply with international accounting standards.

The GCC Countries may have restrictions against the entry by a foreign Investor, such as the Fund, into transactions involving assets, including securities, which are listed on the financial markets of such countries or which are traded in some form or another in such countries.

Economic and Political Stability

Investment in GCC Countries may carry a high degree of economic and political risks. On the economic front, the economies of GCC Countries while striving to diversify are primarily oil driven economies. A prolonged period of low oil prices can potentially affect the economic health of the GCC economies and may result in an overall recession in the region.

Taxation

The Fund Company, with the assistance of the Investment Manager, will take reasonable steps to mitigate the Fund's tax liabilities. Investors should review carefully this Information Memorandum and the Subscription Agreement and discuss with their tax advisors the specific tax and other consequences of investing in the Fund.

Mandatory Redemption

Compulsory redemption may result in the liquidation of investments under conditions less favourable as the liquidity of some of the underlying assets may not allow for an orderly liquidation at the prevailing market prices, and consequently result in loss to Investors.

The foregoing is not a comprehensive list of investment risk factors, and potential Investors are urged to consult with their professional advisors as to the legal, regulatory, tax and business risks involved in this Fund.

VI. SUBSCRIPTIONS AND REDEMPTIONS

Initial Offering

An Initial Offering of 200,000 Units at US$ 100 (plus a subscription fee of US$ 2 per Unit) is being made. Applications should be for a minimum of 1,000 Units and application for additional units should be in multiples of 100 Units. The Directors of the Fund Company reserve the right to increase or reduce the size of the Initial Offering.

Initial Offer Period

Application for the purchase of Units under the Initial Offering should be made by the Closing Date. The subscription monies in cleared funds must be paid by 12 noon on the Settlement Date. If the Subscription Agreement and/or cleared funds are received after the deadline, it will (unless otherwise determined by the Fund Company) be treated as a request for subscription on the next Subscription Day.

Further Subscription

Units can be subsequently subscribed for on each Subscription Day provided the Fund has received a completed Subscription Agreement at least five Business Days prior to such Subscription Day (subject to the discretion of the Directors to waive such notice) and following receipt of cleared subscription monies by 12 noon on the Business Day immediately preceding the relevant Subscription Day.

Subscription Price

Units will be offered subsequent to the Initial Offer Period on each Subscription Day at the NAV per Unit plus a subscription fee of 2%, as calculated on the relevant Valuation Day, provided that the minimum initial subscription is US$100,000. However, the Directors or the Placement Agent, acting in their sole discretion, may reduce or increase the minimum subscription amount.

The Fund encourages payment of monies in U.S. Dollars. If the Investor pays for Units in any currency other than the U.S. Dollar, subscription amount will be converted at the exchange rate as obtained by the Fund. The exchange rate used to convert such currency may be subject to change if a fluctuation in the exchange rate should take place between the date on which payment for the Units is received and the day on which the payment is converted into the Base Currency of the Fund i.e. U.S. Dollar. Any such exchange rate fluctuation risk is the responsibility of the Investor and neither the Fund, the Fund Company, the Investment Manager, the Placement Agent nor the Administrator will be liable in any way for such risk.

Subscription Agreement

Prospective Investors will be required to complete and return the Subscription Agreement. The completed Subscription Agreement should be sent to the Administrator or its delegate, or an authorised placement agent, details of which are provided in the Subscription Agreement, and must be received at least five Business Days prior to the relevant Subscription Day (or such later time as may be agreed by the Directors of the Fund at their sole discretion). The subscription monies in cleared funds must be paid by 12 noon on the Business Day immediately preceding the relevant Subscription Day. If the Subscription Agreement and/or cleared funds are received after the deadline, it will (unless otherwise determined by the Fund Company) be treated as a request for subscription on the directly succeeding Subscription Day unless the Fund Company or the Placement Agent determines otherwise.

The completed Subscription Agreement will (save as determined by the Fund Company) be irrevocable and may be sent by facsimile at the risk of the applicant. The originals of any Subscription Agreement sent by facsimile should be sent immediately by post or by internationally recognised courier. Failure to provide the original Subscription Agreement may at the discretion of the Directors result in cancellation of the allotment of the Units.

Issue of Units

Units will be issued in the form of a Certificate. The Registrar will maintain the official register of Units. Certificates must be returned to the Registrar prior to processing of redemption requests. Fractions of Units will not be issued where the balances of the subscription monies for Units represent less than the subscription price per Unit. Remaining funds after allotting the number of Units to Investor shall be refunded, however, subscription monies representing less than US$50 will not be returned to the applicant but will accrue to the Fund.

Confirmations will be sent to applicants on approval of their application (i) soon after the relevant Subscription Day and (ii) once NAV has been calculated setting out details of the Units they have been allotted.

Combating Money Laundering

The Fund will comply with Bahrain's Legislative Decree No. (4) of the year 2001 with respect to Prohibition and of Combating Money Laundering and the various Ministerial Orders issued there under including, but not limited to, Ministerial Order No. (7) of 2001 with respect to the Institutions' Obligations Concerning the Prohibition of and Combating Money Laundering.

As a result of the applicable anti-money laundering regulations, documentation may be required along with the subscription request for Units. The Directors, the Placement Agent and the Investment Manager reserve the absolute right to require further verification of the identity of each potential Investor or that of the person or entity on whose behalf the potential Investor is applying for the purchase of the Units and/or the source of funds. This will be used to comply with these regulations and to verify the identity of the Investors and will remain confidential. Each potential Investor will be required to provide satisfactory evidence of identity and if so required the source of funds within a reasonable time period determined by the Fund. Pending the provision of such evidence, application for Units will be postponed. If a potential Investor fails to provide satisfactory evidence within the time specified, or if the a potential Investor provides evidence but the Fund is not satisfied therewith, the application may be rejected immediately in which event the money received on application, if any, will be returned without interest payment.

The Investor may not need to provide documentation to the Fund Company if the Investor has an existing investment in the Fund and has already provided documentation or has already provided evidence of identity to the Fund Company. In the event of none of the foregoing applying to an Investor, the Investor may be required to provide proof of identity to the Fund Company as set out in the Subscription Agreement. .

Pooled funds or financial intermediaries will also be required to provide money-laundering regulations compliance declaration.

Redemption

Investors may redeem Units on each Redemption Day, which means each Valuation Day falling after the expiry of the six-month period from the Closing Date, provided the Investor gives notice to that effect to the Administrator ten Business Days prior to the relevant Redemption Day.

Redemption Price

The redemption price for Units will be equal to the NAV per Unit as determined by the Administrator on the relevant Valuation Day (see Section headed "*VII. Determination of Net Asset Value*").

Redemption Request Form

A request for redemption must be made on the Redemption Request Form and once submitted to the Administrator or the Placement Agent, may not be withdrawn by the Unitholder except on suspension of redemptions, otherwise, the consent of the Fund Company is required for any withdrawal of a redemption request. A redemption request sent by fax or other means of communication will have to be accompanied by the duly filled Redemption Request Form sent by courier as soon as it is practicable.

Payment of Proceeds

Redemption proceeds will be paid in cash. Cash payments will be made in U.S. Dollars and will be remitted by way of cheques or by wire transfer upon request to the account designated by the Investor in the Redemption Request Form after deduction of all relevant expenses. No proceeds will be paid until the Registrar is in receipt of the relevant Certificates and the original Redemption Request Form duly signed by the Investor or its designated authorized signatories.

Any amount redeemed will be paid within five Business Days from the relevant Redemption Day.

Partial redemption resulting in an Investor to have an interest of less than the minimum initial investment (US$ 100,000) will be considered as a request for redeeming the Unitholder's entire holding unless the Fund Company otherwise determine in their sole discretion.

Liquidity Constraints on Redemption

If the Fund receives a net redemption request (redemption amount less subscription amount) from an Investor or Investors on a particular Redemption Day exceeding the 10% of the Fund's NAV, the Fund Company will be entitled to redeem the redemption amount up to 10% of the NAV on a pro rata basis, or in such manner as the Fund Company may deem appropriate. Requests for redemption of Units, which cannot be met on any one Redemption Day, will be carried forward to the next Redemption Day, subject to the same provision.

Mandatory Redemption

In accordance with the Instrument, and by giving an Investor a minimum of seven days notice, the Fund Company may compulsorily redeem any Units if the Fund Company determines (in its absolute discretion) that those Units are purchased or held by, or for the benefit of, a U.S. Person.

In addition to the above, the Fund Company, acting at the recommendation of the Investment Manager, reserves the discretionary right to completely or partially redeem Units held by any Investor at any time for any reason. The Investor will be notified in writing of such redemption. Neither of the Fund, the Fund Company, the Investment Manager, or the Placement Agent will be in any way liable to any Investor by reason of such mandatory redemption.

The Fund may, in its absolute discretion, redeem all outstanding Units in the event of an exceptional decline in the value of the Fund's assets or a decline in the Fund's assets due to redemptions to a level insufficient to sustain normal trading by the Fund.

Suspension of Subscription and Redemption of Units

The Fund may (but is not required to) temporarily suspend the determination of the NAV per Unit and subscription and redemption prices in respect of any Valuation Day upon the occurrence of one or more of the following events:

(a) when the market or markets in which a substantial portion of the Fund's assets are invested or traded is or are closed otherwise than for ordinary holidays, or during which dealings therein are restricted or suspended in a way that affects the valuation of the Fund's assets or where trading is restricted or suspended in respect of securities forming a material part of the Fund's assets;

(b) the existence of any state of affairs as a result of political, economic, military or monetary events or circumstances outside the control of the Fund Company, including but not limited to delay in settlements, and disposal of assets is not reasonably assured without materially affecting the value and interests of continuing Unitholders and calculation of a fair price;

(c) any breakdown in the means of communication or computation or otherwise normally employed in determining the price or value of any of the investments made by the Fund for calculating the NAV or valuing a significant portion of the investment of the Fund, or if the value of any asset or assets which is material to the calculation of NAV may not be determined as accurately or rapidly as required;

(d) imposition of foreign exchange restrictions or other restrictions affecting the transfer of funds and transactions on behalf of the Fund and potentially having a material impact on normal activities of the Fund including but not limited to purchase and sale transactions and flow of funds from one country to the other; or

(e) if an order by a Bahraini court or Bahraini regulatory body, including the BMA, is issued requiring such suspension.

During the suspension period in relation to the calculation of the NAV, the Fund will not issue or redeem Units and the Investors will not transfer Units. Any suspension of more than fifteen business days will be notified to the Unitholders. Any application received for subscription or redemption during the above said period shall be carried forward to the next Valuation Day. All possible steps will be taken to bring the period of suspension to an end.

Where a suspension occurs as described above, the Administrator will notify the BMA as soon as practicable of the suspension and of the reasons thereof.

Listing

The Fund is an open-ended scheme. The Fund Company may seek to list the Fund on the stock exchanges of any of the GCC Countries, including BSE. The Investment Manager does not intend at this time to make a secondary market in the Units.

Voting and Ownership Rights

Units carry no voting rights with respect to the Fund. Units represent an ownership right, based on contract of the Investors in connection with the Fund but not in the Fund Company or any other collective investment schemes launched by the Fund Company other than the Fund.

Ownership Restrictions

Investors may subscribe provided legislation or regulations in Bahrain and in their country of citizenship, residence, domicile or incorporation permits them to do so. U.S. Persons or U.S. residents as defined in Regulation S under the U.S. Securities Act of 1933 are not allowed to subscribe. Persons under 18 years of age are not allowed to subscribe unless he/she has the written authorisation of his/her lawful guardian.

VII. DETERMINATION OF NET ASSET VALUE

The Administrator will determine the NAV of the Fund in U.S. Dollars on a monthly basis at the close of business on each Valuation Day. This will also be made available to Investors and potential Investors on request from the Administrator. In addition, the Unitholders will be sent details of the NAV and a brief report on the Fund's performance on a monthly basis.

The NAV per Unit will be calculated by the Administrator in accordance with generally accepted international accounting standards using the following formula: (a) the total assets of the Fund less the total liabilities divided by (b) the total number of outstanding Units of the Fund prior to such Valuation Day. For the purposes of the determination of the Fund's NAV, the assets of the Fund are separate from the assets of the Fund Company and from the assets of other collective investment schemes created or marketed by the Fund Company.

The assets of the Fund will be valued based on directions from time to time of the Directors. Listed securities will be based on last traded prices directly sourced from the exchange or from recognized service providers such as *Reuters*. Normally, the value of a security for which a representative price is not readily available or is not regularly traded, will be based on the estimated realisable value. For other types of assets the Administrator will determine the method of valuation.

Liabilities will include, but are not limited to:

(a) management and other fees and disbursements of the Investment Manager earned but not yet paid;
(b) any allowance for the Fund's estimated legal and other fees;
(c) charges of the Custodian, Administrator, Registrar, Auditor and any brokerage fees;
(d) investments of the Fund contracted to be sold;
(e) reserves authorised or approved by the Directors or the Investment Manager for duties and charges or taxes or contingencies (accrued where appropriate on a day-to-day basis);
(f) other liabilities of the Fund of whatsoever nature (which will, where appropriate, be deemed to accrue from day-to-day) including outstanding payments on any Units previously redeemed and, as from the record date in respect thereof, any dividends declared and not paid (contingent liabilities (if any) being valued in such manner as the Directors may determine from time to time in any particular case;
(g) all costs relating to any litigation in which the Fund or the Fund Company (acting in relation to the Fund) is involved; and
(h) any amount borrowed for the Fund for reasons as explained in section headed "*IV. Investment Policy – General Restrictions*".

The NAV of the Fund and the Units will be expressed in U.S. Dollars and any items denominated in other currencies will be translated at prevailing exchange rates as determined by the Administrator.

The Auditors will review the NAV calculations on a semi-annual basis.

VIII. MANAGEMENT AND ADMINISTRATION

The Directors

The Directors of the Fund Company have overall authority over, and responsibility for, the operation and management of the Fund and will exercise supervision and control of the Fund including making decisions on matters of general policy and reviewing the actions of Investment Manager, the Custodian, the Administrator and other service providers. The Fund Company may appoint new Directors and officers of the Fund or may remove them from time to time.

Pursuant to the Articles of Association, the Fund Company has three Directors who were appointed for a term of three years. As of the date of this Information Memorandum, the members of the Board of Directors of the Fund Company are: Anthony C. Mallis (who is also the Chairman and Managing Director), Shahid Hameed and Najla Al Shirawi. The three Directors are also employees of Securities & Investment Company BSC(c).

Anthony Mallis joined SICO as Chief Executive Officer in December 2000. Prior to joining SICO, he was a Partner for a year in a private equity partnership located in London that focused on the Middle East. Between 1992 and 1999 he worked for Credit Suisse Asset Management and its predecessor CSFB Investment Management as a Director, responsible for Global Marketing. Between 1987 and 1992, he was Head of Institutional and Government Clients for the Arab World for Bankers Trust Company and was responsible for leading a number of investment banking transactions in the GCC Countries. Prior to that, he worked with Gulf International Bank and Citibank in Bahrain, London and Riyadh.

Shahid Hameed, CFA possesses over nine years of experience in emerging market equities and is well experienced in GCC equities. He joined SICO in 1999 and was responsible for setting up the research department. He currently heads the Asset Management Division and has been instrumental in developing the firm’s asset management business. Prior to joining SICO, he worked for four years in Saudi Arabia and Pakistan analysing mainly emerging market equities. Shahid is a CFA charter holder and also holds a Master of Business Administration degree in Finance from the Institute of Business Administration, Karachi, Pakistan.

Najla Al Shirawi is currently in charge of the Investments and Treasury Division of SICO. During the course of her work with SICO, Najla was part of the team that incorporated SICO Funds Company E.C. and structured the SICO Selected Securities Fund. Najla also acted as the Fund Manager for SICO Selected Securities Fund since its inception up to December 2002. Najla holds a Bachelor Degree in Civil Engineering and a Master of Business Administration in Finance.

Investment Manager

The Fund Company has appointed SICO as the Investment Manager pursuant to an Investment Management Agreement dated January 13, 2004.

In performing its duties and obligations under the Investment Management Agreement, SICO will be supervised by the Directors. SICO, acting under the supervision and direction of the Directors, would be responsible for the Fund's investment management.

SICO is a Bahrain based investment bank with regional asset management being one of its core businesses. SICO currently has over US$ 55 million assets under management in the GCC stock markets. The firm was awarded "Best Securities House in Bahrain" by Euromoney for 2002 and 2003. SICO has been managing discretionary portfolios for clients since 2001 with funds invested across the GCC Countries.

The Investment Manager has appointed Shahid Hameed to manage the Fund (please refer to page 30 for his profile). The Investment Manager may replace the Manager from time to time.

Investment Committee

An investment committee will be formed specifically for the Fund. This investment committee will be headed by SICO's CEO, and will also include the manager of the Fund and other key members of the management team. The committee will meet once a month to review the investment strategy and performance of the Fund.

Custodian

The Fund Company has appointed Gulf Clearing Company BSC (c) as Custodian pursuant to a Custody Agreement dated January 13, 2004. Gulf Clearing Company, Bahrain is a subsidiary of Gulf Clearing Company, Kuwait which is a leading provider of fund custody services in the GCC Countries and currently holds over US$2.6 billion in assets under custody.

The Custodian will, among other things, hold or arrange to hold in safe custody such securities, investments and financial instruments or any other items belonging to the Fund or received from time to time by the Fund, the Fund Company or the Investment Manager. The Custodian will also hold and receive cash belonging to the Fund and maintain bank accounts as may be directed by the Fund Company.

The Directors of the Fund Company will supervise the Custodian.

Administrator

The Fund Company has appointed SICO as Administrator pursuant to a Administration Agreement dated January 13, 2004. The Administrator will, among other things, be in charge of the day-to-day administration of the Fund including, without limitation arranging for payment or deposit of all monies and securities received on behalf of the Fund and the calculation of the NAV of the Fund. SICO holds significant experience in administration services on a regional basis.

The Directors of the Fund Company will supervise the Administrator.

Placement Agent

In connection with the Initial Offering and subsequent subscriptions in the Fund, the Fund Company has entered on January 13, 2004, into the Placement Agency Agreement with SICO, which shall act as the

Placement Agent to the Fund. In this capacity, SICO will use at all times its best endeavors to promote and extend sales of the Fund to all potential Investors and make available materials relating to the Fund to potential Investors as well as receive the Subscription Agreements together with the subscription amounts. SICO will have the discretion to appoint Sub-Placement Agent(s) on terms, which are substantially similar to the terms of the Placement Agency Agreement.

Registrar

The Fund Company has appointed KPMG, Bahrain as Registrar of the Fund. The Registrar will, among other things, maintain the official register of Unitholders and carry out the issue of Certificates and redemption of monies to Investors in accordance with the instructions of the Fund Company and/or the Investment Manager.

Auditor

The Fund Company has appointed PricewaterhouseCoopers, Bahrain, as the Fund's independent Auditor. The Auditor will audit and review financial reports and will submit its report to the Fund Company. Such reports will provide an opinion regarding the Fund's financial statements and an assessment of the accounting principles used. The Auditor will also review the unaudited semi-annual financials for the Fund.

Alternative Service Providers

The services of the Fund's service providers, including the Investment Manager, the Custodian, the Administrator, the Registrar, the Placement Agent and the Auditor will not be terminated or termination will not come into effect until a suitable alternative has been appointed by the Fund Company and approved by the BMA.

IX. FEES AND EXPENSES

The Fund bears fees and expenses incidental to its operation. These include:

Subscription Fees

A subscription fee of 2% is payable to the Placement Agent or a Sub-placement Agent through whom the Units are placed. The Directors or the Placement Agent, acting in their sole discretion, will have the sole right to reduce or waive the subscription fees to be received from Investors.

Management Fees

Base Fees

Under the Investment Management Agreement, the Fund will pay the Investment Manager a base management fee of 1.5% per annum of daily NAV accrued daily and payable on the second Business Day of each Quarter.

Performance Fees

The Investment Manager will also be entitled to receive from the Fund a performance fee of 10% over and above the hurdle total rate of return of 10% for each Financial Year. The performance fees will be accrued monthly on the basis of annualised returns of the Fund taking into consideration the changes in the NAV per Unit of the Fund as well as the dividends declared by the Fund, if any. The performance fees would be payable to the Investment Manager within fourteen business days following the end of each Financial Year. The performance fees accrued for Units redeemed during a given year will be paid along with the outstanding Units at the end of the Financial Year.

For purposes of calculating the performance fee, performance will be calculated based on the change in the NAV per Unit of the Fund after deduction of all fees and expenses except performance fees. This performance will be annualised and then compared against the annualised hurdle rate. Performance fees will be calculated on the return in excess of the hurdle rate.

Launching Costs

All expenses incurred in launching this Fund including those already spent to date are to be borne by the Fund. These include but are not limited to legal, printing, postage and circulation costs of this Information Memorandum and related documents, registration fees, and Initial Offering expenses associated with the setting-up of the Fund. These costs are capped at US$ 40,000 (and expenses above this amount will be borne by the Fund Company) and will be capitalised and amortised over a period not exceeding one year.

Administration Fee

Under the Administration Agreement, the Administrator will be entitled to receive 0.1% per annum of the NAV (calculated on daily NAV for these purposes prior to the deduction of management fees) accrued monthly but payable quarterly on the second Business Day of each Quarter.

Custody Fee

Under the Custody Agreement, the Custodian will be entitled to receive an annual custodian fee at a rate of 0.125% of the daily NAV of the assets held by the Custodian for the account of the Fund, as determined from time to time by the Investment Manager. The Custodian Fee shall accrue daily and is payable on a pro rata basis on a quarterly basis with the first payment payable by the Fund Company on behalf of the Fund on the second Business Day of the Fund's second Quarter and thereafter on the second Business Day of each Quarter.

Registrar Fees

Under the Registrar Agreement, the Registrar will be entitled to receive a flat fee of BD 1,500 per annum for up to 1,000 Unitholders. Beyond 1,000 Unitholders, the registrar will be entitled to fees as set out in the Registrar Agreement. Moreover, the Fund will reimburse the Registrar for certain services rendered and expenses borne by the Registrar as more fully described in the Registrar Agreement.

Auditors Fees

The Auditor will be entitled to receive a flat fee of BD 2,000 for preparing an annual audit report and BD 1,000 for reviewing the semi-annual financials of the fund exclusive of any out of pocket expenses incurred by the Auditor.

Other Operating Costs

The Fund will be charged all other expenses incurred in connection with the normal operation of the Fund including, but not limited to, transactional costs including brokerage, banking, exchange fees, auditing, registrar and legal fees, government charges and duties. The Fund will also bear the costs of publishing of the NAV, subscription and redemption prices. The Auditor shall review and verify such operating costs.

The Fund will also pay a one third share of the annual expenses related to the registration and other expenses due to supervisory authorities and are related to the Fund Company. The accounting treatment for such expenses will depend on their nature and will either be posted directly to the NAV, accrued or amortized.

X. DIVIDEND POLICY

It is the intention of the Directors to declare dividends on the Units on an annual basis. The Fund Company intends to distribute part of the Fund's net investment income annually. The source of such distributions shall be from dividend as well as interest income on assets held by the Fund Company on behalf of the Fund. The Fund Company may, at the sole discretion of the Directors, pay dividends out of realised and unrealised capital gains achieved by the Fund.

At the election of each Unitholder the dividend will be paid in cash or reinvested in additional Units of the Fund. This election should initially be made on the Subscription Agreement and may be changed upon written notice to the Fund Company at any time prior to a record date that would be announced by the Fund Company for each Financial Year for a particular dividend or distribution. Such reinvestment of dividends will be made at the NAV per Unit as per the Valuation Day immediately preceding the pay date. No subscription fees will be levied in connection with the reinvestment of dividends.

Payment of the dividend shall be made to the account of each Unitholder as indicated in the register of the Fund. Cheques representing the annual cash dividend payment, if any, will either be sent through registered post to the address of the Unitholder as appearing in the Fund Register, or collected by the Unitholder in person from the Registrar, within fifteen calendar days from the date on which dividend payments are made. In cases when a Unitholder elects to reinvest the dividend in additional Units, a certificate will be issued to the Unitholder representing this reinvestment.

There can be no assurance that the Fund's investments will be successful or the investment results for any one Financial Year justify the payment of dividends. Thus, there can be no assurance that annual dividends will be declared. The declaration and payment of dividends will be in accordance with the Instrument and this Information Memorandum and is in the sole discretion of the Directors. It is therefore possible that no dividend payments will be made during the life of the Fund.

XI. TAX AND EXCHANGE CONTROL CONSIDERATIONS

As at the date of this document the Fund Company was advised that there are no income, capital gains, withholding, inheritance, or estate taxes in Bahrain applicable to the Fund, nor is there any stamp duty payable in Bahrain on the transfer, sale or purchase of Units. Under current law, the Fund Company and the Fund will not be subject to tax in Bahrain on its profit, income, gains or appreciation arising in Bahrain or elsewhere.

Accordingly, dividends (if any) received by the Fund and gains (if any) realized by the Fund are not currently subject to tax in Bahrain. Furthermore, fees received for services rendered by the Fund and the Fund Company are not subject to tax in Bahrain.

A Unitholder will not be subject to Bahrain tax with respect to any dividend received on the Units (including distributions received upon liquidation of the Fund and the Fund Company or with respect to any gains realized upon the sale or redemption of the Units). Bahrain does not impose any withholding taxes. Accordingly, no withholding on account of any Bahrain tax is required by the Fund Company or the Fund with respect to any dividend distributions made to a Unitholder or any gains realized by such Unitholder upon the sale, redemption or exchange of the Units.

Individual Unitholders, whether resident in Bahrain or not, are not subject to any Bahrain gift, estate, inheritance or similar taxes solely by reason of the ownership of the Units.

There are no currency or exchange control restrictions currently in force under Bahrain law and the free transfer of currency into and out of Bahrain is permitted, subject to any international regulations in force from time to time.

In the event that there is any material amendment or change to Bahrain law in connection with the matters referred to above, the Investment Manager will notify the Unitholders of such amendment or change in the next following report that is circulated to the Investors after such amendment or change has come to the attention of the Investment Manager.

Potential Investors should ascertain from their professional advisors the consequences of acquiring, holding, redeeming, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including any tax consequences and exchange control requirements.

XII. INVESTMENT COMMITMENT

The Investment Manager commits to invest in the Fund by subscribing in cash for the Units on the Closing Date. The Investment Manager also commits to maintain a minimum investment of the lower of 10% of the Fund's NAV or US$ 2 million throughout the life of the Fund.

XIII. LIFE AND LIQUIDATION OF THE FUND

The Fund is an open-ended collective investment scheme, but the duration of the Fund is subject to the duration of the Fund Company, which is twenty five calendar years commencing from the date of registration of the Fund Company i.e. March 30, 1998 in the Commercial Registry. This duration may be extended by a resolution to be adopted by an extraordinary meeting of the general assembly, in the manner provided for in the Commercial Companies Law, of the Fund Company with the approval of the Ministry of Commerce of the Kingdom of Bahrain and the BMA.

In accordance with the Instrument, the Fund may be liquidated earlier if the Directors and shareholders in the Fund Company so resolve as a matter of extraordinary business at any time without penalty to any party involved.

In the event of an exceptional decline in the value of the Fund's assets or a decline in the Fund's assets due to redemptions to a level insufficient to sustain normal trading by the Fund, or due to insufficient subscription during the Initial Offer Period, the Fund Company may have to liquidate or voluntarily liquidate positions or cease trading and terminate the Fund.

If the Fund should be liquidated, its liquidation will be carried out in accordance with the laws, which specify the steps to be taken to enable Unitholders to participate in any liquidation distributions. Under Bahrain Law, termination of the Fund requires a prior written consent of the BMA and that reasonable notice be given to Investors. Upon liquidation of the Fund, the assets of the Fund will be allocated to Investors after all amounts due to third parties, including those due under the contractual arrangements entered into by the Fund Company on behalf of the Fund and under Bahrain law, are satisfied.

Please refer to section headed "*VI. Subscriptions and Redemptions*" for details in connection with mandatory redemption.

XIV. GENERAL INFORMATION

Incorporation of the Fund Company

SICO Funds Company E.C., a Bahraini Fund Company approved by the BMA and incorporated in 1998 as a Bahrain Exempt Investment Share Company with Commercial Registration No. 40378, whose registered address is First Floor, BMB center, P.O. Box 1331, Manama, Bahrain. The Fund Company has the right to issue various kinds of shares and create and manage investment funds.

For further information about the Fund Company please refer to the section headed "*III. The Fund and the Fund Company*".

Voting rights

Units issued in the Fund carry no voting rights with respect to the Fund or the Fund Company. Units represent an ownership right, based on contract of the Investors in connection with the Fund but not in the Fund Company or any other collective investment schemes launched by the Fund Company other than the Fund.

Reporting

The Fund will prepare annual accounts with the year ending being December 31. Unaudited interim accounts will be prepared in respect of the first six months of each annual accounting period of the Fund. Unitholders will be sent a copy of the Fund Company's annual report and audited financial statements within six months of the end of the period to which they relate. Unaudited interim accounts will be sent to Unitholders within four months of the end of the period to which they relate. Any such financial information will be sent to prospective Investors in the Fund upon request.

Financial Year

The Financial Year of the Fund will begin on January 1 and will end on December 31 of each year except for the first financial year, which will begin on the Closing Date and come to completion on December 31, 2004.

Unit Certificates

Units will be issued in the form of certificates substantially in the form attached to the instrument. The Registrar will maintain the official register of Units. Certificates must be returned to the Registrar prior to processing of redemption requests. Fractions of Units will not be issued where the balances of the subscription monies for Units represent less than the subscription price per Unit. Remaining funds after allotting the number of Units to Investor shall be refunded, however, subscription monies representing less than US$50 will not be returned to the applicant but will accrue to the Fund.

General meetings of Unitholders

Information on general meetings of Unitholders is set out in Third Schedule of Section headed "*XIX. – Form of Instrument*"

Minimum and maximum subscription

Although the Initial Offering is for 200,000 Units, the Directors may increase or decrease the size of the Initial Offering. In case of higher subscriptions, if the Directors are satisfied, in the best interest of the Fund, that the additional sum can be invested within a reasonable time frame in accordance with the Fund's objectives, then on their own absolute discretion, a higher subscription amount may be accepted. In case of lower subscriptions, the Directors acting in their sole discretion may decide to proceed further with the Fund even if the amount subscribed is less than the amount on offer in the Initial Offering. This may be due to, but not limited to the expectation of additional Units being subscribed in the following months.

Allocation

In case of over-subscription, whereby the Directors decide not to accept all subscriptions, allocation of Units will be at the discretion of the Fund Company and Investment Manager. The process followed for allocation may, but is not limited to, the size, objectives and nature of the Investors. Allocation of the Units, if required, will be notified to the Investors within three Business Days from the Settlement Date.

Changes to this Information Memorandum

Proposed changes to this Information Memorandum must be made by the Directors and will be subject to the approval of the BMA. Changes once approved will be reported to Investors of the Fund.

Rejected applications

The Units are being offered subject to the right of the Fund Company to reject any subscription in whole or in part, for any reason whatsoever. In particular, applications to subscribe to this Initial Offering will be rejected if

(a) the subscription amount for Units applied for is not paid in full before the Closing Date;
(b) a cheque representing the subscription amount is dishonoured or returned unpaid for any reason;
(c) the Subscription Agreement is not received prior to the Closing date; or
(d) the Subscription Agreement is incomplete or inaccurate as to any detail or the required documents are not attached with the Subscription Agreement.

XV. MATERIAL CONTRACTS

The following is a list and summary of material contracts, which the Fund Company has entered into on behalf of and in connection with the Fund:

1. An **Investment Management Agreement** dated January 13, 2004 between the Fund Company and the Investment Manager, pursuant to which the Investment Manager has agreed to provide certain investment management and advisory services to the Fund. In addition, this Agreement contains detailed provisions relating to the investment objectives, and restrictions imposed on the Investment Manager. Details of the fees payable to the Investment Manager are described in the section headed ''*IX. Fees and Expenses*''.

2. A **Custodian Agreement** dated January 13, 2004 between the Fund Company and the Custodian pursuant to which the latter has been appointed to act as the Fund's custodian. The Custodian will hold or arrange to hold in safe custody such securities, investments, financial instruments or any other items belonging to the Fund. The Custodian will also maintain non-interest bearing accounts for different purposes as may be advised by the Fund with record of all the transactions under such accounts. Under this Agreement the Custodian has the power to appoint sub-custodians, agents or nominees and to delegate certain custodial and other functions where necessary to any such sub-custodians, agents or nominees. Details of the fees payable to the Custodian are described in the section headed ''*IX. Fees and Expenses*''.

3. An **Administration Agreement** dated January 13, 2004 between the Fund Company and the Administrator pursuant to which the latter has agreed to provide administration services to the Fund Company in connection with the Fund. The Administrator on receipt of monies will arrange for the payment or deposit of all monies and securities received on behalf of the Fund and keep the accounts of the Fund and such financial books and records as are required by law or otherwise for the proper conduct of the financial affairs of the Fund. Details of the fees payable to the Administrator are described in the section headed ''*IX. Fees and Expenses*''.

4. A **Placement Agency Agreement** dated January 13, 2004 between the Fund Company and the Placement Agent pursuant to which the Placement Agent will use at all times its best endeavors to promote and extend sales of the Fund to all potential Investors and make available materials relating to the Fund to potential Investors as well as receive the Subscription Agreements together with the subscription amount. The Placement Agent will have the discretion to appoint Sub-Placement Agent(s) on terms which are substantially similar to the terms of the Placement Agency Agreement. The latter will make available materials relating to the Fund to potential Investors upon their request. Details of the fees payable to the Placement Agent are described in the section headed ''*IX. Fees and Expenses*''.

5. A **Registrar Agreement** dated January 13, 2004 between the Fund Company and the Registrar pursuant to which the latter has agreed to provide registrar services to the Fund Company in connection with the Fund. The Registrar will maintain a register of the holders of the Units of the Fund and will give anyone authorised by the Fund Company, or as required by law, access at all reasonable times to the register and subsidiary documents and records and carry out the issue of Certificates and redemption of monies to Investors in accordance with the instructions of the Fund Company. Details of the fees payable to the Registrar are described in the section headed ''*IX. Fees and Expenses*''.

XVI. A CASE FOR GCC EQUITIES

The recent strong gains have brought the GCC markets back into the limelight with unprecedented investor interest currently being witnessed across the region. Since 2001, the regional markets have not only outperformed the world and developed stock market indices, but have also produced substantially superior returns compared to the IFC Emerging Markets Composite Index. This performance has once again highlighted that these markets continue to offer high return potential and diversification benefits with almost negligible currency risk in a tax-free environment. In addition, the regional equity markets also offer significant stock picking opportunities for research-based investors, as these markets remain relatively inefficient compared to other developed markets of the world.

Strong Performance

Following two years of strong performance, GCC equities continued to produce stellar returns in 2003 with all six markets posting impressive gains. With sharp declines in global equities, the GCC stock markets started to witness renewed buying in 2001. A negative global investment outlook resulted in a slow down in the export of capital from the region to the developed capital markets causing a substantial rise in liquidity in the region.

At the same time, falling global interest rates made the regional equities look attractive as the average yield in GCC equities was hovering around 8%. A number of few fundamentally strong companies were generating dividend yields of over 10% at that point in time. As a result, regional investors started to take a fresh look at the investment opportunities available in their own home markets.

Over the past years, a changing geo-political landscape coupled with continued uncertainty in international capital markets has resulted in a significant amount of excess liquidity in the system finding its way in to regional equities. The initial interest in the regional markets was further reinforced with robust earnings performance by regional "blue chips". Furthermore, a buoyant macro-economic backdrop has also been advantageous for equities, as regional economies have continued to grow at a healthy rate.

The GCC equities continued to do well in 2003 with strong momentum being witnessed in most of the markets. A swift end to the Iraq war fuelled the rally even further with the reconstruction of Iraq expected to have a positive spill over effect on the regional economies with Kuwait anticipated to be the biggest beneficiary.

Table 2: Performance Matrix

(%)	MSCI	S&P 500	FTSE	IFCG EM	Saudi	Kuwait	UAE	Qatar	Bahrain	Oman
2000	-15	-10	-10	-33	11	-7	-18	-8	-18	-20
2001	-17	-13	-16	-2	8	27	24	37	-3	-24
2002	-34	-23	-24	-3	4	39	15	37	3	26
9M 2003	15	13	4	28	70	84	28	52	19	34

Source: Reuters, Bloomberg

Kuwait has been the best performing market with an increase of 83.5% in the benchmark index in the first three quarters of 2003. Investors have been particularly upbeat about Kuwait's potential role in the reconstruction effort of Iraq, which has led to strong regional interest in the domestic bourse. Saudi Arabia has followed with a gain of 69.8% during the first nine months of 2003. Strong performance by the newly listed Saudi Telecommunications Company has underpinned the rise in the Saudi index. Concurrently, Qatar has posted a gain of 52.4% as investors have bid up the prices of domestic equities in view of the strong economic growth expectations over the next few years.

Oman continued its rally well into 2003 with a 34.2% increase in the market index during the first three quarters of the year. Oman has been a favorite for value investors recently as it has been trading at attractive valuations vis-à-vis the rest of the region. Bahrain has also participated in the rally with most of the liquid stocks posting impressive gains, with the market index closing up 18.8% during the first nine months of 2003. The last regional market, UAE also picked up strongly in the third quarter of the current year and experienced a gain of 28.1% during the first nine months of 2003.

Diversification Benefits

In addition to providing spectacular returns, the GCC markets have continued to show low correlation with the developed as well as other emerging markets. Markets with low correlation are desirable as they can reduce overall portfolio risk with little reduction in expected return.

Traditionally investors have viewed emerging markets as such an asset class because their returns have moved independently of developed equity market returns. However, with increasing globalization, some argue that world equity markets have become increasingly correlated, which has diminished the positive diversification benefits generally associated with emerging stock markets.

Although this argument is true for a number of emerging markets, as seen by the rising correlation of the emerging markets with developed markets, the diversification benefits of GCC stock markets remain intact. Research shows that the regional equity markets show extremely low correlation with other developed markets, which indicates that adding GCC assets should increase the mean variance efficiency of globally diversified portfolios. This can be explained by the fact that regional economies remain fairly segmented from the rest of the world with a relatively low level of integration with the global economy.

Table 3: Global Diversification Benefits

	MSCI	S&P 500	FTSE	IFCG EM
MSCI	1.00			
S&P 500	0.93	1.00		
FTSE	0.79	0.75	1.00	
IFCG EM	0.68	0.55	0.51	1.00
Saudi	0.13	0.10	0.10	0.23
Kuwait	0.16	0.11	0.18	0.18
UAE	0.11	0.13	0.11	0.14
Qatar	0.13	0.13	0.06	0.12
Bahrain	0.10	0.00	-0.02	0.20
Oman	-0.07	-0.04	-0.04	-0.12

Source: SICO, Reuters, Bloomberg

Data from Jan 2000 – Sept 2003

Note from the table above that GCC markets, in addition to showing low correlation with developed markets, also exhibit very low correlation with other emerging markets of the world. As a result, GCC equities provide diversification benefits even for an emerging market dedicated portfolio. This is mainly due to the fact that there is little participation by foreign fund managers in the GCC stock markets, which insulates these markets from the risk of large withdrawals by foreign investors when they simultaneously withdraw funds from multiple emerging markets. The markets that have fewer funds that may be withdrawn are less affected by the unstable correlation between emerging markets.

Another interesting feature of the regional markets is that they have low correlation with each other. This has important implications for regional investors as it shows that they can construct more efficient portfolios by diversifying within the region. The low correlation within the GCC region exists due to the low participation of regional investors in these markets. This also highlights the fact that although the regional economies remain oil driven, GCC equity returns are mainly influenced by indigenous factors that are unique to each country.

Table 4: Regional Diversification Benefits

	Saudi	Kuwait	UAE	Qatar	Bahrain	Oman
Saudi	1.00					
Kuwait	0.24	1.00				
UAE	0.12	0.14	1.00			
Qatar	0.25	0.07	0.15	1.00		
Bahrain	0.20	0.14	0.14	0.03	1.00	
Oman	0.08	0.10	0.10	0.27	0.12	1.00

Source: SICO, Reuters, Bloomberg

Data from Jan 2000 – Sept 2003 except for Qatar which is from May 2001

Low Currency Risk, Zero Taxes

The near absence of currency risk is also a particularly attractive attribute of the GCC stock markets. Currency risk, which is a major risk facing emerging market investors, creates transaction exposure, translation exposure and economic exposure. Hedging this risk can be costly for emerging markets investors as appropriate hedging instruments are either not available or are prohibitively expensive in these markets.

Currency risk is almost non-existent in the GCC as all regional currencies are pegged to the U.S. Dollar at fixed exchange rates with minimal devaluation risk. Outside investors in the region are essentially taking an exposure on the U.S. Dollar with almost no risk on local currencies. Additionally, all six currencies in the region are freely convertible and foreigners are allowed to fully repatriate their profits outside the country.
Lastly, another significant advantage of investing in the GCC is that there are no taxes in the entire region. The investors in the regional capital markets are not subject to taxation on dividends or capital gains.

Relatively Inefficient Markets

Despite the rapid development witnessed by the region, the GCC equity markets remain relatively inefficient with markets frequently mispricing equities. These inefficiencies are mainly a result of an irregular flow of information and lack of institutionalization, which gives rise to significant stock picking opportunities for professional investors. Therefore, a research-intensive bottom-up approach to investing in the region should yield superior investment results, as it allows investors to capture opportunities that market inefficiencies provide.

However, the regional markets remain under-researched. This necessitates that, for effective stock picking, fund managers in the region must develop their own proprietary research capabilities by dedicating significant resources. This entails a grasp of the macro-economic picture and developing an insight into domestic business dynamics. The managers also have to gain an understanding of the country specific stock market peculiarities and leverage broker relationships. In addition, investing in the GCC region also poses all the challenges that are generally associated with other emerging markets such as an irregular flow of information, cultural barriers and varying reporting standards.

XVII. GCC STOCK MARKETS

The GCC markets have been growing at a rapid pace over the past several years. The combined market capitalization of the six regional markets stood at US$163.3 billion at the end of 2002, which translates into an almost three fold increase from its 1994 level of US$56.6 billion. Additionally, 2003 has been one of the best years for these markets, as all regional indices have shown impressive gains. This has resulted in a 70% increase in the aggregate regional market capitalization to US$277.1 billion at the end of September 2003.

There has also been a substantial increase in the number of companies listed in the region. At the end of 2002, 404 companies were listed in the six GCC markets, which compares to only 212 listings in 1994. This is an indication of the increasing breadth of these markets, which is in line with the economic growth witnessed in the Gulf over this period.

Table 5: GCC Markets – Developing Rapidly

	Market capitalization ($ billion)	Number of companies listed	Value traded ($ billion)
1994	56.6	212	9.0
2002	163.3	404	55.8
CAGR – 1994 to 2002 (%)	*14.2*	*8.4*	*25.6*
2003 – September End	277.2	424	163.9

Source: Arab Monetary Fund and SICO

At the same time, markets are showing signs of deepening with an increase in trading activity in the region. For 2002, the total value traded in the GCC amounted to US$55.8 billion, which is significantly higher than just US$9 billion recorded in 1994. Further, the activity on the regional bourses has picked up strongly during the first nine months of 2003. The aggregate value traded in the six stock markets amounted to US$ 163.9 billion, translating into a turnover ratio on an annualized basis of almost 78.8%, which is high especially by emerging markets standard.

Table 6: GCC Markets – A Snapshot As of 2002

	Saudi	Kuwait	UAE	Qatar	Bahrain	Oman
Market capitalization ($ billion)	74.9	35.1	29.8	10.6	7.7	5.3
Market capitalization to GDP (%)	48.4	101.7	42.0	56.2	93.0	26.0
Number of companies listed	68	95	36	25	40	140

Source: Arab Monetary Fund and SICO

It is noteworthy that despite the rapid pace at which the regional markets have evolved over the past decade, they remain fairly concentrated. Commercial banking and telecommunication sectors remain the two dominant sectors in the region. These two sectors together account for over half of the market capitalization, as well as value traded, in the GCC stock markets on an overall basis. For perspective, eight out of the ten largest capitalized stocks in the region are either from the commercial banking or the telecommunication sectors.

With the region moving towards liberalization and deregulation, the GCC equity markets are also opening up to foreign investment. Restrictions with regard to outside ownership of publicly traded companies are being relaxed. Currently, the six markets enjoy varied levels of liberalization with Kuwait, Bahrain and Oman almost fully open to outside investors.

Kuwait is the most open market in the Gulf with minimal restrictions on foreign ownership of stocks. Foreigners are now allowed to own up to 100% in all companies listed on the Kuwait Stock Exchange with a few exceptions where the articles of the subject companies do not allow foreign ownership.

In Bahrain there is no restriction on foreign ownership in offshore companies. For local entities, GCC nationals can own up to 100% and non-GCC nationals can own up to 49% with some company specific restrictions. Oman is almost fully open for GCC investors while the limit for non-GCC shareholding is currently set at 49% with a few company specific restrictions.

Saudi Arabia is gradually opening up its stock market for foreigners. Currently, GCC nationals are allowed to own up to 25% of any company traded in the Saudi stock market other than the banking sector. Non-GCC nationals, however, are allowed to invest through mutual funds only, which are now widely available.

For the UAE, foreign investors (both GCC and non-GCC nationals) are allowed to invest directly in four listed companies and through country-dedicated funds. Qatar has also started to ease its foreign investment regulations and foreigners can now own shares in a few companies directly. Additionally, laws governing the launch of mutual funds are currently being finalized and it is expected that the foreigners would be able to invest in Qatar through mutual funds in the near future.

For further elaboration, we have briefly discussed the basic characteristics of the equity markets of the six GCC Countries in the following pages.

SAUDI ARABIA

Table 7: Saudi Arabia Indicators

	1999	2000	2001	2002	2003 *
Listed firms	72	75	76	68	69
Volume of shares traded (m)	527.5	554.9	691.8	1735.8	4,335
Value of shares traded ($ bn)	15.1	17.4	22.3	35.7	119.9
Benchmark index - TASI	2,029	2258.3	2430.1	2518.0	4276.5
Change (%)	43.6	11.3	7.6	3.6	69.8
Market capitalization ($ bn)	60.9	67.8	73.2	74.9	143.4
Change (%)	42.9	11.3	7.9	2.3	91.6

* End Sept 2003

Source: Arab Monetary Fund & Tadawul,

Saudi Arabia, which does not have a formal stock exchange, is by far the largest stock market in the GCC region with a capitalisation of US$143.1bn at the end of September 2003. Saudi Arabia is an over-the-counter market that was formalised in 1980s under the direction of the Saudi Arabian Monetary Authority, which acts as the market regulator. At the end of September 2003, the Saudi equity market comprised of six sectors namely banking, industry, cement, services, electricity and the agriculture sector, with a total number of 69 listed companies.

Today, Saudi Arabia is one of the most active markets in the region with value traded increasing at an annual average rate of more than 20% over the past eight years. Activity has surged sharply during the first nine months of 2003 and totaled US$119.9bn, which is more than three times the activity recorded in the whole of 2002. The market's turnover ratio reached 112% on an annualized basis in the first nine months of 2003. Although the number of companies listed has remained fairly stagnant over the past several years, the market capitalization has increased at an average rate of 8.6% between 1994 and 2002. Furthermore, the Saudi market has seen a handsome increase of 91% in market capitalisation in the first nine months of 2003.

In a bid to introduce a more liberal market environment, Saudi Arabia has gradually opened up its stock market for foreigners. Currently, GCC nationals are allowed to own up to 25% of any company traded in the OTC market of Saudi Arabia other than the banking sector stocks. Non-GCC nationals, however, are allowed to invest through mutual funds only, which are now widely available.

During the first half of 2003, a cabinet decision was taken to endorse a capital market law to launch an official stock exchange, in place of the current share trading system that is operated through banks. In addition, an announcement was also made stating that the new Saudi Capital Market Law is likely come into effect in 2004.

The increase in the Tadawul benchmark index, which is up 69.8% during the first nine months of 2003 was underpinned by various positive factors. Higher than budgeted oil prices, absence of alternative investment avenues, strong corporate results by large capitalization stocks such as SABIC and STC were some of the developments that ignited interest for Saudi equities. Since its successful listing on February 25, 2003, STC has been one of the volume leaders in the active Saudi market.

KUWAIT

Table 8: Kuwait Market Indicators

	1999	2000	2001	2002	2003 *
Listed firms	85	86	88	95	108
Volume of shares traded (m)	9,495.9	6,758.3	20,825.3	42,163.3	36,457
Value of shares traded ($ bn)	6.0	4.2	11.7	22.1	39.2
Benchmark index (KWSE)	1442	1348.1	1709.4	2375.3	4359.5
Change (%)	-8.9	-6.5	26.8	39.0	83.5
Market capitalisation ($ bn)	19.6	19.8	26.7	35.1	55.0
Change (%)	85	86	88	95	108

* End Sept 2003

Source: Arab Monetary Fund & Kuwait Stock Exchange Monthly Reports

Kuwait Stock Exchange (KSE), established in 1977, is the second largest and the most liquid in the GCC with substantial trading activity taking place on a daily basis. The process of using corporate equity issues as tradable securities started with the public subscription in 1952 to the shares of the National Bank of Kuwait, the first public shareholding company to be established in the Gulf. The formation of a formal stock market in Kuwait was mainly a result of a stock market crisis in August 1982, which resulted in the collapse of the unofficial Souk Al Manakh. Given the severity of the situation, the government was forced to support the market and as a result ended up with around 50% of the equity of almost all of the listed companies. This considerable financial strain prompted the government to expedite the setting up of a formal stock market that eventually came into existence in 1983.

The KSE operates a modern computerized system called the Kuwait Automated Trading System (KATS). The performance of the Kuwaiti market is reflected by two price indices designed by the KSE. Out of the two, the price weighted KWSE index is generally used as the benchmark for Kuwaiti equities.

From a modest 54 companies listed in the early 1990's, the total number of companies on the KSE stood at 108 at the end of Sept 2003. The country's market capitalisation grew to US$35.1bn at the end of 2002 from US$11bn in 1994. The market has historically been the most active amongst its regional peers with higher than average turnover ratios. The value traded on the domestic bourse has seen a rapid annual growth of 35.4% between 1994 and 2002. The activity level improved further in 2003 with US$39.2.bn of turnover recorded during the first three quarters of 2003, which translates into an impressive turnover ratio of close to 95% on an annualised basis.

Also working to the advantage of Kuwait stock market is the high degree of liberalization of the market with minimal restrictions on foreign ownership of stocks. Foreigners are now allowed to own up to 100% in all companies listed on the KSE with a few exceptions where the articles of the subject companies do not allow foreign ownership.

After healthy gains in 2001 and 2002, the KSE has experienced a period of stellar gains in 2003 with the benchmark index rising by 83.5% during the first nine months of the year. Ample liquidity, strong corporate profits and the low interest rates have been the driving force behind the improving performance by the second largest market of the GCC.

UNITED ARAB EMIRATES

Table 9: United Arab Emirates Market Indicators

	2000	2001	2002	2003*
Listed firms	na	na	36	43
Volume of shares traded (m)	24.4	113.6	247.1	328.3
Value of shares traded ($ bn)	0.4	0.6	1.3	1.3
Benchmark index - NBAD	2408.9	2976.5	3408.5	4365.2
Change (%)	-18.3	23.6	14.5	28.1
Market capitalisation ($ bn)	24.5	27.6	31.2	40.2
Change (%)	nm	12.7	13.0	28.8

* End Sept 2003

Source: Arab Monetary Fund & ADSM/DFM Reports & NBAD

The United Arab Emirates (UAE) is the third largest stock market in the region with a capitalisation of US$40.2bn at the end of September 2003. The UAE stock market is comprised of two separate exchanges, the Abu Dhabi Securities Market (ADSM) and the Dubai Financial Market (DFM). Both stock exchanges are regulated by the Emirates Securities and Commodities Authority, a 100% UAE government owned regulatory and licensing body. Initially it was known as the Emirates Stocks and Commodities Authority, which in May 2003 changed its name to Emirates Securities and Commodities Authority.

The two exchanges were established in 2000 as independent markets. During the year 2001, ADSM and DFM entered into an agreement to electronically link the brokers licensed in one market to the trading tools in the other market, which allows them to electronically trade in both markets.

As a further step towards closer link-up between the two markets, the UAE government announced several new developments in October 2003. Apart from approving a uniform National Investor Number for the two exchanges, the management of the two bourses also agreed to unify dealing systems and timings in the two exchanges and a new system for licensing stock brokers. Furthermore, the panel also decided to set up a joint screen to be called the Emirates Securities Market on which all data on the two exchanges will be displayed.

In terms of liberalization, UAE is a relatively closed market. Foreign investors are allowed to invest in the UAE stock market only through country-dedicated funds. At the same time, outsiders are also permitted to directly invest in four companies listed in the UAE.

The first nine months of 2003 were witness to a number of new listings in the UAE, which grew the number of listed stocks on the DFM and ADSM to 43 as of the end of September. As an indication of the increased amount of buying interest in the domestic market, the total volume of shares traded during the same period amounted to 328.3m as against a volume of 247.1m for the whole of 2002. Market capitalization on the UAE market has increased substantially from US$27.6bn at the end of 2001 to US$40.2bn at the end of September 2003.

QATAR

Table 10: Qatar Market Indicators

	1999	2000	2001	2002	2003 *
Listed firms	21	22	23	25	29
Volume of shares traded (m)	35.3	31.6	51.0	79.6	142
Value of shares traded ($ bn)	0.4	0.3	0.4	0.9	2.3
Transactions (number)	13,964	12,225	15,771	29,787	72,703
Benchmark index – DSM	1341.0	1233.3	1692.2	2323.8	3540.5
Change (%)	-5.1	-8.0	37.2	37.3	52.4
Market capitalisation ($ bn)	5.5	5.2	7.3	10.6	25.4
Change (%)	43.4	-6.12	42.1	43.9	140.7

* End Sept 2003

Source: Arab Monetary Fund & Doha Securities Market

The first step towards the establishment of an official stock exchange in Qatar was the passing of a Decree Law No 14 on July 3, 1995, which allowed for the formal establishment of the Doha Securities Market (DSM). The DSM was officially opened on May 26, 1997 and a special committee was entrusted with the responsibility of overseeing the administration of the stock exchange. Additionally, the same committee was awarded the task of regulating the activities of the DSM and its participants.

At the time of the formal establishment of the DSM, the trading process was entirely manual. However, with a view to strengthen the regulation of the trading process, the government first converted the market into a semi-automated system. On March 11, 2002, DSM became fully electronic, with the successful implementation of the Electronic Trading System.

Unparalleled GDP growth coupled with a strong earnings performance by the Qatari corporate sector have been the primary drivers behind the impressive performance of the DSM. Over the past three years, substantially higher proceeds from the oil and gas sector fueled an average GDP growth of 14%, based mainly on increasing contribution from LNG production, which has had a trickle down impact on a number of listed companies on the DSM. The market was also witness to a number of new listings and initial public offerings, which added further depth to the DSM. Market capitalisation has surged by nearly 150% during the first nine months of 2003, while trading activity levels also increased substantially and amounted to US$2.3bn during the same period.

The privatization drive initiated by the government, which saw the likes of Qatar Telecom (QTEL) and Qatar Electricity and Water Company experiencing partial divestment through the DSM, kicked into gear during the current year as a number of IPOs were announced by the DSM, namely, Qatar Technical Inspection, United Development Company, Industries of Qatar and National Leasing. Despite these developments, Qatar at present is relatively closed to foreign investors with few scrips available for investment. Laws governing the launch of mutual funds are currently being finalized.

After a steady start, Qatar’s stock market has recently gained considerable momentum with both volume and value of shares increasing manifold. Reaping the benefits of the low interest rate environment and ample liquidity prevailing in all the GCC member states, the domestic market was up 52.4% during the first nine months of 2003 after rising 37.2% and 37.3% in 2001 and 2002, respectively.

BAHRAIN

Table 11: Bahrain Market Indicators

	1999	2000	2001	2002	2003 *
Listed firms	41	41	42	40	43
Volume of shares traded (m)	534.2	422.0	313.1	352.9	268.9
Value of shares traded ($ m)	444.5	245.5	250.4	206.3	180.9
Transactions (number)	18,145	11,906	13,135	12,757	10,432
Benchmark index (BSE)	2212.2	1805.76	1761.46	1821.49	2164.35
Change (%)	1.1	-18.4	-2.5	3.4	18.8
Market capitalisation ($ bn)	7.2	6.6	6.6	7.7	8.7
Change (%)	5.7	-2.2	-2.5	13.9	27.9

* End Sept 2003

Source: Arab Monetary Fund & BSE

The BSE traces its roots back to 1957, when the National Bank of Bahrain became the first company in Bahrain to go public. However, the major impetus to develop formalised capital markets in the region was the dwindling oil revenues of late 1970s. Taking the lead amongst its regional peers, Bahrain established a formal stock market in the late 1980s with the BSE officially commencing operations in June 1989 with a total of 29 listed companies, spread over a total of six sectors.

In order to enhance trading activity and facilitate operations, the BSE automated the trading mechanism, which replaced the manual written auction system. The BSE shifted to the new automated trading system towards the end of 1999.

Since its inception, the BSE was chaired by the Commerce and Industry Ministry, which was charged with the responsibility of regulating and supervising the operations of the stock market. In 2002, the BMA was given powers to regulate and supervise the activities of the BSE.

Bahrain is considered to be the most stable stock market in the region exhibiting lower than average volatility. The market capitalisation of the domestic market has increased at an average annual rate of slightly over 5% over the past several years. However, it remains one of the smaller regional bourses on the basis of market capitalization, amounting to US$8.9bn at the end of September 2003. Investments and the commercial banking sectors account for the bulk of the total market capitalization of the BSE.

There is no restriction in Bahrain on foreign ownership in offshore companies. For local entities, GCC nationals can own up to 100% and non-GCC nationals can own up to 49% with some company specific restrictions.

After a 2.5% decline in 2001, the BSE index took a turn for the better in 2002 and rose by a decent 3.4%. During 2003, the BSE index continued to gain in value and was up 18.8% during the first nine months of 2003. The relative underperformance of the benchmark index compared to its GCC counterparts has been largely due to the weak performance by the market heavyweights such as Batelco and Investcorp.

OMAN

Table 12: Oman Market Indicators

	1999	2000	2001	2002	2003 *
Listed firms	140	131	96	140	132
Volume of shares traded (m)	138.4	144.3	123.6	191.1	230
Value of shares traded ($ bn)	0.7	0.5	0.4	0.6	1.1
Benchmark index – MSM	250.3	201.2	152.1	191.9	257.5
Change (%)	9.5	-19.6	-24.4	26.2	34.2
Market capitalisation ($ bn)	4.3	3.5	2.9	3.2	4.4
Change (%)	-5.1	-18.24	-25.12	99.97	-15.91

* End Sept 2003

Source: Arab Monetary Fund & Muscat Securities Market

Oman is the smallest market in the region in terms of capitalisation, which stood at US$3.2bn at the end of 2002. One of the oldest stock markets of the region, the Omani equity market is one of the most liberal and accessible for foreign investors.

The Muscat Securities Market (MSM) was established by the Royal Decree (53/88) issued on June 21, 1988 to regulate and control the Omani securities market and to participate, effectively, with other organizations for setting up the infrastructure of the Sultanate's financial sector. The market was launched with 68 joint stock companies, including 19 closed joint stock companies.

In November 1998, following the passing of a royal decree, a new Capital Market Law was promulgated which stated the establishment of two separate entities, the MSM and the Capital Market Authority (CMA) - the regulatory body. The MSM was structured as a governmental entity, financially and administratively independent from the regulator but subject to its supervision. The CMA is an independent regulatory authority, governed by its board of directors, headed by the Minister of Commerce & Industry, who also holds the position of Chairman of the CMA.

Previously, the settlement mechanism involved only three parties in the clearance and settlement, MSM, Muscat Depository and Registration of Securities Co. (S.A.O.C) and the broker. Recently the CMA has introduced a new settlement formula, which is through a Settlement Bank with a Settlement Guarantee Fund (SGF). An online electronic trading system is also in place, which automatically matches orders and settles on a T+3 basis.

The performance of the Muscat Securities Market is measured by a broad based general index and its four components (banking, insurance, industry and services). The MSM index was launched in 1991 with a base of 100, which stood at 257.5 as of end September 2003.

Since 2002, the MSM index has witnessed a considerable amount of growth in the insurance, finance and services sector. In 2002, the MSM index advanced by 26.2% from its lows of 2000, when it declined by 24.2%. In the first nine months of 2003, it improved even further as the benchmark MSM index closed up a healthy 34.2%, fuelled mainly by improvement in the performance of the listed commercial banks.

XVIII. GCC ECONOMIES

Situated at the cross roads of various international trade routes, the bloc of countries comprising the GCC region were traditionally better known as outposts for trade merchants traveling between Asia and Europe. With the discovery of oil, the economic outlook for the region changed from the 1970s with nearly all the GCC Countries investing heavily to exploit oil and gas reserves and to implement extensive infrastructural spending projects.

Although spread over only 2% of the world's total land mass, the six GCC Countries control 46% of extractable oil wealth of the world. Saudi Arabia is the world's largest oil producer holding nearly a quarter of the global proven oil reserves. In addition, the GCC also plays host to nearly a quarter of the world's total gas resources, with Qatar having the largest gas reserves amongst its GCC peers of 25.5tn cubic meter.

Table 13: World Crude Oil Reserves

Figures in billion barrels (bbl) – 2002	Crude oil reserves	As a %age of total
Saudi Arabia	261.8	25.4
United Arab Emirates	97.8	9.5
Kuwait	96.5	9.4
Qatar	15.2	1.5
Oman	5.5	0.5
Bahrain	0.1	0.0
GCC	**476.9**	**46.2**
World	1,032.0	100.0

Source: Oil and Gas Journal and Energy Information Administration

The discovery of oil resulted in substantial economic growth for all six-member states between 1960-1980. During this period, GDP per capita for the largest economy of the GCC – Saudi Arabia – increased from US$3,884 to US$13,750. At the same time, other GCC member states also saw a substantial increase in their wealth levels. The Organization of Petroleum Exporting Countries (OPEC) was formed in 1960 with five founding members Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, primarily to seek a uniform platform and better negotiating terms. By the end of 1971, six other nations had joined the group including Qatar and the UAE, reflecting the increased influence of Gulf producers in world oil supply.

The GCC economies, despite enjoying substantial oil reserves remained vulnerable to oil price volatility, which resulted in repeated deficits. Notable events that led to large swings in oil prices were the oil embargo of 1973-74, the Iran-Iraq war and more recently, the first Gulf War and the Asian crises.

In a bid to reduce their reliance on oil revenues, regional governments have been developing the non-oil sector of their respective economies. Apart from increased spending in the non-oil sector, the governments are also undertaking reforms to encourage private sector participation and are starting to open up their economies to foreign investors. Over the recent past, regional governments have successfully completed various high profile divestments, namely QTEL and STC.

The increased focus to reduce the influence of the public sector and to encourage private sector involvement was two pronged in nature. In addition to attempting to reduce the dependence on oil revenue, it was also aimed at cutting down the huge wage bill of the public sector as well as to tackle rising unemployment in the GCC region through job creation in the private sector. Although the regional economies are still largely dependent on oil, the concerted efforts by the six GCC Countries have seen some reduction in the importance of oil as the engine of economic growth.

Table 14: Oil as a %age of GDP

	2002 (%)
Saudi Arabia	33
United Arab Emirates	28
Kuwait	45
Qatar	59
Oman	42
Bahrain	24

Source: Moodys and Regional Central Banks

Bahrain is by far the most diversified economy of the GCC with oil contribution as a %age of GDP amounting to 24.3% in 2002, the lowest in the region. This has largely been achieved due to the recognition by the government of its limited oil reserves, which caused it to aggressively diversify away from the energy sector and develop a vibrant financial and tourism sector. As a result, Bahrain is currently recognized as the financial hub of the Middle East, playing host to over 300 banks and financial institutions. In terms of diversification, Qatar seems to lag its regional counterparts as it still derives around 59% of its GDP from the oil and gas sector.

As an indication of the gradual opening up of the GCC economies, five out of the six GCC countries are already members of the World Trade Organisation (WTO) with Oman being the last country to sign up in October 2000. The only GCC member state still outside the WTO is Saudi Arabia, which is already in advanced stages of negotiations with WTO.

In an effort to further facilitate intra-regional trade and wield greater influence in global trade, the six GCC states have chalked out a timetable to achieve full monetary union by 2010. As per the set schedule, they decided to achieve a customs union by 2003, reach an agreement on convergence criteria by 2005, and eventually adopt a common currency by 2010. The GCC countries have progressed well in implementing this timetable. They have already established a customs union with a common external tariff rate of 5%. The exchange rate integration, requiring all GCC countries to officially peg their currencies to the U.S. Dollar has also been achieved comfortably by the date set in the original timetable.

Currently, due to the peg to U.S. Dollar, the regional central banks tend to domestically mirror the U.S. interest rates. Thus the global low interest environment is currently being reflected in exceptionally low levels of interest rates in the GCC countries. Historically, inflation has also remained well below global averages as sustained state subsidies have kept prices in the region in check.

Another significant strength of the GCC region is the near absence of currency risk as all regional currencies are pegged to the U.S. Dollar at fixed exchange rates with minimal devaluation risk. Additionally, all six currencies in the region are freely convertible and there are no exchange controls.

SAUDI ARABIA

Table 15: Key Economic Indicators

	1999A	2000A	2001A	2002A	2003E
Nominal GDP (US$ bn)	161.2	188.7	186.5	190.7	201.5
Real GDP (% change)	-0.8	4.9	1.2	0.7	4.8
Population (m)	20.2	20.7	21.4	21.9	22.5
GDP per capita (US$)	7,979	9,107	8,711	8,708	8,954
Inflation (CPI, % change Dec/Dec)	-1.6	-0.8	-0.5	-0.6	0.8
Current Account Balance (US$ bn)	0.4	14.3	14.5	9.5	16.1
Official Forex Reserves (US$ bn)	15.5	18.0	14.8	16.7	19.2
Exchange Rate (LCY / US$)	3.7502	3.7502	3.7502	3.7502	3.7502

Source: Moodys

Saudi Arabia is the world's largest oil producer with nearly a quarter of the global proven oil reserves. The country's oil production accounts for nearly 30% of the total oil output of the OPEC members. Consequently, the domestic economy is dependent on oil with oil revenues accounting for 90% of the country's exports along with a 33% contribution to its GDP.

Gross Domestic Product

With the oil sector accounting for a large component of Saudi Arabia's domestic output, the performance of the economy is closely linked with international oil prices. After experiencing a 4.9% increase in real GDP in 2000, growth slowed down to around 1% in 2001-2002, due mainly to cuts in OPEC production quotas. On a positive note, the weakness in oil revenues spurred the government to take steps to encourage the non-oil sector, which resulted in a 4.2% growth in the non-oil sector in 2002. This compares favorably with an average increase of 3.8% in the non-oil sector since 1997.

One of the noticeable achievements was the major privatization effort by the government, which resulted in the sale of a 30% stake in STC in 2003. Going forward there are indications that the government will also privatize civil aviation, railways, health and hotel sectors.

Fiscal Policy

Despite its substantial oil wealth, the Saudi government has historically run relatively large fiscal deficits, which average around 4.5% of GDP since 1996. Given the close link between oil prices and government revenue, 70% of which is generated through oil, the government has posted considerable swings in fiscal revenues annually in line with the movement in global oil prices.

On the expenditure side, government spending traditionally overruns budget targets by wide margins. In the recent past this higher spending was triggered by a backlog of payments to contractors, but generally the biggest expense item for the government budget has been recurrent items, which accounted for 52% of the total expenditure of the Kingdom in 2002.

Trade Balance

Since 2000 Saudi Arabia's trade balance has recorded large surpluses helped mostly by strong oil and petrochemical prices. Similarly, the positive impact of higher than forecast oil prices resulted in Saudi Arabia reporting a trade surplus of US$40bn during 2002. Saudi Arabia's main exports include crude oil, refined oil, petrochemical products, plastics and other commodities. Its main imports include electrical machinery, base metals, cars and textiles.

KUWAIT

Table 16: Key Economic Indicators

	1999A	2000A	2001A	2002A	2003E
Nominal GDP (US$ bn)	29.2	35.8	32.8	34.5	33.8
Real GDP (% change)	-1.6	3.9	-1	-2	2.5
Population (m)	2.3	2.2	2.3	2.4	2.4
GDP per capita (US$)	12,942	16,162	14,202	14,262	14,095
Inflation (CPI, % change Dec/Dec)	3	1.8	1.7	1.4	1.9
Current Account Balance (US$ bn)	5.1	14.7	8.6	6.7	6.2
Official Forex Reserves (US$ bn)	4.2	6.5	9.2	8.4	9.4
Exchange Rate (LCY / US$)	0.2976	0.2976	0.2976	0.2976	0.2976

Source: Moodys

Kuwait enjoys substantial hydrocarbon reserves, high levels of oil production and large offshore investments, which have all contributed to making Kuwait one of the wealthiest countries of the world. Reaping the benefits of high oil prices and generous OPEC quotas, the country has been posting substantial budget surpluses that point towards a strong economic environment.

Accounting for nearly 10% of global oil reserves, Kuwait is host to the world’s second largest oil field and the world’s fourth largest proven oil reserves. According to estimates, Kuwait has sufficient oil reserves for more than 100 years of oil output. Petroleum accounts for nearly half of the country’s GDP, 95% of export revenues, and 80% of government income.

One of the main areas of focus for the Kuwaiti government has recently been the privatization and disinvestments process to reduce the dominance of the public sector in economic activities and encourage private sector participation. The government has indicated interest in divesting its shares in the telecommunications, power and water and other sectors to shore up additional revenues.

Gross Domestic Product

Although Kuwait has taken great strides towards economic diversification, GDP growth is still very much linked to the performance of global oil markets, as well as the amount of OPEC quotas allocated to Kuwait. Oil GDP shrank by 2.5% to KD 4.84bn in 2002 following an 18% decline during 2001. The drop was mainly a result of lower crude oil production due to a 10.5% decline in Kuwait's OPEC quota. In contrast, the non-oil component of the Kuwait’s economy was the main source of growth as it registered a rise in output of 6.2% in 2002, up from the 4.0% experienced in 2001.

Fiscal Policy

Historically, the adoption of conservative estimates for oil prices has worked to the advantage of Kuwait, with the country posting generous surpluses against forecast budget deficits. Apart from reaping the benefits of strong revenue growth, another factor positively impacting the budgetary performance of the country has been lower than allocated expenditure by the government entities in the past, which has resulted in Kuwait experiencing budget surpluses.

Trade Balance

Oil earnings have traditionally dominated the performance of Kuwait’s external accounts, with non-oil exports accounting for a fraction of the total exports. Imports have been largely food, construction materials, vehicles and clothing. With oil prices well above the budgeted level, Kuwait has enjoyed consistent trade surpluses in the recent past.

UNITED ARAB EMIRATES

Table 17: Key Economic Indicators

	1999A	2000A	2001A	2002A	2003E
Nominal GDP (US$ bn)	54.7	65.9	67.9	71.1	75.2
Population (m)	2.9	3.1	3.2	3.5	3.7
GDP per capita (US$)	18,627	21,202	20,968	20,420	20,320
Real GDP (% change)	3.8	5.2	1.9	4.2	4.5
Inflation (CPI, % change Dec/Dec)	2.1	1.4	1.2	1.5	1.3
Current Account Balance (US$ bn)	3.5	11.6	7.8	6.0	6.6
Official Forex Reserves (US$ bn)	10.4	13.3	13.9	14.9	15.2
Exchange Rate (LCY / US$)	3.6720	3.6720	3.6720	3.6720	3.6720

Source: Moodys & Central Bank of UAE

The United Arab Emirates (UAE) is a federation of seven sovereign states, with Abu Dhabi, Dubai and Sharjah being the three largest and wealthiest emirates. Enjoying a high per capita income of US$ 20,420 (2002) – second only to Qatar in the GCC, the UAE also derives a substantial 30% of its wealth from its oil sector. The UAE has the third largest proven oil reserves in the world amounting to 97.8bn barrels, which are sufficient for more than 100 years of output, based on current production levels. However, seeking diversification from its oil sector, the UAE has developed a vibrant trading economy, nestled primarily in the emirate of Dubai.

Gross Domestic Product

UAE's economic growth is still primarily derived from its oil and gas earnings, which generate around 30% of its GDP. The remaining 70% is comprised of various non-oil sectors, with manufacturing and wholesale trading being the largest contributors to GDP.

Driven by healthy proceeds from its oil exports, the UAE economy has witnessed an average growth of 8.4% during 1995-2001. In 2002 the oil cutbacks by OPEC, which caused a 7% decline in output, had a negative impact on the performance of the domestic economy, limiting growth to 4.2%. The overall increase in GDP was driven by the non-oil sector, which registered an increase of 4.8% in 2002.

Fiscal Policy

The fiscal policy of the UAE is largely dependent on oil revenues, which account for nearly 72% of its total revenue. The rest of the revenue base is comprised of indirect taxes, namely customs duty, fees and other charges. In 2002, as a result of the decrease in oil and gas exports earnings, total revenues dropped by 16.6% to reach US$15.6bn, against total budgetary receipts of US$18.7bn in 2001.

Current expenditures have traditionally accounted for more than three fourths of the total expenditure incurred by the government, while capital spending projects have normally taken up the remaining portion of the expenditure bill. In 2002 total expenditure decreased by 9.5% to US$23.5bn, due largely to a 6% decline in current expenditure.

Trade Balance

The UAE economy has traditionally enjoyed healthy trade surpluses through a combination of strong growth from both oil exports as well as proceeds from increased trading and re-exports. However, in recent times the amount of the surplus has started to decline. Due mainly to a drop in the value of oil and gas exports, the trade surplus declined by nearly 30% in 2001 and by another 8.9% in 2002.

QATAR

Table 18: Key Economic Indicators

	1999A	2000A	2001A	2002A	2003E
Nominal GDP (US$ bn)	12.2	17.6	17.1	17.5	18.1
Real GDP (% change)	5.3	11.6	7.2	4.6	7.0
Population (m)	0.6	0.6	0.6	0.6	0.7
GDP per capita (US$)	20,328	29,600	28,544	29,111	25,903
Inflation (CPI, % change Dec/Dec)	2.2	1.7	1.4	1.0	2.0
Current Account Balance (US$ bn)	2.2	5.4	4.3	3.8	5.3
Official Forex Reserves (US$ bn)	1.0	1.2	1.3	1.3	1.4
Exchange Rate (LCY / US$)	3.64	3.64	3.64	3.64	3.64

Source: Moodys

Backed by huge oil and natural gas reserves, Qatar is currently one of the fastest growing economies of the world. The strong oil prices and increased production capacity coupled with a surge in LNG exports have been fuelling Qatar's economic growth in the recent past. As a result, Qatar's GDP grew impressively from US$12.2bn in 1999 to US$17.5bn by the end of 2002. Given the rapid growth, Qatar reported a GDP per capita of US$29,111 for 2002, by far the highest in the Middle East and one of the highest in the world.

During the past five year period, Qatar has followed a strategy of diversifying away from the oil sector and has started investing heavily in the natural gas sector due to the presence of huge natural gas reserves. According to some estimates, gas production has quadrupled between 1997 and 2002 and is expected to further double by 2006.

Gross Domestic Product

Qatar 's GDP growth has been remarkable in recent years, with the increased exports of LNG underpinning growth. After an average growth of nearly 14% during the past 5 years, GDP growth slowed down in 2002 mainly because of a cut in oil production levels. However, the decline in oil production levels was more than offset by higher crude oil prices and improved LNG exports. Despite steps taken towards greater economic diversification, Qatar's economic performance is still substantially dependent on oil revenues, although the contribution of LNG has increased significantly over the past few years. The share of the oil and gas sector in the GDP has remained near the 60% mark for past three years.

Fiscal Policy

The government's primary source of revenues is proceeds from oil and LNG export, which is conducted by Qatar Petroleum. In addition to the export earnings, the government also generates revenues from its investments in entities such as QTEL, Qatar National Bank and Qatar Fertilizer Company.

In line with its regional peers, wages and salaries of the public sector are the biggest expenditure incurred by the government. In addition, the interest payments on government indebtedness and other current and capital expenditures also make up a considerable portion of the expenditure bill. After more than a decade of budget deficits, the Qatari government has experienced budget surpluses since 2000

Trade Balance

Qatar's exports have more than doubled over the past five years to reach US$11bn in 2002, from US$5.1bn in 1998. The oil sector has traditionally been the principal source of export revenue for Qatar accounting for 90% of exports in 2002. Supported by higher oil prices and the high level of LNG exports, Qatar's trade surplus has increased substantially over the recent past to US$7.3bn in 2002 from US$1.9bn in 1998.

BAHRAIN

Table 19: Key Economic Indicators

	1999A	2000A	2001A	2002A	2003E
Nominal GDP (US$ bn)	6.6	7.6	7.5	7.7	8.0
Real GDP (% change)	3.9	3.9	3.4	3.5	3.6
Population (m)	0.7	0.7	0.7	0.7	0.7
GDP per capita (US$)	9,882	11,035	11,557	11,820	12,293
Inflation (CPI, % change Dec/Dec)	-1.5	2.5	-0.4	0.4	0.8
Current Account Balance (US$ bn)	-0.1	0.8	0.2	0.2	0.1
Official Forex Reserves (US$ bn)	1.3	1.5	1.6	1.6	2.0
Exchange Rate (LCY / US$)	0.377	0.377	0.377	0.377	0.377

Source: Moodys & EIU

Situated on the eastern tip of the Arabian Peninsula, the Kingdom of Bahrain was one of the first countries to benefit from the discovery of oil in the Gulf region. Since the discovery on the main island in 1932, oil production and refining dominated Bahrain's economy. However, in view of its modest petroleum reserves – 148m barrels - the government took steps to diversify into other areas which have resulted in the formation of a vibrant financial services and tourism sector in the Kingdom.

Between 1970-1980 the government undertook the task of diversifying its economy by the creation of a sizeable state owned and public sector manufacturing sector. Amongst the notable investments were the development of the aluminum and downstream oil refining industries.

Gross Domestic Product

As a result of the limited reserves, oil revenue has dropped substantially in importance since the mid-1970s when it contributed significantly to the country's output. The contribution of oil to Bahrain's GDP fell to 24% in 2002 compared to more than 40% three decades ago. Despite the reducing reliance on oil, crude oil and petroleum sector remains the single largest contributor to the domestic output.

Fiscal Policy

In a tax-free environment, oil prices and government spending levels drive Bahrain's fiscal policy. Movement in these two sets the tone for the amount of budget deficit or surplus the government would experience in a given year.

Helped by higher oil prices, Bahrain announced better than projected budgetary performance for 2002. Budgetary deficit for 2002 was reduced to only US$10.6m as against a target of US$0.8bn. This improved performance was achieved largely due to strong hydrocarbon earnings as oil prices remained well above the budgeted oil price of US$18 per barrel set for 2002.

Trade Balance

For the past four consecutive years, Bahrain has been experiencing healthy trade surpluses. In 2002 Bahrain once again reported a trade surplus of US$0.8bn, as compared to a surplus of US$1.8bn in 2000. Much of the decline in the trade surplus could be attributed to a 70% increase in the non-oil sector deficit, which dragged down the overall surplus.

OMAN

Table 20: Key Economic Indicators

	1999A	2000A	2001A	2002A	2003E
Nominal GDP (US$ bn)	15.7	19.9	19.9	20.3	20.4
Real GDP (% change)	-0.2	5.5	10.2	6.4	0.2
Population (m)	2.3	2.4	2.4	2.4	2.4
GDP per capita (US$)	6,757	8,383	8,224	8,364	8,406
Inflation (CPI, % change Dec/Dec)	0.5	-1.2	-0.4	-0.2	1.0
Current Account Balance (US$ bn)	-0.3	3.4	2.3	2.5	1.6
Official Forex Reserves (US$ bn)	2.7	2.3	2.3	3.1	3.5
Exchange Rate (LCY / US$)	0.3849	0.3849	0.3849	0.3849	0.3849

Source: Moodys

Oman is a small non-OPEC oil producer with proven crude oil reserves of 5.3bn barrels equal to 16 years of output at the current production levels. Apart from the crude oil reserves, Oman also has substantial reserves of natural gas, which the government has started to develop in earnest and is expected to be the basis of the country's future diversification plans.

By the end of 2002, Oman's proven natural gas reserves increased to 25.1tn cubic feet from 24.4tn cubic feet in 2001. The increase was due to newly drilled wells and better exploitation of the existing ones. Recognizing the inherent potential of these substantial reserves, the government invested in a large LNG plant that came on stream in 2000 with a capacity of 6.6m tons of LNG per annum.

The government has also expressed firm interest in privatizing Oman Telecommunications, the state owned telecom monopoly. The government is planning to sell a 20% stake in the telecom operator through an initial public offering and hand a further 10% of the company to the state pension funds. Furthermore, the government plans to sell the country's power generation and distribution assets, wastewater treatment and water distribution entities.

Gross Domestic Product

Despite the substantially smaller oil reserves of Oman, hydrocarbon proceeds are the main driving force behind the domestic economy. Accounting for 42% of its GDP, oil earnings also remain the principal source for its budgetary receipts with an 80% contribution. The non-industrial petroleum sector, which is mainly comprised of LNG production, has seen its share in GDP improve to 11.5% in 2002. Services and the agriculture sectors contributed further to the domestic product. In 2002 relatively higher level of international oil prices duly supported by prudent domestic economic policies maintained the momentum of economic growth in Oman.

Fiscal Policy

After more than two decades of fiscal deficits, 2002 witnessed a substantial improvement in the fiscal performance of Oman as the country reported a modest budget surplus of US$0.2bn as against a deficit of US$0.8bn in 2001. This was largely due to the strong oil prices in the global market as well as effective containment of public sector expenditure.

Trade Balance

Despite a gradual decrease in its importance since the early 1980's, oil remains the largest component of Oman's annual exports. Currently oil and gas make up three-fourths of the country's exports. Non-oil exports comprise mainly of foodstuffs, animal and fishing products. Imports largely constitute a range of both consumer and durable goods.

XIX. FORM OF INSTRUMENT

The following is the form of Instrument entered into by the Fund Company to create the Units under the laws of Bahrain:

THIS INSTRUMENT is made this 13th day of January 2004.

By SICO FUNDS COMPANY E.C. (the "**Fund Company**") whose registered office is at First Floor, BMB Centre, Manama, Bahrain.

WHEREAS the Fund Company has by a resolution of its Board of Directors passed on January 13, 2004 created a nominal amount of US$ 20,000,000 (or such other amount as may be the case pursuant to this Information Memorandum) Investment Units in the Khaleej Equity Fund (the "**Fund**"), as unsubordinated obligations of the Fund Company to be constituted as hereinafter provided.

NOW THIS INSTRUMENT WITNESSETH and the Fund Company HEREBY DECLARES as follows: -

1. In this Instrument and the Schedules hereto, unless the subject or context otherwise requires, the following expressions shall have the following meanings: -

   "**Administrator**" means Securities & Investment Company BSC (c) or its successor when acting as administrator to the Fund or such other entity appointed from time to time by the Fund Company;

   "**Articles**" means the Articles of Association of the Fund Company, as amended from time to time;

   "**U.S. Dollars**" or "**US$**" means the lawful currency of United States;

   "**Certificate**" means a certificate substantially in the form set out in the First Schedule to this Instrument;

   "**Conditions**" means the conditions set out in the Second Schedule as the same may from time to time be modified in accordance with the terms of this Instrument;

   "**Directors**" means the board of directors for the time being of the Fund Company;

   "**Investment Manager**" means Securities & Investment Company BSC(c) or its successor when acting as Investment Manager to the Fund or such other entity appointed from time to time by the Fund Company;

   "**Net Asset Value**" and "**NAV**" shall have the meaning assigned to it in this Information Memorandum;

   "**Principal Amount**" means, in relation to each Unit the sum of US$ 100 (one hundred U.S. Dollars);

   "**Information Memorandum**" means this Information Memorandum to be dated January 13, 2004, in relation to the offer of the Units in the Fund;

"**Registrar**" means KPMG, Bahrain or its successor when acting as registrar to the Fund or such other entity appointed from time to time by the Fund Company;

"**Unitholder**" means the holder or holders of all or any of the Units, being the person or entity who is for the time being entered in the register maintained pursuant to the Conditions as the holder of any Unit; and

"**Unit**" means one investment Unit of US$ 100 (one hundred U.S. Dollars) constituted by this Instrument, and accepted under this Information Memorandum.

2. Words denoting persons shall include corporations, the masculine gender shall include the feminine, and the singular shall include plural and vice versa. Reference to a schedule is to a schedule to this Instrument.

3. Capitalized, but not defined, terms in this Instrument shall be given the meaning assigned to them in this Information Memorandum.

4. In the event of contradiction between the terms of this Instrument and this Information Memorandum, this Information Memorandum shall prevail.

5. The total nominal amount of each Unit is US$ 100 (one hundred U.S. Dollars). The Units, when issued, shall rank *pari passu* equally and rateably without discrimination or preference.

6. Each Certificate shall be signed by two Directors or by an authorized signatory of the Administrator or by any other person or persons appointed by the Directors to sign, and shall bear a serial number.

7. The NAV payable in respect of the Units outstanding, shall be repaid on the liquidation of the Fund or, if that is not a Business Day, the directly succeeding Business Day. No interest is payable to Investors in this case.

8. Monies representing the NAV, payable in respect of the Units, shall be payable against surrender of the relevant Certificate, at the principal place of business of the Administrator in Bahrain, or such other place as may be notified to Unitholders from time to time in accordance with the Conditions.

9. The Conditions and the provisions of the Third Schedule shall be binding on the Fund and all Unitholders.

10. The provisions of the Articles shall be binding on all Unitholders.

11. To the extent deemed practicable by the Directors, Units shall have the same attributes as bonds issued under the Commercial Companies Law and the relevant regulations of the BSE.

12. The provisions of this Instrument shall be for the benefit of and binding on Unitholders as the same may be registered from time to time.

13. Dates and periods of time are according to the Gregorian calendar.

14. This Instrument and the Units shall be governed by and construed in accordance with the laws of the Kingdom of Bahrain and any dispute in connection with the enforceability or interpretation of the Instrument shall be referred to arbitration in accordance with Bahrain's arbitration laws in force at the time of such dispute.

IN WITNESS whereof this Instrument has been executed the day and the year first above written

Director	Director
SICO FUNDS COMPANY E.C.	SICO FUNDS COMPANY E.C.

FIRST SCHEDULE

Form of Unit Certificate

KHALEEJ EQUITY FUND

This Unit Certificate relates to Khaleej Equity Fund, which is created by an Instrument issued by SICO Funds Company E.C., dated January 13, 2004. Khaleej Equity Fund is an open-ended Fund. As per the Information Memorandum and the Instrument, subscription to and redemption of Units of the Fund is permitted on each Redemption Day.

Unitholder No.: ________________________

THIS IS TO CERTIFY THAT ____ is the holder of ____ Investment Units in the Khaleej Equity Fund issued by SICO Funds Company E.C. with a nominal value of US$ 100 per Unit. Each Unit forms one of an issue of Units issued pursuant to the resolution of the Board of Directors of the Company passed on ______________, and subject to the terms and conditions of the Instrument dated January 13, 2004.

This Certificate is issued on: _________________________

…………………..	The Common Seal of	…………………..
Director	SICO Funds Company E.C.	Chairman

SECOND SCHEDULE

Conditions of the Units

1. Register

1.1 A Register of the Unitholders (the "**Register**") will be kept by the Registrar and a copy held by the Administrator, both as appointed by the Fund Company from time to time, and there shall be entered in such Register:

(a) the names and addresses of the holders for the time being of the Units;

(b) the Principal amount of the Units held by each Unitholder;

(c) the date upon which the name of each such Unitholder is entered in the Register in respect of the Units standing in his name;

(d) the serial number comprised in each Certificate issued; and

(e) the date on which any transfer is registered and the name and address of the transferee.

1.2 Any change of the name or address of any Unitholder shall forthwith be notified to the Registrar and thereupon the Register shall be altered accordingly.

1.3 Any Unitholder shall be at liberty at all reasonable times during the office hours of the Administrator and/or the Registrar to inspect the Register.

1.4 Except as required by law, the Fund Company will recognize each Unitholder as the absolute owner of the Units in respect of which he/she/it is registered, and shall not be bound to take notice or see to execution of any trust whether express, implied or constructive, to which any Unit may be subject. A receipt duly given in accordance with the provisions of this Instrument, for any monies payable in respect of any Unit or the payment by cheque or warrant sent by post pursuant to Condition 7.5 herein, shall be a good discharge to the Fund Company notwithstanding any notice it may have, whether express or otherwise, of the right, title, interest or claim of any other person to, or in such Unit or monies. No notice of any trust, whether express, implied or constructive, shall be entered in the Register in respect of any Unit.

1.5 Every Unitholder will be recognized by the Fund Company as entitled to his Units free from any equity, set-off or counter-claim on the part of the Fund Company against the original, or any intermediate holder of such Units.

2. Certificates

2.1 The Units held by any person shall be represented by Certificates. Each Certificate will carry a serial number.

2.2 If any Certificate is worn out, defaced or mutilated, then upon production thereof to the Registrar, the Registrar may cancel the same and may issue a Certificate in lieu thereof. If any Certificate is lost or destroyed, then upon proof thereof being given to the satisfaction of Directors and, in the case of a lost Certificate (in default of proof of destruction thereof), on such terms as to evidence, and indemnity and the payment of the out-of-pocket expenses of the Registrar in investigating such evidence as the Fund Company or the Administrator may deem adequate, a new Certificate in lieu thereof may be given to the person entitled to such lost or destroyed Certificate. Any entry as to the issue of the new Certificate and indemnity (if any) shall be made in the Register.

2.3 If any portion of a holding of Units is to be transferred, then upon presentation and surrender of the Certificate representing such holding together with payment of the expenses incurred in connection therewith, the Fund shall issue new Certificates (the aggregate Principal Amounts of which shall be equal to the Principal Amount of the original Certificate) in such denominations as may be required.

3. Units

Each Unit is in registered form and may be transferred, subject to the provisions of this Instrument and the Articles.

4. Absence of Transferability of Units

It is not anticipated that there will be any public market for the Units. The Units may not be directly or indirectly sold, transferred or assigned, by operation of law or otherwise, in whole or in part, without the prior written consent of the Investment Manager, which may be granted or withheld in its sole discretion. Any attempt to transfer Units, other than by way of redemption in the manner described in this Information Memorandum, constitutes a tender to the Investment Manager for the redemption of Units.

5. Redemption

5.1 The Fund Company shall have power to impose such restrictions and Conditions as it considers necessary (including, without limitation, delivery of any Certificates or other documents by any transferor or transferee) for the purpose of ensuring that none of the Units of the Fund are acquired, beneficially owned or held by any person in breach of any law or requirement of any country or governmental authority, including Bahrain and the BMA respectively, by a person who by virtue of any such law is not qualified to hold such Units or by any person whose holding of those Units might in the opinion of the Directors cause or be likely to cause a pecuniary or tax disadvantage to the Fund or any shareholder.

5.2 The Fund shall be entitled compulsorily to redeem all of the Units so held in accordance with the provisions and procedures contained in this Instrument and the Articles of Association and Memorandum of Association.

5.3 Units, which are compulsorily redeemed, shall forthwith be treated as cancelled.

5.4 The Fund is an open-ended fund and the Units may be redeemed on a monthly basis on each Redemption Day.

5.5 If prior to the expiry of the initial period of the Fund the Shareholders of the Fund Company shall desire to liquidate the Fund Company then the Units shall be redeemed at the NAV upon such date as the liquidator shall determine.

6. Payments

6.1 Any monies payable on or in respect of any Units may be paid by cheque, warrant or wire transfer in U.S. Dollars and (a) sent through the post to the address of the Unitholder in the Register or (b) collected by the Unitholder in person from the office of the Registrar where specific written instructions to this effect, from the Unitholder, are received by the Fund at least 5 (five) days before the date of distribution of the said monies. Every such cheque, warrant or wire transfer shall be made payable to the order of the person to whom it is sent or to such person or persons as the Unitholder may in writing direct and payment of the cheque, warrant or wire transfer shall be in satisfaction of the monies represented thereby. The Fund will not be liable or responsible for any loss or delay in the post.

6.2 All payments will be made by the Fund Company after the deduction or withholding of any amounts, which the Fund Company is required to deduct or withhold for, or on account of, any present or future tax.

6.3 If any Unitholder fails or refuses to accept payment of the monies repayable in respect of Units held by him, the Fund Company shall be at liberty to deposit in the Unitholder's bank account or if not available in the account of the Fund Company acting on behalf of the Fund, the amount due to such Unitholder and, upon such deposit or payment being made, those Units shall be deemed to have been repaid and satisfied in accordance with the provisions hereof. Such account shall not bear interest.

7. Income Distribution

7.1 The Fund Company may distribute income in respect of the Unitholders but no distribution shall exceed the amount recommended by the Directors.

7.2 The Fund Company intends to distribute part of the Fund's net investment income from dividends as well as interest annually. The Fund Company may, at the sole discretion of the Directors, pay dividends out of realised and unrealised capital gains achieved by the Fund.

7.3 The Directors may deduct income from any distribution or other monies payable to a Unitholder on or in respect of a Unit any sum of money then payable by him to the Fund.

7.4 The Directors may retain any income payable to any person entitled to a Unit by transmission until such person has produced such evidence of his right as the Directors may require.

7.5 Any income or money payable in cash in respect of a Unit may be paid by cheque or warrant either (a) sent through post directed to the registered address of the holder of the Unit, or to such person and to such address as the holder may in writing direct or (b) sent through post to the address of the Unitholder in the Register or (c) collected by the Unitholder in person from the office of the Registrar where specific written instructions to this effect, from the Unitholder, are received by the Fund Company at least 5 (five) days before the date of distribution of the said monies. The said monies may also be payable by way of a wire transfer upon the written request of the Investor. Every such cheque, warrant or wire transfer shall be a good discharge of the Fund Company. Every such cheque, warrant or wire transfer shall be sent at the risk of the persons entitled to the money represented thereby.

7.6 No income payable in respect of a Unit shall bear interest against the Fund.

7.7 If, as a result of cheques or warrants for income or money payable in respect of a Unit sent by the Fund Company to the Unitholder being returned undelivered to the Fund Company or left uncashed on two consecutive occasions, the Fund Company is aware that such cheques or warrants have not been received by that Unitholder, the Fund Company shall no longer be obliged to send by post any income or other money payable in respect of that Unit to that Unitholder until he notifies the Fund Company of another address. In such a case the returned cheques, warrants or money will be entered into a separate account. Any income not claimed within ten years from the date declared will be forfeited by the Unitholder.

7.8 The Directors may, before recommending any income distribution, set aside out of the Fund's profits and carry to reserve such sums as they think proper which shall be applicable for any purpose of the Fund's business or invested on behalf of the Fund in such investments as the Directors deem fit. The Directors may divide the reserve into separate accounts and consolidate wholly or partly any separate accounts into the reserve fund. The Directors may also, without placing the same to reserve, carry forward any profits, which they think it prudent not to divide.

7.9 The Fund Company may by Directors' resolution specify that any distribution, allotment or issue to Unitholders shall be paid or made to the persons registered as the Unitholders at the close of business on a particular date, notwithstanding that it may be a date before or after that on which the resolution is passed, and thereupon the distribution, allotment or issue shall be paid or made to the Unitholders in accordance with their respective holdings registered on that date.

8. Notices

8.1 Any notice or other document shall be given or sent to any Unitholder by sending the same through the post in a prepaid letter addressed to such Unitholder at his address appearing in the register. Any notice given by post shall be deemed to have been served twenty-four hours (five days if by airmail) after the time when it is posted and, in proving such service shall be sufficient to prove that the envelope containing the notice was properly addressed and stamped and posted.

8.2 Notwithstanding Condition 8.1 above, notices regarding the Units will be valid if published in one local Arabic and one local English daily newspaper printed in Bahrain. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

THIRD SCHEDULE

1. The Directors may at any time and in their sole discretion, with the approval of the BMA and the Ministry of Commerce to the extent applicable, convene a meeting of the Unitholders at such place as the Directors shall determine, for the following purposes:

   (a) to sanction any scheme of arrangement or for the reconstruction of the Fund or for the amalgamation of the Fund with any other Fund;

   (b) to sanction the exchange of the Units for or the conversion of the Units into shares, stock, debentures, debenture stock or other obligations or securities of the Fund or any other company formed or to be formed;

   (c) to sanction the release of the Fund from all or any part of the principal monies owing upon the Units;

   (d) to sanction any modification or compromise of the rights of the Unitholders against the Fund proposed or agreed to by the Fund, whether such rights arise under this Instrument or otherwise; and/or

   (e) to assent to any modification of the provisions of this Instrument (including this Schedule) proposed or agreed to by the Fund.

2. At least fifteen days' written notice (exclusive of the day on which the notice is served or deemed to be served and of the day of the meeting for which the notice is given) of every meeting shall be given to the Unitholders. The notice shall specify the place, day or hour of the meeting and the general nature of the business to be transacted. The accidental omission to give notice to, or the non-receipt of notice by, any of the Unitholders shall not invalidate the proceedings at any meeting.

3. The quorum for a general meeting of Unitholders shall be the attendance in person or by proxy of Unitholders who together hold more than half the issued and unredeemed Units. A resolution of the general meeting shall only be valid if Unitholders representing more than one half of the issued and unredeemed Units approve it. If the quorum shall not be obtained the Unitholders may be summoned for another meeting to be held within thirty days following the date of the first meeting. The said second meeting shall be valid irrespective of the number or the issued Unit holding of the Unitholders present. Resolutions of the second meeting shall be passed by a majority of Unitholders present in person or by proxy.

4. The person nominated in writing by the Fund Company shall preside at every meeting as Chairman. Any Director and the Secretary, Auditors and Solicitors of the Fund and any other person authorised in that behalf by the Fund may attend any meeting.

5. The Chairman may with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting, except business which might lawfully have been transacted at the meeting from which the adjournment took place.

6. At any meeting a resolution put to the vote of the meeting shall be decided on a poll of all those Unitholders present at such a meeting. Each Unitholder will be entitled to one vote per Unit held.

7. The instrument appointing a proxy shall be in writing under the hand of the appointor, or of his attorney, duly authorised in writing or, if the appointor is a corporation, either under the seal or under the hand of an officer or attorney so authorised.

8. A person appointed to act as a proxy need not be a Unitholder.

9. An instrument of proxy may be in the usual or common form, or in any other form, which the Directors shall approve. A proxy shall be deemed to include the right to demand or join in the demanding of a poll. A proxy whether in the usual or common form or not, shall, unless the contrary is stated thereon, be valid for any adjournment of the meeting as well as for the meeting, and need not be witnessed and shall be lodged with the Administrator not less than forty eight hours before the meeting, adjourned meeting or poll, as the case may be, and shall be valid only for the meeting, adjourned meeting or poll referred to therein.

10. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the proxy, or of the authority under which the proxy was executed, provided that no notice in writing of such death, insanity or revocation shall have been received by the Administrator before the commencement of the meeting or adjourned meeting at which the proxy is used.

11. Any company or corporation which is a registered holder of any of the Units may by resolution of its directors, or other governing body, authorise any person to act as its representative at any meeting of the Unitholders and such representative shall be entitled to exercise the same powers on behalf of the company, or corporation which he represents as if he were the registered holder of the Units.

12. Resolutions passed at a meeting of the Unitholders, duly convened and held in accordance with this Instrument, shall be binding upon all the Unitholders whether or not present at the meeting, and each of the Unitholders shall be bound to give effect thereto accordingly.

13. Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be provided for that purpose by the Administrator. Any such minutes, if purporting to be signed by the Chairman of the meeting, shall be conclusive evidence of the matters therein stated and, until the contrary is proved, every such meeting in respect of the proceeding of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed thereat to have been duly passed.

XX. DIRECTORY

Fund Company
SICO Funds Company E.C.
First Floor, BMB Centre,
P.O. Box 1331, Manama,
The Kingdom of Bahrain.

Investment Manager, Administrator and Placement Agent
Securities & Investment Company BSC (c)
First Floor, BMB Centre,
P.O. Box 1331, Manama,
The Kingdom of Bahrain.

Custodian
Gulf Clearing Company BSC (c)
Nineteenth Floor, National Bank of Bahrain Building,
P.O. Box 2400, Manama,
The Kingdom of Bahrain.

Registrar
KPMG, Bahrain
Fifth Floor, Hedaya House-2
P.O. Box 710, Manama,
The Kingdom of Bahrain.

Auditor
PricewaterhouseCoopers
Fourth Floor, BMB Centre,
P.O. Box 21144, Manama,
The Kingdom of Bahrain.

Legal Advisor
Qays H. Zu'bi, Attorneys and Legal Consultants
Twelfth Floor, Jasrah Tower,
P.O. Box 2397, Manama,
The Kingdom of Bahrain.

Supplement to the prospectus of Khaleej Equity Fund dated January 13, 2004

10th November 2005

Fund Manager and Administrator

Securities & Investment Company BSC (c)

Auditor

PricewaterhouseCoopers

Custodian

Gulf Clearing Company BSC (c)

Legal Advisor

Qays H. Zu'bi

Registrar

KPMG

1. Executive Summary

The Directors of SICO Funds Company E.C., on the recommendation of the Fund Manager and Administrator, Securities & Investment Company B.S.C. (c) and the approval by Bahrain Monetary Agency, wish to amend the Prospectus dated January 13, 2004 (the "Prospectus"), subject to which Units in the Khaleej Equity Fund were issued to incorporate:

(a) a change in the treatment of ongoing fees and expenses.

2. Amendments to the Prospectus

Section IX. Fees and Expenses of the Prospectus shall be amended hereby to read as follows:

" **Other Operating Expenses**

The Fund will be charged all other expenses incurred in connection with the normal operation of the Fund including, but not limited to, transactional costs including brokerage, banking, exchange fees, auditing, registrar and legal fees, government charges and duties. The Fund will also bear the costs of publishing of the NAV, subscription and redemption prices. The Auditor shall review and verify such operating costs.

The Fund will also pay half of the annual expenses related to the registration and other expenses due to supervisory authorities and are related to the Fund Company. The accounting treatment for such expenses will depend on their nature and will either be posted directly to the NAV, accrued or amortized.