

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2018
together with the
INDEPENDENT AUDITORS' REPORT



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Independent auditors' report

To the unitholders of HSBC Saudi Construction and Cement Companies Equity Fund

Opinion

We have audited the financial statements of **HSBC Saudi Construction and Cement Companies Equity Fund** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprise of the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in net assets (equity) attributable to the unitholders and cash flows for the year then ended, and notes to the financial statements, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") 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 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 the Fund Manager and those charged with governance for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and compliance with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum 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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<i>31 December 2018</i>	<i>31 December 2017</i>	<i>1 January 2017</i>
ASSETS				
Cash and cash equivalents	<i>10</i>	571,251	931,835	702,633
Investments at fair value through profit or loss	<i>11</i>	14,677,291	16,701,555	19,416,205
Receivables and advances		43,406	--	--
TOTAL ASSETS		15,291,948	17,633,390	20,118,838
LIABILITIES				
Accrued expenses	<i>13</i>	27,772	4,880	4,673
TOTAL LIABILITIES		27,772	4,880	4,673
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS				
		15,264,176	17,628,510	20,114,165
Units in issue (numbers)		3,847,392	3,590,542	3,213,148
Net assets value (equity) per unit – Dealing	<i>18</i>	3.97	4.91	6.26
Net assets value (equity) per each unit – IFRS	<i>18</i>	3.97	4.91	6.26

The accompanying notes (1) to (22) form an integral part of these financial statements.

These financial statements and the accompanying disclosures are approved on behalf of the Fund Board based on the authorization issued on 4 April 2019.

Waleed H AlRashed
General Manager Asset Management

Chistie K Moinuddin
Chief Financial Officer

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<u>2018</u>	<u>2017</u>
<u>INVESTMENT INCOME</u>			
Net loss from investments at fair value through profit or loss	12	(4,132,537)	(5,145,988)
Dividend income		<u>646,855</u>	<u>931,367</u>
TOTAL LOSS		(3,485,682)	(4,214,621)
<u>EXPENSES</u>			
Management fees	14	<u>312,783</u>	<u>294,622</u>
TOTAL EXPENSES		312,783	294,622
NET LOSS FOR THE YEAR		(3,798,465)	(4,509,243)
Other comprehensive income for the year		--	--
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(3,798,465)</u>	<u>(4,509,243)</u>

The accompanying notes (1) to (22) form an integral part of these financial statements.

These financial statements and the accompanying disclosures are approved on behalf of the Fund Board based on the authorization issued on 4 April 2019.

Waleed H AlRashed
General Manager Asset Management

Chistie K Moinuddin
Chief Financial Officer

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO
UNITHOLDERS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<u>2018</u>	<u>2017</u>
Net assets (equity) attributable to unitholders at beginning of the year	17,628,510	20,114,165
Net loss for the year	(3,798,465)	(4,509,243)
<i>Subscriptions and redemptions by the Unitholders:</i>		
Proceeds from issuance of units	3,537,046	3,952,900
Payments for redemption of units	(2,102,915)	(1,929,312)
Net change from unit transactions	1,434,131	2,023,588
Net assets attributable to the unit holders at end of the year	15,264,176	17,628,510

UNIT TRANSACTIONS:

Transactions in units for the year ended 31 December are summarised as follows:

	<u>2018</u>	<u>2017</u>
	<i>(In numbers)</i>	
Units at beginning of the year	3,590,542	3,213,148
Units issued during the year	729,370	760,584
Units redeemed during the year	(472,520)	(383,190)
Net movement in units	256,850	377,394
Units as at end of the year	3,847,392	3,590,542

The accompanying notes (1) to (22) form an integral part of these financial statements.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year		(3,798,465)	(4,509,243)
<i>Adjustment for:</i>			
Net loss on investments at fair value through profit or loss	12	316,371	4,878,560
		(3,482,094)	369,317
Net changes in operating assets and liabilities			
Investments at fair value through profit or loss		1,707,893	(2,163,911)
Receivables and advances		(43,406)	--
Accrued expenses		22,892	208
Net cash used in operating activities		(1,794,715)	(1,794,386)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of units		3,537,046	3,952,900
Payments for redemption of units		(2,102,915)	(1,929,312)
Net cash generated from financing activities		1,434,131	2,023,588
Net (decrease) / increase in cash and cash equivalents		(360,584)	229,202
Cash and cash equivalents at beginning of the year		931,835	702,633
Cash and cash equivalents at end of the year		571,251	931,835

The accompanying notes (1) to (22) form an integral part of these financial statements.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND

(An open-ended mutual fund)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Amounts in Saudi Arabian Riyal)

1 GENERAL

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

The objective of the Fund is to provide equity linked growth by investing in the Shariah compliant shares of construction and cement companies listed in Tadawul (Saudi Stock Market). The Fund has become shariah compliant with effect from 17 January 2012.

The Fund is managed by the Fund Manager who also acts the administrator of the Fund. Albilad Capital has been appointed as 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”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all investment funds operating within the Kingdom of Saudi Arabia. The Regulations were further amended on 16 Sha’aban 1437H (corresponding to 23 May 2016) (“the Amended Regulations”). The Fund Manager believes that the Amended Regulations was effective from 6 Safar 1438H (corresponding to 6 November 2016).

During the period ended 31 December 2018, the Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The main change in the Terms and Conditions relates to change in custodianship. The Fund updated its terms and conditions which were approved by the CMA on 12 Jumada Al-Awwal 1439H (corresponding to 29 January 2018).

3 SUBSCRIPTION / REDEMPTION (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions / redemptions of units on each business day (a “Dealing Day”). The value of the Fund’s portfolio is determined on each business day (a “Valuation Day”). The net asset value (equity) of the Fund for the purpose of purchase or sale of units is determined by dividing the net assets value (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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the 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.

For all periods up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with the generally accepted accounting standards as issued by Saudi Organization of Certified Public Accountants (“SOCPA”). The financial statements for the year ended 31 December 2018 are the first financial statements of the Fund prepared in accordance with IFRS and IFRS 1 “First-time Adoption of International Financial Reporting Standards” has been applied.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND

(An open-ended mutual fund)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Amounts in Saudi Arabian Riyal)

4 BASIS OF PREPARATION (CONTINUED)

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 19.

5 BASIS OF MEASUREMENT

These 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 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.

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

6 FUNCTIONAL AND PRESENTATION CURRENCY

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

7 USE OF JUDGEMENTS AND ESTIMATES

The preparation of these 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 judgment 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 principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Where policies are applicable only after 1 January 2018, those policies have been particularly specified in these financial statements. The impact due to adoption of IFRS 9 has been explained in detail in note 20.

Revenue recognition

Net gain from investments at FVTPL

Net gain from investments at FVTPL includes all realized and unrealized fair value changes and foreign exchange differences (if any), but excludes interest and dividend income, and dividend expense on securities sold short.

Net realized gain from investments at FVTPL is calculated using the weighted average cost method.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividend income

Dividend income is recognized in profit or loss on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. Dividend income from equity securities designated as at FVTPL is recognized in the statement of comprehensive income in a separate line item.

Net asset value (Equity)

Net assets value (equity) per unit, as disclosed in the statement of financial position is calculated by dividing the net assets attributable to the unitholders by the numbers of units in issue at the year end.

Subscription and redemption of units

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

Trade date accounting

All 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 timeframe generally established by regulation or convention in the market place.

Management fees

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 comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments.

Zakat and income tax

Under the current system of taxation in Kingdom of Saudi Arabia the Fund is not liable to pay any tax. Zakat and income tax are considered to be the obligation of the Unitholders and are not provided in the accompanying financial statements.

The Value Added Tax (VAT) applicable for fees and expenses are recognized in the statement of comprehensive income.

Redeemable units

The redeemable units are as equity instruments as they meet certain strict criteria. Those criteria include:

- the redeemable units must entitle the holder to a pro-rata share of net assets;
- the redeemable units must be the most subordinated class and class features must be identical;
- there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and
- the total expected cash flows from the redeemable units over its life must be based substantially on the profit or loss of the issuer.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND

(An open-ended mutual fund)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

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 mid-price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize 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 transfers between levels of the fair value hierarchy as at the end of the reporting year during which the change has occurred.

Financial assets and financial liabilities

Policy applicable before 1 January 2018

Investments held for trading

Investment securities purchased for trading are initially recognized at cost on the trade date and are subsequently measured at their market values. The unrealized gains and losses from revaluation of investments held for trading and realized gains and losses from sale of investments held for trading are recognized in the statement of comprehensive income.

Financial liabilities

The Fund classifies its financial liabilities at amortised cost. All financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

Policy applicable from 1 January 2018

Recognition and initial measurement

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of comprehensive income. Financial assets not at FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND

(An open-ended mutual fund)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (“FVTPL”).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Business model assessment

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual commission revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund’s managers;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Funds’ stated objective for managing the financial assets is achieved and how cash flows are realized.

Business model assessment (continued)

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission / Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the year after the Fund changes its business model for managing financial assets.

Derecognition

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in statement of comprehensive income. Transactions in which the Fund neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Fund continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Fund of similar transactions such as in the Fund's trading activity.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND

(An open-ended mutual fund)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Amounts in Saudi Arabian Riyal)

9 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of amendments and standards are effective for the period beginning on or after 1 January 2019 and earlier application is permitted; however, the Fund has not early applied these new amendments and standards in preparing these financial statements as these do not have material impact on the Fund's financial statements.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents balance comprise of cash with banks who have investment grade credit ratings, as rated by the international rating agencies.

11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments comprise the following sector exposures as at statement of financial position:

	<u>31 December 2018</u>		<u>31 December 2017</u>		<u>1 January 2017</u>	
	<i>Cost</i>	<i>Fair value</i>	<i>Cost</i>	<i>Fair value</i>	<i>Cost</i>	<i>Fair value</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>Equities</i>						
Materials	21,911,975	12,479,823	22,622,868	14,211,833	20,292,227	16,538,721
Capital goods	2,580,880	2,197,468	3,577,880	2,489,722	3,744,611	2,877,484
Total	24,492,855	14,677,291	26,200,748	16,701,555	24,036,838	19,416,205

12 NET GAIN / (LOSS) FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

31 December

	<u>2018</u>	<u>2017</u>
Realised gains for the year	(3,816,166)	(267,428)
Unrealised gains / (losses) for the year	(316,371)	(4,878,560)
Total	(4,132,537)	(5,145,988)

Realized 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 of HSBC Saudi Arabia (being the Fund Manager, custodian and the administrator of the Fund), the Fund Board and The Saudi British Bank ("SABB") (being the significant shareholder of the Fund Manager).

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

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 (2017: 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.

Subscription fee up to 2% is not considered in the 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 year, the Fund entered into the following transactions with related parties in the ordinary course of business.

Related party	Nature of transactions	Amount of transaction during the year		Closing balance	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
HSBC Saudi Arabia	Management fee	312,783	294,622	27,772	4,880
SABB	Cash and cash equivalents	--	--	571,251	931,835

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

15 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below sets out the classifications of the carrying amounts of the Fund's financial assets and financial liabilities into categories of financial instruments:

	<i>Amortized cost</i>	<i>FVTPL</i>
<u>31 December 2018</u>		
Cash and cash equivalents	571,251	--
Investments held at FVTPL	--	14,677,291
Receivables and advances	43,406	--
Total Financial Assets	614,657	14,677,291
Accrued expenses	27,772	--
Total Financial Liabilities	27,772	--
<u>31 December 2017</u>		
Cash and cash equivalents	931,835	--
Investments held for trading	--	16,701,555
Total financial assets	931,835	16,701,555

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

15 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

<u>1 January 2017</u>	<u>Loans and receivables</u>	<u>Held for trading</u>
Cash and cash equivalents	702,633	--
Investments held for trading	--	19,416,205
Total financial assets	<u>702,633</u>	<u>19,416,205</u>

16 FINANCIAL RISK MANAGEMENT

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

- credit risk;
- liquidity risk;
- market risk; and
- operational risk

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk, and the management of capital.

Risk management framework

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises of listed equities.

The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Fund Board. In instances where the portfolio has diverged from the target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

Credit risk

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

The Fund is exposed to credit risk on its bank balance and receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The table below shows the maximum exposure to credit risk for the component of the statement of financial position.

	<i>31 December 2018 SR</i>	<i>31 December 2017 SR</i>	<i>1 January 2017 SR</i>
Cash and cash equivalents	571,251	931,835	702,633
Receivables	43,406	--	--
<i>Total exposure to credit risk</i>	<u>614,657</u>	<u>931,835</u>	<u>702,633</u>

The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

16 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 securities are considered to be readily realizable as they are actively traded on Tadawul. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates and equity prices – will affect the Fund's income or the fair value of its holdings in financial instruments.

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per Fund's Terms and Conditions. The Fund's market risk is managed on a timely basis by the investment manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a timely basis by the Fund Manager.

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 market 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.

Sensitivity analysis

The table below sets out the effect on net assets attributable to the Unitholders of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables, remain constant.

	2018		2017	
<i>Net gain / (loss) on investments held at FVTPL</i>	+ 5%	733,865	+ 5%	835,078
	- 5%	(733,865)	- 5%	(835,078)

Currency risk

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

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

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.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities with financial instruments, either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

16 FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Management Team. This responsibility is supported by the development of overall standard for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- documentation of controls and procedures
- requirements for
 - appropriate segregation of duties between various functions, roles and responsibilities;
 - reconciliation and monitoring of transactions; and
 - periodic assessment of operational risks faced,
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Fund measures certain financial instruments at fair value at each reporting date.

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.

The principal or the most advantageous market must be accessible by the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in assumptions about these factors could affect the fair value of financial instruments.

Valuation models

The fair values of financial instruments that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

17 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Fund values equity securities that are traded on an approved stock exchange at their last reported prices. To the extent that equity securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy, hence the Fund's assets recorded at fair value have been categorized based on fair value hierarchy Level 1.

	<u>Carrying value</u>	31 December 2018			
		-----Fair value-----			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at FVTPL	14,677,291	14,677,291	--	--	14,677,291
Total	14,677,291	14,677,291	--	--	14,677,291

	<u>Carrying value</u>	31 December 2017			
		-----Fair value-----			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Held for trading investments	16,701,555	16,701,555	--	--	16,701,555
Total	16,701,555	16,701,555	--	--	16,701,555

	<u>Carrying value</u>	1 January 2017			
		-----Fair value-----			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Held for trading investments	19,416,205	19,416,205	--	--	19,416,205
Total	19,416,205	19,416,205	--	--	19,416,205

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND

(An open-ended mutual fund)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Amounts in Saudi Arabian Riyal)

17 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

During the year, there has been no transfer in fair value hierarchy for the financial assets held within the levels.

Other financial instruments includes cash and cash equivalents. These are short-term financial assets whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties.

18 LAST VALUATION DAY

The last valuation day of the year was 31 December 2018 (2017: 31 December 2017) and the dealing net assets value on this day was SR 3.97 per unit (31 December 2017: SR 4.91). The IFRS net assets value per unit on 31 December 2018 was SR 3.97 (31 December 2017: SR 4.91).

19 EXPLANATION OF TRANSITION TO IFRS

As stated in note 4, these are the Fund's first annual financial statements prepared in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

The accounting policies set out in note 8 have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information presented in these financial statements for the year ended 31 December 2017 and in the preparation of an opening IFRS statement of financial position at 1 January 2017 (the Fund's date of transition) except for IFRS 9 as disclosed in note 20.

The transition from previous GAAP i.e. generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA to IFRSs as endorsed in the Kingdom of Saudi Arabia has no significant impact on the Fund's statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in net assets attributable to the unitholders and hence no further reconciliation statements have been prepared.

20 IMPACT OF CHANGE IN ACCOUNTING POLICIES

Adoption of IFRS 9 "Financial Instruments"

The Fund has adopted IFRS 9 with date of transition of 1 January 2018, opting to apply exemption allowed under IFRS 1 "First-time Adoption of International Financial Reporting Standards" from retrospective application. Accordingly, comparative information has been presented under the previous GAAP.

The assessment relating to determination of business model within which a financial instrument is held and classification and measurements of all of the Fund's financial instruments have been made based on the facts and circumstances that existed at the date of transition.

As all of the Fund's investments are either held for trading and/or managed and evaluated on a fair value basis, they have remained classified as fair value through profit or loss (FVTPL) upon adoption of IFRS 9. Therefore, transition to IFRS 9 has not resulted in material change to the classification or measurement of investments, in either the current or prior period. Accordingly, no separate reconciliation statement is prepared to reconcile the financial position balances from previous GAAP to IFRS 9.

HSBC SAUDI CONSTRUCTION AND CEMENT COMPANIES EQUITY FUND
(An open-ended mutual fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

20 IMPACT OF CHANGE IN ACCOUNTING POLICIES (CONTINUED)

The following table shows the original measurement categories in accordance with previous GAAP and the new measurement categories under IFRS 9 for the Fund's financial instruments as at 1 January 2018:

	Classification under previous GAAP	New classification under IFRS 9	Original carrying value under previous GAAP	New carrying value under IFRS 9
<i>Financial assets</i>				
Cash and cash equivalents	Loans and receivables	Amortized cost	931,835	931,835
Investments	Held for Trading	FVTPL	16,701,555	16,701,555
<i>Financial liabilities</i>				
Accrued expenses	Loans and receivables	Amortized cost	4,880	4,880

21 SUBSEQUENT EVENT

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

22 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 28 Rajab 1440H (corresponding to 4 April 2019).