

**HSBC GCC EQUITY INCOME 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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Licence No. 46/11/323 issued 11/3/1992

## REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

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

### *Scope of Review*

We have reviewed the accompanying interim balance sheet of **HSBC GCC Equity Income 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 (12) 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 INCOME FUND**  
 Managed by HSBC Saudi Arabia Limited  
**INTERIM BALANCE SHEET (Un-audited)**  
 As at 30 June 2016  
 (Amounts in Saudi Arabian Riyals)

<u>ASSETS</u>	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents		<b>9,608,900</b>	1,425,797
Held for trading investments	7	<b>136,401,512</b>	269,845,287
Other receivables		<b>291,308</b>	394,000
<b>TOTAL ASSETS</b>		<b>146,301,720</b>	<b>271,665,084</b>
 <u>LIABILITIES</u>			
Other liabilities		<b>288,908</b>	687,100
<b>TOTAL LIABILITIES</b>		<b>288,908</b>	<b>687,100</b>
 <b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		 <b>146,012,812</b>	 <b>270,977,984</b>
 <b>Units in issue (<i>numbers</i>)</b>		 <b>13,575,300</b>	 <b>18,868,667</b>
 <b>Net assets attributable to each unit</b>		 <b>10.76</b>	 <b>14.36</b>

The accompanying notes 1 through 12 form an integral part of these financial statements.

**HSBC GCC EQUITY INCOME 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)

<u>INCOME</u>	<u>Note</u>	<u>2016</u>	<u>2015</u>
Trading (loss) / gain, net	8	<b>(5,018,470)</b>	21,218,383
Dividend income		<b>6,363,422</b>	8,523,551
Other income		<b>30,769</b>	--
		<hr/> <b>1,375,721</b>	<hr/> 29,741,934
 <u>EXPENSES</u>			
Fund management fee	6	<b>1,193,065</b>	2,334,513
Exchange loss, net		<b>18,433</b>	41,991
Custodian and fund administration fees		--	25,277
Other expenses		<b>10,632</b>	60,133
		<hr/> <b>1,222,130</b>	<hr/> 2,461,914
 <b>NET INCOME FOR THE PERIOD</b>		<hr/> <b>153,591</b>	<hr/> <b>27,280,020</b>

The accompanying notes 1 through 12 form an integral part of these financial statements.

**HSBC GCC EQUITY INCOME 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>Note</u>	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the period		153,591	27,280,020
Adjustment for:			
Unrealized gain on held for trading investments	8	(22,426,694)	(18,882,822)
		<u>(22,273,103)</u>	<u>8,397,198</u>
<b>Changes in operating assets and liabilities:</b>			
Held for trading investments, net		42,657,195	25,111,502
Other receivables		(291,308)	(394,000)
Other liabilities		230,028	(2,713,633)
<b>Net cash generated from operating activities</b>		<u>20,322,812</u>	<u>30,401,067</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of units		4,637,413	18,066,953
Payments against redemption of units		(12,466,653)	(43,464,163)
Distribution paid during the period		(4,056,732)	(4,063,763)
<b>Net cash (used in) / generated from financing activities</b>		<u>(11,885,972)</u>	<u>(29,460,973)</u>
<b>Net increase in cash and cash equivalents</b>		<b>8,436,840</b>	<b>940,094</b>
Cash and cash equivalents at beginning of the period		1,172,060	485,703
<b>Cash and cash equivalents at end of the period</b>		<u>9,608,900</u>	<u>1,425,797</u>

The accompanying notes 1 through 12 form an integral part of these financial statements.

**HSBC GCC EQUITY INCOME FUND**  
 Managed by HSBC Saudi Arabia Limited  
**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>
<b>Net assets attributable to unit holders at beginning of the period</b>	157,745,193	273,158,937
<b>Net income for the period</b>	153,591	27,280,020
<b>Dividend distribution during the period</b>	(4,056,732)	(4,063,763)
<b>Changes from unit transactions</b>		
Proceeds from issuance of units	4,637,413	18,066,953
Payments towards units redeemed	(12,466,653)	(43,464,163)
Net change from unit transactions	(7,829,240)	(25,397,210)
<b>Net assets attributable to the unit holders at end of the period</b>	146,012,812	270,977,984
<b><u>UNIT TRANSACTIONS:</u></b>		
	<i>(In numbers)</i>	
<b>Units at beginning of the period</b>	14,396,354	20,687,238
Units issued	431,035	1,258,294
Units redeemed	(1,252,089)	(3,076,865)
Net change in units	(821,054)	(1,818,571)
<b>Units at end of the period</b>	13,575,300	18,868,667

The accompanying notes 1 through 12 form an integral part of these financial statements.

**HSBC GCC EQUITY INCOME 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 Saudi Arabia Limited – HSBC GCC Equity Income 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 Fund seeks to achieve long-term capital growth and income by investing in shariah-compliant equities listed on the GCC stock markets that offer sustainable dividend yields and/or the potential for dividend growth over the long term. The fund invests in accordance with shariah screening criteria, approved by shariah supervisory committee.

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

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 Capital Market Authority (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 investments held for trading that are stated at fair value, using accrual basis of accounting and the going concern concept.

**HSBC GCC EQUITY INCOME FUND**  
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**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)**

**4.3 *Functional and presentation currency***

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

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

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

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

**5. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies 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 OTHER EXPENSES**

The Fund Manager charges to the Fund on each Valuation Day, management fee at a rate of 1.7% per annum (2015: 1.7% per annum) and custodian and fund administration fee at a rate of nil per annum (2015: nil per annum) 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 quoted held for trading investments is summarized as follows:

	<u>2016</u>	<u>2015</u>
Saudi Arabia	95,063,892	200,690,116
Oman	20,832,457	31,440,424
UAE	18,415,405	27,444,849
Qatar	2,089,758	8,553,433
Kuwait	--	1,716,465
<b>Total</b>	<u>136,401,512</u>	<u>269,845,287</u>

**7.1** As at 30 June 2016, cost of the above mentioned held for trading investments amounted to SAR 151.33 million (30 June 2015: SAR 261.38 million).



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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Un-audited)**  
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**8. TRADING LOSS / GAIN, NET**

	<u>2016</u>	<u>2015</u>
Realised (loss) / gain on held for trading investments	(27,445,164)	2,335,561
Unrealised gain on held for trading investments	<u>22,426,694</u>	<u>18,882,822</u>
	<u>(5,018,470)</u>	<u>21,218,383</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 transactions during the year		Closing balance Receivable / (Payable)	
		2016	2015	2016	2015
HSBC Saudi Arabia Limited ( <i>Fund Manager</i> )	Fund management fee Custodian and fund administration fees	1,193,065	2,334,513	(235,635)	(63,119)
SABB ( <i>Shareholder</i> )	Cash and cash equivalents	--	25,277	--	--
		--	--	9,608,900	866,658

Custody and administration fee was charged at a rate of 0.2% 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 7,197,992.36 are deposited in a current account maintained with SABB under the name of the Fund Manager (HSBC Saudi Arabia Limited) and SAR 2,410,908 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 and 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.

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**11. DIVIDEND DISTRIBUTION**

As per the terms and conditions of the Fund, the Fund Board made an interim dividend distribution of SAR 4.06 million at the rate of 0.3 SAR per unit (2015: SAR 4.06 million at the rate of 0.2 SAR per unit) was made out of the Fund during the period.

**12. LAST VALUATION DAY**

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