

**FUTURE EQUITY FUND**  
**Open-Ended Fund**  
**(Managed by Riyad Capital)**  
**Financial Statements**  
**For the year ended 31 December 2016**  
together with the  
**Independent Auditor's Report to the Unitholders**



Audit – Consultants – Zakat & Tax

**Al-Bassam & Al-Nemer**

**Allied Accountants**

(Member firm of PKF International)

## AUDITOR'S REPORT

### TO THE UNITHOLDERS

**Future Equity Fund**

**Riyadh, Kingdom of Saudi Arabia**

### Scope of Audit

We have audited the accompanying balance sheet of **Future Equity Fund** ("the Fund") managed by Riyadh Capital (the "Fund Manager") as at 31 December 2016 and the related statements of income, cash flows and changes in net assets attributable to the unitholders for the year then ended and the attached notes which form an integral part of the financial statements. These financial statements are the responsibility of the Fund's management and have been submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

### Unqualified Opinion

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the financial position of the Fund as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

For and on behalf of

**PKF Al Bassam & Al Nemer**

**Allied Accountants**

**Ibrahim A. Al-Bassam**

Certified Public Accountant

Registration No. 337



9 Rajab 1438H

6 April 2017

**FUTURE EQUITY FUND**  
**Open-Ended Fund**  
**(Managed by Riyadh Capital)**  
**BALANCE SHEET**  
As at 31 December 2016  
(Amounts in USD)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents		<b>10,311</b>	57,063
Held for trading investments	7	<b>18,783,053</b>	22,220,543
<b>Total assets</b>		<b>18,793,364</b>	22,277,606
<b><u>LIABILITIES</u></b>			
Accrued expenses	10	<b>12,413</b>	12,849
Redemptions payable		<b>189,121</b>	37,004
<b>Total liabilities</b>		<b>201,534</b>	49,853
<b>Net assets attributable to the Unitholders</b>		<b>18,591,830</b>	22,227,753
Units in issue ( <i>number</i> )	8	<b>1,304,048.34</b>	1,698,488.22
Net assets attributable to each unit		<b>14.26</b>	13.09

The accompanying notes 1 to 13 form an integral part of these financial statements.

**FUTURE EQUITY FUND**  
**Open-Ended Fund**  
**(Managed by Riyadh Capital)**  
**STATEMENT OF INCOME**  
For the year ended 31 December 2016  
(Amounts in USD)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b><u>GAIN / (LOSS)</u></b>			
Net gain / (loss) from held for trading investments	9	<b>1,996,914</b>	(3,367,858)
<b><u>EXPENSES</u></b>			
Fund management fee	10	<b>(45,450)</b>	(51,299)
Other expenses	10	<b>(4,040)</b>	(4,052)
		<b>(49,490)</b>	(55,351)
<b>Net income / (loss) for the year</b>		<b><u>1,947,424</u></b>	<b><u>(3,423,209)</u></b>

The accompanying notes 1 to 13 form an integral part of these financial statements

**FUTURE EQUITY FUND**  
**Open-ended Fund**  
**(Managed by Riyadh Capital)**  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2016  
(Amounts in USD)

	<u><b>2016</b></u>	<u><b>2015</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income / (loss) for the year	<b>1,947,424</b>	(3,423,209)
<i>Adjustments to reconcile net income / (loss) to net cash from operating activities:</i>		
Unrealized (gain) / loss on held for trading investments	<u><b>(1,575,691)</b></u>	<u>3,341,143</u>
	<b>371,733</b>	(82,066)
<b>Changes in operating assets and liabilities:</b>		
Held for trading investments	<b>5,013,181</b>	931,717
Accrued expenses	<u><b>(436)</b></u>	<u>(1,931)</u>
<b>Net cash from operating activities</b>	<b>5,384,478</b>	847,720
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of units	-	51,187
Payments for redemption of units	<u><b>(5,431,230)</b></u>	<u>(867,347)</u>
<b>Net cash used in financing activities</b>	<b>(5,431,230)</b>	(816,160)
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(46,752)</b>	31,560
Cash and cash equivalents at beginning of the year	<b>57,063</b>	25,503
<b>Cash and cash equivalents at end of the year</b>	<u><b>10,311</b></u>	<u><b>57,063</b></u>

The accompanying notes 1 to 13 form an integral part of these financial statements.

**FUTURE EQUITY FUND**  
**Open-Ended Fund**  
**(Managed by Riyadh Capital)**  
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**  
For the year ended 31 December 2016  
(Amounts in USD)

	<u>2016</u>	<u>2015</u>
<b>Net assets attributable to the Unitholders at beginning of the year</b>	<b>22,227,753</b>	26,504,126
<b>Net income / (loss) for the year</b>	<b>1,947,424</b>	(3,423,209)
<i><b>Changes from unit transactions:</b></i>		
Issuance of units	-	51,187
Redemption of units	<b>(5,583,347)</b>	(904,351)
Net change from unit transactions	<b>(5,583,347)</b>	(853,164)
<b>Net assets attributable to the Unitholders at end of the year</b>	<b><u>18,591,830</u></b>	<u>22,227,753</u>

The accompanying notes 1 to 13 form an integral part of these financial statements

**FUTURE EQUITY FUND**  
**Open-Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016

**1. THE FUND AND ITS ACTIVITIES**

The Future Equity Fund (the “Fund”) is an equity fund managed through an agreement between Riyadh Capital (the “Fund Manager”) and the Fund investors (the “Unitholders”). The Fund aims at providing long term capital growth with very high risks by investing in China, India, Latin America, Eastern Europe and Africa listed companies.

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund’s Management prepares separate financial statements for the Fund.

The management of the Fund is the responsibility of the Fund Manager. However, in accordance with the Fund’s Agreement, the Fund Manager can delegate or assign its duties to one or more of the financial institutions in the Kingdom of Saudi Arabia and overseas. Accordingly, pursuant to an agreement, dated 3 December 2002, Fidelity International acts as the Sub Fund Manager of the Fund and Brown Brothers Harriman, pursuant to an agreement, dated 1 June 2002 acts as the sub-administrator and custodian of the Fund.

Saudi Arabian Monetary Agency’s approval for the establishment of the Fund was granted in its letter number 6414/MAS/1301 dated 9 Rabi’II 1427 H (corresponding to 7 May 2006). The Fund commenced its operations on 2 June 2006.

**2. REGULATING AUTHORITY**

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by Capital Market Authority (CMA) 3 Dhul Hijja 1427H (corresponding to 24 December 2006) which was amended on 16 Shaban 1437 (corresponding to 23 May 2016), detailing requirements for all investments funds within the Kingdom of Saudi Arabia.

**3. SUBSCRIPTION/ REDEMPTION**

The Fund is open for subscriptions/ redemptions of units daily from Monday to Wednesday. The net assets value of the Fund is determined daily from Monday to Wednesday (each “Valuation Day”). The net assets 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 PRESENTATION**

**4.1 *Statement of compliance***

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

These financial statements were approved by the Fund’s Board of Directors on 8 Rajab 1438H corresponding to 5 April 2017.

**FUTURE EQUITY FUND**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. BASIS OF PRESENTATION (Continued)**

**4.2 *Basis of measurement***

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

**4.3 *Functional and presentation currency***

These financial statements are presented in United States Dollar (USD) which is functional currency of the fund. All financial information presented has been rounded to the nearest USD.

**4.4 *Use of estimates and judgments***

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

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

**5. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the previous year and set out below:

**5.1 *Held for trading investments***

Investments purchased for trading are initially recognized at cost at trade date and are remeasured at their market values as at each balance sheet date. The unrealized gains or losses from revaluation and realized gains or losses from disposal of held for trading investments are recognized in the Statement of Income.

**5.2 *Revenue recognition***

Realized gains and losses on investments held for trading at disposal are determined on average cost basis. The realized gains or losses from investments held for trading represents the difference between the carrying amount of investments at the beginning of the reporting year, or the transaction price if it was purchased in the current reporting year, and its sale price.

Unrealized gains and losses represent the difference between the carrying amount of a financial instruments and the beginning of the year, or the transaction price if it was purchased in the current reporting year, and its carrying amount at the end of the reporting year.



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**5. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5.3 *Fund Management fee and other expenses***

Fund management fees and other expenses are recognized based on the accrual method.

**5.4 *Zakat***

Zakat is obligation of the Unitholders and is not provided for in these financial statements.

**5.5 *Cash and cash equivalents***

Cash and cash equivalents for the purpose of cash flows represent cash at bank in current accounts and other short term highly liquid investments with original maturities of three months or less, if any, which are available to the fund without any restrictions.

**6. FUND MANAGEMENT FEE, ADMINISTRATION AND OTHER CHARGES**

On a daily basis, the sub Fund Manager charges the Fund, a management fee at the rate of 1.5 percent per annum of the Fund's net assets value. In addition, on daily basis the Sub Custodian charges the Fund custody fees at the rate of 0.1 percent per annum of the fund's net assets value. The net assets value of the fund being sub-managed and reported by the sub-manager to the fund manager, is net of the above mentioned fees rates totaling to 1.6% per annum of the fund's net assets value. Moreover, the fund manager charges the fund administration fee of 0.2 percent per annum of the fund's net assets value which is shown in the statement of income under management fee caption.

The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund such as audit and legal fees, board compensation and other similar charges. These charges are not expected to exceed in total 0.2 percent per annum of the Fund's net assets value

**7. HELD FOR TRADING INVESTMENTS**

Held for trading investments represent investments made by the Fidelity International in the following international mutual funds:

<u>Description</u>	<u>2016</u>		<u>2015</u>	
	<u>Units</u>	<u>Market Value</u>	<u>Units</u>	<u>Market Value</u>
FF China Focus Fund	82,766.67	5,704,445	111,520.73	5,709,862
FF Latin America Fund	161,372.72	5,616,141	233,469.84	5,449,186
Frank East Europe Fund	-	-	270,247.95	3,842,128
FF India Focus Fund	94,919.78	4,097,310	120,344.31	4,356,464
Ishares MSCI South Africa Index Fund	35,193	2,242,924	50,261	2,347,691
Other net Assets	-	1,122,233	-	515,212
	<u>374,252.17</u>	<u>18,783,053</u>	<u>785,843.83</u>	<u>22,220,543</u>

- 7.1** The cost of above held for trading investments portfolio amounted to USD 17.207 million (2015: USD 25.562 million).

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**8. UNIT TRANSACTIONS**

Transaction in units for the year are summarized as follows:

	<i>(Units in numbers)</i>	
	<u>2016</u>	<u>2015</u>
<b>Units at beginning of the year</b>	<b>1,698,488.21</b>	1,756,909.10
Units issued	-	3,272.69
Units redeemed	<b>(394,439.87)</b>	(61,693.57)
Net change in units	<b>(394,439.87)</b>	(58,420.88)
<b>Units at end of the year</b>	<b><u>1,304,048.34</u></b>	<u>1,698,488.22</u>

**9. NET GAIN / (LOSS) FROM HELD FOR TRADING INVESTMENTS**

	<u>2016</u>	<u>2015</u>
Realised gain / (loss) from sale of held for trading investments	<b>421,223</b>	(26,715)
Unrealised gain / (loss) from revaluation of held for trading investments	<b><u>1,575,691</u></b>	<u>(3,341,143)</u>
	<b><u>1,996,914</u></b>	<u>(3,367,858)</u>

**10. TRANSACTIONS WITH RELATED PARTIES**

Related parties of the Fund include “Riyad Capital” being the Fund Manager and Riyadh Bank (being the partner of Riyadh Capital).

In the ordinary course of its activities, the Fund transacts business with related parties. The related parties transactions are governed by limits set by the regulations issued by the CMA. All related party transactions are approved by the Fund’s Board of directors.

Riyad Bank acts as a banker of the Fund and as at 28 December 2016 USD nil (2015: 57,063) were held in current account of the Fund maintained with Riyadh Bank.

Riyad Capital is the custodian of the Fund and as at 28 December 2016 the amount held therewith, in an investment account, was USD 10,311 (2015: nil).

The significant related party transactions entered into by the Fund during the year and the balances resulting from such transactions are as follows:

<b><u>Related Party</u></b>	<b><u>Nature of transactions</u></b>	<b><u>Amount of transaction during the year</u></b>		<b><u>Closing balance (Payable)</u></b>	
		<u>2016</u>	2015	<u>2016</u>	<u>2015</u>
Riyad Capital	Fund management Fee	<b>(45,450)</b>	(51,299)	<b>11,463</b>	12,011
	Expenses incurred on behalf of the Fund	<b><u>(4,040)</u></b>	<u>(4,052)</u>	<b><u>950</u></b>	<u>838</u>
<b>Total</b>		<b><u>(49,490)</u></b>	<u>(55,351)</u>	<b><u>12,413</u></b>	<u>12,849</u>

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**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES**

**Credit risk**

Credit risk is the 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 for its investment portfolio. Since the Fund has to date invested exclusively in Foreign Fund.

The Fund Manager provides guidelines to the Foreign Fund Manager (being the Sub Fund Manager) to limit the credit risk by dealing with credit worthy counterparties, monitoring credit exposures and setting limits for individual investments. The Fund Manager regularly monitors the controls established by the Sub Fund Manager to manage credit risk.

**Equity price risk**

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

The Fund is exposed to equity price risk arising from its investment in Foreign Fund, as the underlying investments comprise quoted equity shares.

The Fund Manager provides guidelines to the Sub Fund Manager to manage this risk through diversification of its investment portfolio in terms of geographical distribution and industry concentration. The Fund Manager regularly monitors the controls established by the Sub Fund Manager to manage its equity price risk.

**Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulties in releasing funds to meet commitments associated with financial liabilities.

The Fund's terms and conditions provide for redemptions of units from Monday to Wednesday and it is, therefore, exposed to the liquidity risk of meeting Unitholders' redemptions. The Fund Manager established certain liquidity guidelines for the Fund and provide these to the Sub Fund Manager to ensure sufficient funds are available to meet any commitments as they arise.

The Fund Manager also monitors liquidity requirements on a regular basis with a view to ensuring that sufficient funds are available to meet any commitments as they arise.

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**12. 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 cash and cash equivalents and held for trading investments and financial liabilities consist of accrued expenses and redemptions payable.

Held for trading investments are carried at fair value. The fair values of other financial assets and liabilities are not materially different from their carrying values.

**13. LAST VALUATION DAY**

The last Valuation Day of the year was 28 December 2016 (2015: 30 December 2015)