

HSBC SAUDI EQUITY FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Interim condensed financial statements
For the six-month period ended 30 June 2020
together with the
Independent auditor's review Report

HSBC SAUDI EQUITY FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Interim condensed financial statements

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Independent auditor's review report on the interim condensed financial statements

To the unitholders of HSBC Saudi Equity Fund

Introduction

We have reviewed the accompanying 30 June 2020 interim condensed financial statements of **HSBC Saudi Equity Fund** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprises:

- the condensed statement of financial position as at 30 June 2020;
- the condensed statement of comprehensive income for the six months period ended 30 June 2020;
- the condensed statement of changes in net assets (equity) attributable to the unitholders for the six months period ended 30 June 2020;
- the condensed statement of cash flows for the six months period ended 30 June 2020; and
- the notes to the interim condensed financial statements.

The Fund Manager is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and Information Memorandum. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410: *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE 2410") that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2020 interim condensed financial statements of **HSBC Saudi Equity Fund** are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Hani Hamzah A. Bedairi
License No. 460

Date: 5 Muharram 1442H
Corresponding to: 24 August 2020



KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

HSBC SAUDI EQUITY FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Interim condensed statement of financial position
As at 30 June 2020
(Amounts in Saudi Arabian Riyal)

| | <i>Note</i> | <i>As at 30 June 2020 (Unaudited)</i> | <i>As at 31 December 2019 (Audited)</i> |
|--|-------------|---|---|
| ASSETS | | | |
| Cash at bank | <i>10</i> | 22,805,589 | 550,357 |
| Investments at fair value through profit or loss (FVTPL) | <i>11</i> | 124,900,169 | 163,010,401 |
| Receivables and advances | | 1,487,282 | 5,189,463 |
| TOTAL ASSETS | | 149,193,040 | 168,750,221 |
| LIABILITIES | | | |
| Accrued expenses | <i>13</i> | 164,240 | 2,593,414 |
| TOTAL LIABILITIES | | 164,240 | 2,593,414 |
| NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS | | | |
| | | 149,028,800 | 166,156,807 |
| Units in issue (numbers) | | 880,221 | 896,905 |
| Net assets value (equity) per unit – Dealing | <i>17</i> | 169.31 | 185.26 |
| Net assets value (equity) per unit – IFRS | <i>17</i> | 169.31 | 185.26 |

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

HSBC SAUDI EQUITY FUND
(An open-ended mutual fund)
Interim condensed statement of comprehensive income (Unaudited)
For the six-month period ended 30 June 2020
(Amounts in Saudi Arabian Riyal)

| | <i>Note</i> | <i>For the six-month period ended 30 June</i> | |
|---|-------------|---|-------------------|
| | | <u>2020</u> | <u>2019</u> |
| INVESTMENT INCOME | | | |
| Net (loss) / gain on investments at FVTPL | 12 | (15,671,343) | 18,617,362 |
| Dividend income | | 2,486,494 | 3,511,855 |
| Other income | | 867 | 536 |
| TOTAL INVESTMENT (LOSS) / INCOME | | <u>(13,183,982)</u> | <u>22,129,753</u> |
| EXPENSES | | | |
| Management fees | 14 | 1,302,439 | 1,422,584 |
| Other expenses | | 130,045 | -- |
| TOTAL EXPENSES | | <u>1,432,484</u> | <u>1,422,584</u> |
| NET (LOSS) / INCOME FOR THE PERIOD | | <u>(14,616,466)</u> | <u>20,707,169</u> |
| Other comprehensive income for the period | | -- | -- |
| TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD | | <u>(14,616,466)</u> | <u>20,707,169</u> |

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

HSBC SAUDI EQUITY FUND**(An open-ended mutual fund)****Managed by HSBC Saudi Arabia****Interim condensed statement of changes in net assets (equity) attributable to the unitholders (Unaudited)****For the six-month period ended 30 June 2020****(Amounts in Saudi Arabian Riyal)**

| | <i>For the six-month period ended 30 June</i> | |
|--|---|--------------------|
| | <u>2020</u> | <u>2019</u> |
| Net assets (equity) attributable to the unitholders as at the beginning of the period | 166,156,807 | 144,325,645 |
| Net (loss) / income for the period | (14,616,466) | 20,707,169 |
| Contributions and redemptions by the Unitholders: | | |
| Proceeds from issuance of units | 1,777,266 | 8,800,898 |
| Payments for redemption of units | (4,288,807) | (7,876,446) |
| Net change from unit transactions | (2,511,541) | 924,452 |
| Net assets (equity) attributable to the unitholders as at 30 June | <u>149,028,800</u> | <u>165,957,266</u> |

UNIT TRANSACTIONS

Transactions in units for the period ended 30 June are summarised as follows:

| | <i>For the six-month period ended 30 June</i> | |
|---|---|----------------|
| | <u>2020</u> | <u>2019</u> |
| | <i>(In numbers)</i> | |
| Units at the beginning of the period | 896,905 | 926,382 |
| Units issued during the period | 10,014 | 48,295 |
| Units redeemed during the period | (26,698) | (43,520) |
| Net increase / (decrease) in units | (16,684) | 4,775 |
| Units as at end of the period | <u>880,221</u> | <u>931,157</u> |

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

HSBC SAUDI EQUITY FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Interim condensed statement of cash flows (Unaudited)
For the six-month period ended 30 June 2020
(Amounts in Saudi Arabian Riyal)

| | <i>For the six-month period ended 30 June</i> | |
|---|---|--------------|
| | <u>2020</u> | <u>2019</u> |
| Cash flow from operating activities | | |
| Net (loss) / income for the period | (14,616,466) | 20,707,169 |
| <i>Adjustment for:</i> | | |
| Unrealised loss / (gain) on investments at FVTPL | <u>18,181,755</u> | (10,151,778) |
| | 3,565,289 | 10,555,391 |
| Net change in operating assets and liabilities | | |
| Decrease / (Increase) in investments at FVTPL | 19,928,477 | (721,677) |
| Decrease in receivables and advances | 3,702,181 | 230,623 |
| Decrease in accrued expenses | <u>(2,429,174)</u> | (29,406) |
| Net cash generated from operating activities | 24,766,773 | 10,034,931 |
| Cash flow from financing activities | | |
| Proceeds from issuance of units | 1,777,266 | 8,800,898 |
| Payments for redemption of units | <u>(4,288,807)</u> | (7,876,446) |
| Net cash (used in) / generated from financing activities | (2,511,541) | 924,452 |
| Net increase in cash and cash equivalents | <u>22,255,232</u> | 10,959,383 |
| Cash and cash equivalents at the beginning of the period | 550,357 | 1,075,669 |
| Cash and cash equivalents as at the end of the period | <u>22,805,589</u> | 12,035,052 |

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

HSBC SAUDI EQUITY FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Notes to the interim condensed financial statements (Unaudited)
For the six-month period ended 30 June 2020
(Amounts in Saudi Arabian Riyal)

1 GENERAL

HSBC Saudi Equity Fund (“the Fund”) is an investment fund established through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and the investors (the “Unitholders”).

The objective of the Fund is to achieve capital appreciation over the medium to long-term by investing in Shariah compliant Saudi equities listed on Tadawul (Saudi Stock Market).

The Fund is managed by the Fund Manager who also acts as the administrator of the Fund. Albilad Capital is the custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price.

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by the Capital Market Authority (“the CMA”).

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

These interim condensed financial statements have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund’s Terms and Conditions and the Information Memorandum.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund’s annual financial statements as at 31 December 2019.

5 FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed financial statements are presented in Saudi Arabian Riyal (“SAR”), which is the Fund’s functional currency.

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6 BASIS OF MEASUREMENT

These interim condensed financial statements have been prepared on a historical cost basis, except for investments at fair value through profit or loss (“FVTPL”) which are stated at their fair value using the accrual basis of accounting.

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 resources to continue its 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 interim condensed financial statements continue to be prepared on the going concern basis.

The interim condensed financial statement accounts in the statement of financial position have been presented in the order of liquidity.

7 USE OF CRITICAL JUDGEMENTS AND ESTIMATES

Preparation of these interim condensed financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Fund’s accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

8 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019. A number of standards are effective from 1 January 2020 but they do not have a material impact on these interim condensed financial statements.

9 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Fund has not early adopted any of the forthcoming new or amended standards in preparing these interim financial statements.

10 CASH AT BANK

Cash at bank comprise of balances with banks who have investment grade credit ratings, as rated by the international rating agencies.

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11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments comprise of the following sector exposures as at the reporting date:

| | <u>30 June 2020 (Unaudited)</u> | | <u>31 December 2019 (Audited)</u> | |
|--|---------------------------------|-------------------------|-----------------------------------|-------------------------|
| | <i>Cost</i> SR | <i>Fair value</i> SR | <i>Cost</i> SR | <i>Fair value</i> SR |
| <i>Equities</i> | | | | |
| Banks | 29,458,877 | 30,256,080 | 45,141,521 | 57,160,694 |
| Energy | 27,558,630 | 29,247,026 | 22,645,528 | 26,318,048 |
| Retailing | 14,926,544 | 17,357,809 | 16,795,071 | 22,150,102 |
| Materials | 12,442,654 | 13,374,290 | 16,534,011 | 17,562,928 |
| Telecommunication Services | 10,009,979 | 11,874,776 | 4,131,675 | 4,970,894 |
| Real Estate Management & Dev | 6,162,863 | 5,609,711 | 4,377,642 | 4,845,109 |
| Insurance | 6,510,452 | 5,442,592 | 7,455,226 | 7,229,590 |
| Food and Beverage | 4,034,364 | 5,070,826 | 4,403,092 | 4,377,418 |
| Health Care Equipment & Svc | 2,795,751 | 4,188,034 | 4,472,249 | 4,815,774 |
| Transportation | 2,688,056 | 2,479,025 | 3,079,732 | 3,611,571 |
| Consumer Services | -- | -- | 2,240,900 | 2,684,041 |
| <i>Mutual Funds</i> | | | | |
| HSBC Saudi Construction & Cement Companies Equity Fund | -- | -- | 5,240,000 | 7,284,232 |
| Total | 116,588,170 | 124,900,169 | 136,516,647 | 163,010,401 |

12 NET (LOSS) / GAIN FROM INVESTMENTS AT FVTPL

| | <i>For the six-month period ended 30 June</i> | |
|--|---|-------------------|
| | <i>2020</i> | <i>2019</i> |
| Realised gains for the period | 2,510,412 | 8,465,584 |
| Unrealised (losses) / gains for the period | (18,181,755) | 10,151,778 |
| Total | (15,671,343) | 18,617,362 |

Realized (loss) / gain on investments at FVTPL is calculated based on weighted average cost of securities.

13 ACCRUED EXPENSES

Accrued expenses include management fee payable (inclusive of VAT) to the Fund Manager.

14 TRANSACTIONS WITH RELATED PARTIES

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, the Fund Board and administrator of the Fund), mutual funds managed by the Fund Manager and The Saudi British Bank ("SABB") (being significant shareholder of the Fund Manager).

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14 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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. These transactions are carried out on the basis of approved Terms and Conditions of the Fund.

The Fund Manager charges to the Fund on each Valuation Day, management fee at a rate of 1.7% of Net assets value (2019: 1.7% of Net assets value).

Subscription fee up to 2% is not considered in the interim condensed financial statement of the Fund, as investment in the Fund are always net of subscription fees. The Fund does not charge any redemption fees on redemption of units.

During the period, the Fund entered into the following transactions with related parties in the ordinary course of business.

| Related party | Nature of transactions | Amount of transaction for the six-month period ended | | Closing balance | |
|-------------------------------------|--|--|----------------|---------------------|-----------------------|
| | | <u>30 June</u> | <u>30 June</u> | <u>30 June 2020</u> | <u>31 December</u> |
| | | <u>2020</u> | <u>2019</u> | <u>(Unaudited)</u> | <u>2019 (Audited)</u> |
| HSBC Saudi Arabia (Fund Manager) | Fund management fee | 1,302,439 | 1,422,584 | 36,351 | 48,694 |
| | Administration fee | 38,307 | -- | 8,485 | 7,930 |
| | Board member fee | 9,891 | -- | 10,981 | 6,959 |
| | Cash at bank (under omnibus account with SABB) | -- | -- | 72 | -- |

As at 30 June 2020, the Fund has invested nil shares (December 2019: 232,229) in SABB having market value of SR nil (December 2019: SR 8.1 million).

No special commission is accrued against the cash balances in the respective bank accounts with the related parties.

In 2019, the Fund invested in units of HSBC Saudi Construction & Cement Companies Equity Fund managed by the Fund Manager (refer note 11).

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a market price, because this price reasonable approximation of the exit price.

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15 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

| | 30 June 2020 (Unaudited) | | | | |
|----------------------|-----------------------------------|-------------|---------|---------|-------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Investments at FVTPL | 124,900,169 | 124,900,169 | -- | -- | 124,900,169 |
| Total | 124,900,169 | 124,900,169 | -- | -- | 124,900,169 |
| | 31 December 2019 (Audited) | | | | |
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Investments at FVTPL | 163,010,401 | 163,010,401 | -- | -- | 163,010,401 |
| Total | 163,010,401 | 163,010,401 | -- | -- | 163,010,401 |

During the period, no transfer in fair value hierarchy has taken place for the investments at fair value through profit or loss.

Other financial instruments such as cash at bank, receivables and advances and accrued expenses are short-term financial assets and financial liabilities respectively, whose carrying amounts approximate fair value, being short-term in nature and the high credit quality of counterparties.

16 FINANCIAL RISK MANAGEMENT

The Fund has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- equity price risk.

Risk management framework

The risk management framework and policies of the Fund are consistent with those used and disclosed in the annual financial statements of the Fund for the year ended 31 December 2019.

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16 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk for its cash at bank, investments measured at FVTPL, and receivables and advances. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and by dealing with only reputable counterparties.

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 subscriptions and redemptions of units on Dealing Day and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions at any time. However, the Fund is allowed to borrow in order to satisfy redemptions. Substantially all of the Fund's cash at bank, investments measured at FVTPL and receivables and advances are either short-term or considered to be readily realisable. The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that funds are available to meet commitments as they arise.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund's investments are susceptible to equity price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of industry concentration.

17 LAST VALUATION DAY

The last valuation day of the period was 29 June 2020 (2019: 31 December 2019) and the dealing net assets value on this day was SR 169.31 per unit (31 December 2019: SR 185.26). The IFRS net assets value per unit on 29 June 2020 was SR 169.31 per unit (31 December 2019: SR 185.26).

18 IMPACT OF COVID 19 OUTBREAK

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices witnessed significant volatility during the first half of 2020, owing not just to demand issues arising from COVID-19 as the world economies went into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns.

These events have significantly impacted the financial market and created volatility in prices of equities and net asset value of investment funds which impacted the Fund's earnings and cash flows. The management continues to evaluate the current situation through reviewing its investment strategy and other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance.

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19 SUBSEQUENT EVENTS

There were no events subsequent to the reporting date which require adjustments of or disclosure in the interim condensed financial statements or notes thereto.

20 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were approved by the Fund Board on 4 Muharram 1442H (corresponding to 23 August 2020).