

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2017
together with the
INDEPENDENT AUDITORS' REPORT



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

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

Licence No. 46/11/323 issued 11/3/1992

Independent auditors' report

**To: The Unitholders of
HSBC Saudi Equity Income Fund
Riyadh, Kingdom of Saudi Arabia**

Opinion

We have audited the financial statements of **HSBC Saudi Equity Income Fund** ("the Fund"), which comprise the balance sheet as at 31 December 2017, statement of income, cash flows and changes in net assets attributable to the unitholders for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

The Fund Board is responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

**For KPMG Al Fozan & Partners
Certified Public Accountants**



Abdullah Hamad Al Fozan
License No: 348

Date: 19 Rajab 1439H
Corresponding to: 5 April 2018



HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
BALANCE SHEET
As at 31 December 2017
(Amounts in Saudi Arabian Riyals)

<u>ASSETS</u>	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	12	4,493,334	2,893,229
Held for trading investments	8	215,104,533	238,893,136
Other receivables	10	58,902	310,041
TOTAL ASSETS		<u>219,656,769</u>	<u>242,096,406</u>
 <u>LIABILITIES</u>			
Other liabilities	11	60,666	55,883
Dividends payable		2,332,329	1,376,412
TOTAL LIABILITIES		<u>2,392,995</u>	<u>1,432,295</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>217,263,774</u>	<u>240,664,111</u>
 Units in issue (numbers)		<u>2,478,011</u>	<u>2,541,803</u>
 Net assets value – per unit		<u>87.68</u>	<u>94.68</u>

The accompanying notes (1) through (17) form an integral part of these financial statements.

The financial statements and accompanying disclosures in the report are signed off on behalf of the fund board based on the authorization issued:

Abdulmajeed Al-Hagbani

Head of Asset Management

Chistie K Moinuddin

Chief Financial Officer

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
STATEMENT OF INCOME
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

<u>INCOME</u>	<u><i>Note</i></u>	<u>2017</u>	<u>2016</u>
Trading loss, net	9	(14,884,804)	(4,694,897)
Dividend income		11,834,745	13,558,265
		<u>(3,050,059)</u>	<u>8,863,368</u>
 <u>EXPENSES</u>			
Fund management fees	6	3,896,887	3,804,129
Other expenses		7,713	15,141
		<u>3,904,600</u>	<u>3,819,270</u>
 NET (LOSS) / INCOME FOR THE YEAR		<u>(6,954,659)</u>	<u>5,044,098</u>

The accompanying notes (1) through (17) form an integral part of these financial statements.

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Net (loss) / income for the year		(6,954,659)	5,044,098
Unrealized loss / (gain) on held for trading investments	9	<u>6,963,640</u>	<u>(69,529,927)</u>
		8,981	(64,485,829)
Net change in operating assets and liabilities			
Held for trading investments	8	16,824,963	82,790,705
Other receivables	10	251,139	(310,041)
Other liabilities	11	4,783	20,656
Dividends payable		955,917	782,053
Net cash generated from operating activities		<u>18,045,783</u>	<u>18,797,544</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of units		441,311	1,060,850
Payments against redemption of units		(6,237,908)	(6,530,370)
Dividends paid during the year	15	<u>(10,649,081)</u>	<u>(10,912,988)</u>
Net cash used in financing activities		<u>(16,445,678)</u>	<u>(16,382,508)</u>
Net increase in cash and cash equivalents		1,600,105	2,415,036
Cash and cash equivalents at beginning of the year	12	2,893,229	478,193
Cash and cash equivalents at end of the year		<u>4,493,334</u>	<u>2,893,229</u>

The accompanying notes (1) through (17) form an integral part of these interim condensed financial statements.

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

	<u>2017</u>	<u>2016</u>
Net assets attributable to unit holders at beginning of the year	240,664,111	252,002,521
Net (loss) / income for the year	(6,954,659)	5,044,098
Dividends paid during the year	15 (10,649,081)	(10,912,988)
Changes from unit transactions		
Proceeds from issuance of units	441,311	1,060,850
Payments against redemption of units	(6,237,908)	(6,530,370)
Net change from unit transactions	(5,796,597)	(5,469,520)
Net assets value at end of the year	217,263,774	240,664,111

UNIT TRANSACTIONS:

	<u>2017</u>	<u>2016</u>
	<i>(In numbers)</i>	
Units at beginning of the year	2,541,803	2,602,519
Units issued	4,850	12,210
Units redeemed	(68,642)	(72,926)
Net change in units	(63,792)	(60,716)
Units at end of the year	2,478,011	2,541,803

The accompanying notes (1) through (17) form an integral part of these financial statements.

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyal)

1. GENERAL

HSBC Saudi Equity Income Fund (“the Fund”), formerly HSBC Saudi Equity Trading Fund, is an open-ended mutual investment fund created through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and investors (the Unitholders).

The objective of the Fund is to seek capital appreciation and returns from investments in shariah compliant equities of companies listed on Tadawul (Saudi Stock Market) over the long term.

The Fund is managed by the Fund Manager who also acts as the local custodian and the administrator of the Fund. The Fund distributes income, subject to the approval of the Fund Board, on a semi-annual basis.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by Capital Market Authority (CMA) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) subsequently amended in 16 Shaban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia. During the year 2016, CMA issued new Investment Fund Regulations effective from 6 November 2016.

The Fund updated its terms and conditions which were approved by the Capital Market Authority (CMA) on 15 Rabi Al-Awwal 1439H (corresponding to 4 December 2017).

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

The Fund is open for subscriptions/ redemptions of units twice weekly on Sunday and Tuesday (each being a “Dealing Day”). The value of the Fund’s portfolio is determined twice weekly on Monday and Wednesday (each being a “Valuation Day”). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets minus fund liabilities) by the total number of outstanding fund units on the relevant valuation day.

4. BASIS OF PREPARATION

4.1 Statement of compliance

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

These financial statements were approved by Fund’s Board of Directors on 19 Rajab 1439H (corresponding to 5 April 2018).

4.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for the investments of held for trading investments which are stated at fair value.

4.3 Going concern

The Fund Manager has made an assessment of the Fund’s ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Fund Manager is not aware of any material uncertainties that may cast significant doubt upon the Fund’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyal)

4. BASIS OF PREPARATION (CONTINUED)

4.4 Functional and presentation currency

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

4.5 Use of estimates and judgments

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

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

5 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been adopted by the Fund and applied consistently throughout the periods presented in these financial statements:

5.1 *Held for trading investments*

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

5.2 *Trade date accounting*

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

5.3 *Fund management fees*

Fund management fees are charged at rates agreed with the Fund Manager. These charges are calculated on each Valuation Day at an annual percentage of the Fund’s net assets value. These expenses are charged to the statement of income.

5.4 *Dividend income*

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

5.5 *Zakat/ Income tax*

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

5.6 *Cash and cash equivalents*

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

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.7 Subscription and redemption of units

Units subscribed and redeemed are recorded at net asset value (NAV) per unit on the Valuation Day for which the subscription request and redemption applications are received.

5.8 Net Asset Value

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

5.9 Financial instruments

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

6. FUND MANAGEMENT FEES

The Fund Manager charges to the Fund on each Valuation Day, management fees at a rate of 1.7% of Net assets value (2016: 1.7% of Net assets value). All Fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory and index fees, etc, are included in the management fee.

7. SUBSCRIPTION FEE AND CHARGES

Subscription fee up to 2% is not considered in the financial statement of the fund, as investment to the fund are always net of subscription fees.

The Fund does not charge any redemption fees on redemption of units.

8. HELD FOR TRADING INVESTMENTS

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

<u>Description</u>	<u>2017</u>	<u>2016</u>
Materials	75,787,916	100,674,389
Banks	37,041,153	8,780,929
Telecommunication Services	18,641,844	21,588,921
Retailing	16,303,820	13,229,646
Commercial & Professional Services	16,176,443	20,796,268
Real Estate Management & Development	12,616,418	15,381,753
Transportation	11,371,675	19,138,897
Insurance	10,329,437	--
Capital Goods	6,476,422	15,398,202
Health Care Equipment & Services	5,270,129	4,951,407
Diversified Financials	5,089,276	--
Energy	--	11,587,294
Food & Beverage	--	7,365,430
	<u>215,104,533</u>	<u>238,893,136</u>

As at 31 December 2017, the cost of the above mentioned held for trading investments amounted to SAR 215.76 million (31 December 2016: SAR 232.58 million).

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

9. TRADING LOSS, NET

	<u>2017</u>	<u>2016</u>
Realised loss on held for trading investments	(7,921,164)	(74,224,824)
Unrealised (loss) / gain on held for trading investments	(6,963,640)	69,529,927
	(14,884,804)	(4,694,897)

Realised loss on held for trading investments is calculated based on average cost of securities.

10. OTHER RECEIVABLES

Other receivables include dividends receivables.

11. OTHER LIABILITIES

Other liabilities include management fee payable to fund manager.

12. TRANSACTIONS WITH RELATED PARTIES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties of the Fund comprise HSBC Saudi Arabia (being the Fund Manager, custodian and administrator of the Fund), The Fund Board and The Saudi British Bank (“SABB”) (being a significant shareholder of the Fund Manager).

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are undertaken at mutually agreed prices and approved by the Fund Manager.

Related party transactions for the year ended 31 December 2017 and balances arising there from are as follows:

<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the period</u>		<u>Payable</u>	
		<u>2017</u>	2016	<u>2017</u>	2016
HSBC Saudi Arabia (Fund Manager)	Fund management fee	3,896,887	3,804,129	(60,666)	(55,883)
	Purification Expenses	7,713	15,126	--	--
<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transaction</u>		<u>Closing balance</u>	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
SABB	Cash and cash equivalents	--	--	4,493,334	2,893,229
Fund Board	Board member remuneration	--	--	--	--

Cash and cash equivalents are deposited in a current account maintained with SABB under the name of the Fund Manager (HSBC Saudi Arabia). No interest is receivable on this balance.

Board member remuneration and other fees during the year has been borne and paid by HSBC Saudi Arabia (“the Fund Manager”).

The arrangement with the Fund Manager for Subscription fee is disclosed in Note 7.

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

13. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise financial assets and financial liabilities.

The Fund's financial assets consist of a bank balance, held for trading investments and other receivables whilst its financial liabilities consist of other liabilities.

Held for trading investments are carried at fair value. Fair value is derived from observable market prices listed on Tadawul. The fair value of other financial instruments is not materially different from their carrying values.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund manages its investment portfolio and other assets by monitoring the return on net assets and makes adjustments to its investment policy in the light of changes in market conditions.

The Fund maintains position in financial instruments as dictated by its investment policy. All investments are "held for trading" investments. The Fund is exposed to the following risks:

Special commission rate risk

Special commission rate risk arises from the possibility that changes in market commission rates may affect either the fair value or the future cash flows of the financial instruments. The Fund is not exposed to special commission rate risk.

Credit risk

Credit risk is a risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to credit risk on its bank balance and other receivables. The fund manager seeks to limit its credit risk by dealing with credit worthy counter parties. Further, the bank balance is with a bank that has a good credit rating.

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of changes in the levels of equity indices and the value of individual stocks.

The Fund Manager endeavors to minimize the risk through diversification across various sectors of the Saudi equity market. Further, the Fund Manager has established risk guidelines to manage its equity price risk.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. The Fund's terms and conditions provide for the redemptions of units twice weekly and it is, therefore, exposed to the liquidity risk of meeting Unitholders' redemptions. The Fund's investments are considered to be readily realizable as they are all listed on the Saudi equity market.

The Fund Manager has established certain maturity and liquidity guidelines for the Fund to ensure sufficient funds are available to meet any commitments as they arise. There are no funds drawn by the fund under the credit line with the bank as at balance sheet date.

HSBC SAUDI EQUITY INCOME FUND
Managed by HSBC Saudi Arabia
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to a change in foreign exchange rates.

The Fund is not subject to currency risks as all the assets and liabilities of the Fund are denominated in local currency.

The investment risks of the fund are included in the terms and conditions detailed on the website of the Fund Manager at www.hsbcSaudi.com. The terms and conditions do not form part of these financial statements.

15. DIVIDEND DISTRIBUTION

In accordance with the term and conditions of the Fund, the Fund Board made the following dividend distributions during the year:

	<u>2017</u>	<u>2016</u>
1 st dividend at a rate of 1.25 SAR (2016: 1.15) per unit	3,160,436	2,984,499
2 nd dividend at a rate of 3.00 SAR (2016: 3.10) per unit	<u>7,488,645</u>	<u>7,928,489</u>
	<u>10,649,081</u>	<u>10,912,988</u>

16. SUBSEQUENT EVENT

There were no significant post balance sheet events that require disclosure or adjusting of accounts in these financial statements.

17. LAST VALUATION DAY

The last valuation day of the year was 31 December 2017 (2016: 31 December 2016).