

HSBC GCC EQUITY FUND
Managed by HSBC Saudi Arabia Limited
INTERIM CONDENSED FINANCIAL
STATEMENTS (Un-audited)
For the six months period ended 30 June 2016
together with the
Review Report to the Unitholders



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REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

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

Scope of Review

We have reviewed the accompanying interim balance sheet of **HSBC GCC Equity Fund** (the "Fund") managed by HSBC Saudi Arabia Limited (the "Fund Manager") as at 30 June 2016, the related interim statements of income, cash flows and changes in net assets attributable to unitholders for the six-month period then ended and the notes to the interim condensed financial statements from (1) to (11) which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Fund Manager and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

We conducted our review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No. 348

Date: 7 August 2016
Corresponding to: 4 Dhual-Qa'dah 1437H



HSBC GCC EQUITY FUND
 Managed by HSBC Saudi Arabia Limited
INTERIM BALANCE SHEET (Un-audited)
 As at 30 June 2016
 (Amounts in Saudi Arabian Riyals)

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and cash equivalents	2,188,052	504,850
Held for trading investments	7 109,761,717	192,484,537
Other receivables	296,250	94,000
TOTAL ASSETS	112,246,019	193,083,387
<u>LIABILITIES</u>		
Other liabilities	1,584,538	1,163,751
TOTAL LIABILITIES	1,584,538	1,163,751
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	110,661,481	191,919,636
Units in issue (<i>numbers</i>)	9,203,063	10,793,112
Net assets attributable to each unit	12.02	17.78

The accompanying notes 1 through 11 form an integral part of these interim condensed financial statements.

HSBC GCC EQUITY FUND
 Managed by HSBC Saudi Arabia Limited
INTERIM STATEMENT OF INCOME (Un-audited)
 For the six months period ended 30 June 2016
 (Amounts in Saudi Arabian Riyals)

INCOME	<u><i>Note</i></u>	<u>2016</u>	<u>2015</u>
Trading (loss) / gain, net	8	(10,924,059)	25,487,116
Dividend income		3,160,261	3,600,774
Other income		39,510	--
		<u>(7,724,288)</u>	<u>29,087,890</u>
 EXPENSES			
Fund management fees	6	1,220,118	2,234,094
Custodian and fund administration fees	6	--	24,950
Other expenses		8,024	102,695
Exchange loss, net		19,757	22,131
		<u>1,247,899</u>	<u>2,383,870</u>
 NET (LOSS) / INCOME FOR THE PERIOD		<u><u>(8,972,187)</u></u>	<u><u>26,704,020</u></u>

The accompanying notes 1 through 11 form an integral part of these interim condensed financial statements.

HSBC GCC EQUITY FUND
 Managed by HSBC Saudi Arabia Limited
INTERIM STATEMENT OF CASH FLOWS (Un-audited)
 For the six months period ended 30 June 2016
 (Amounts in Saudi Arabian Riyals)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) / income for the period	(8,972,187)	26,704,020
Adjustment for:		
Unrealized gain on held for trading investments	(17,768,049)	(12,000,179)
	<u>(26,740,236)</u>	<u>14,703,841</u>
Changes in operating assets and liabilities		
Held for trading investments, net	29,413,176	(4,292,022)
Other receivables	(296,250)	(94,000)
Other liabilities	1,179,659	1,079,346
Net cash generated from operating activities	<u>3,556,349</u>	<u>11,397,165</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of units	6,506,731	30,326,022
Payments against redemption of units	(8,167,114)	(43,006,169)
Net cash used in financing activities	<u>(1,660,383)</u>	<u>(12,680,147)</u>
Net change in cash and cash equivalents	1,895,966	(1,282,982)
Cash and cash equivalents at beginning of the period	292,086	1,787,832
Cash and cash equivalents at end of the period	<u>2,188,052</u>	<u>504,850</u>

The accompanying notes 1 through 11 form an integral part of these interim condensed financial statements.

HSBC GCC EQUITY FUND
 Managed by HSBC Saudi Arabia Limited
INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
(Un-audited)
 For the six months period ended 30 June 2016
 (Amounts in Saudi Arabian Riyals)

	<u>2016</u>	<u>2015</u>
Net assets attributable to unit holders at beginning of the period	121,294,051	177,895,763
Net (loss) / income for the period	(8,972,187)	26,704,020
Changes from unit transactions		
Proceeds from issuance of units	6,506,731	30,326,022
Payments against redemption of units	(8,167,114)	(43,006,169)
Net change from unit transactions	(1,660,383)	(12,680,147)
Net assets attributable to the unit holders at end of the period	110,661,481	191,919,636

UNIT TRANSACTIONS:

	<i>(In numbers)</i>	
Units at beginning of the period	9,362,858	11,464,300
Units issued	569,464	1,780,883
Units redeemed	(729,259)	(2,452,071)
Net change in units	(159,795)	(671,188)
Units at end of the period	9,203,063	10,793,112

The accompanying notes 1 through 11 form an integral part of these interim condensed financial statements.

HSBC GCC EQUITY FUND
Managed by HSBC Saudi Arabia Limited
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Un-audited)
For the six months period ended 30 June 2016

1. THE FUND AND ITS ACTIVITIES

HSBC GCC Equity Fund (“the Fund”) is an open-ended mutual investment fund created through an agreement between HSBC Saudi Arabia Limited (“the Fund Manager”) and investors (the Unitholders). The objective of the Fund is to provide capital appreciation through investing in a well-diversified portfolio of equities in the GCC markets over the long-term. The fund invests in accordance with shariah investment guidelines as determined by the shariah supervisory committee of the Fund.

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

The Fund updated its terms and conditions which were approved by the Capital Market Authority (CMA) on 20 Jumaada al-thaany 1437H (corresponding to 29 March 2016).

The interim results of the Fund may not be an indicator of its annual results of the operations.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all funds within the Kingdom of Saudi Arabia.

3. SUBSCRIPTION/ REDEMPTION (DEALING DAY & 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 PRESENTATION

4.1 Statement of Compliance

These interim condensed financial statements have been presented in accordance with the requirements of accounting standard on interim financial reporting issued by the Saudi Organization of Certified Public Accountants (the “SOCPA”). These interim condensed financial statements do not include all the information presented in annual financial statements; therefore, these interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

These interim financial statements were approved by the Fund’s Board of Directors on 7 August 2016 (corresponding to 4 Dhual-Qa’dah 1437H).

4.2 Basis of Measurement

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

4.3 Functional and presentation currency

These interim condensed financial statements are presented in Saudi Arabian Riyals (SAR) which is the functional currency of the Fund. All financial information presented has been rounded to the nearest SAR.

HSBC GCC EQUITY FUND
 Managed by HSBC Saudi Arabia Limited
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Un-audited)
 For the six months period ended 30 June 2016
 (Amounts in Saudi Arabian Riyals)

4. BASIS OF PRESENTATION (CONTINUED)

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 period in which the estimates are revised and in future periods affected.

5. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES

The significant accounting policies used in the preparation of these interim condensed financial statements are consistent with those used and disclosed in the annual financial statements for the year ended 31 December 2015.

Risk management policies are consistent with those as disclosed in the annual financial statements for the year ended 31 December 2015.

6. MANAGEMENT FEE, CUSTODIAN & FUND ADMINISTRATION FEES AND SUNDRY EXPENSES

The Fund Manager charges to the Fund on each Valuation Day, management fee at a rate of 2.3% per annum (2015: 2.3% per annum) and custody & administration fee at a rate of nil per annum (2015: nil per annum) of the Fund's net assets value. All fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory fee, index fee, etc, are included in the management fee. The revision in management fee and other charges has been made on the basis of updated terms and conditions of the Fund.

7. HELD FOR TRADING INVESTMENTS

The geographical-wise composition of held for trading investments is summarized as follows:

	<u>2016</u>	<u>2015</u>
Saudi Arabia	88,585,269	150,730,390
United Arab Emirates	17,239,984	31,277,643
Qatar	3,936,464	6,536,905
Oman	--	3,939,599
	<u>109,761,717</u>	<u>192,484,537</u>

7.1 As at 30 June 2016, cost of the above held for trading investments amounted to SAR 119.60 million (30 June 2015: SAR 176.63 million).

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 (Amounts in Saudi Arabian Riyals)

8. TRADING LOSS / GAIN, NET

	<u>2016</u>	<u>2015</u>
Realised (loss) / gain on held for trading investments	(28,692,108)	13,486,937
Unrealised gain on held for trading investments	17,768,049	12,000,179
	<u>(10,924,059)</u>	<u>25,487,116</u>

9. TRANSACTIONS WITH RELATED PARTIES

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

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

Related party transactions for period ended 30 June 2016 and balances arising there from are described as under:

Related party	Nature of transactions	Amount of transaction during the year		Closing balance Receivable/ (Payable)	
		2016	2015	2016	2015
HSBC Saudi Arabia Limited (<i>Fund Manager</i>)	Fund management fee	1,220,118	2,234,094	(244,333)	(60,487)
	Custodian and fund administration fees	--	24,950	--	--
SABB (<i>shareholder</i>)	Cash and cash equivalents	--	--	2,188,052	504,850

Custody and administration fee was charged at a rate of 0.3% per annum of the Fund's net assets value and was payable to the Fund Manager prior to 17 January 2015 in accordance with the terms and conditions applicable at that time. Subsequent to 17 of January 2015, the custody and administration fee is reduced to nil as per the updated terms and conditions.

Cash and cash equivalents of SAR 607,786.44 are deposited in a current account maintained with SABB under the name of the Fund Manager (HSBC Saudi Arabia Limited) and SAR 1,580,266 is held with the custodian under securities cash accounts. No interest is receivable on this balance.

10. 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 of financial assets and financial liabilities.

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

Investments are carried at fair values. The fair values of other financial instruments are not materially different from their carrying values.

11. LAST VALUATION DAY

The last valuation day of the period was 29 June 2016 (2015: 29 June 2015).