

HSBC SAUDI 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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REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

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

Scope of Review

We have reviewed the accompanying interim balance sheet of **HSBC Saudi 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 SAUDI 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>Note</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents		7,687,051	1,505,053
Held for trading investments	7	228,036,194	356,549,000
Other receivables		737,109	474,500
TOTAL ASSETS		<u>236,460,354</u>	<u>358,528,553</u>
 <u>LIABILITIES</u>			
Other liabilities		383,692	2,041,021
Dividends payable		735,545	--
TOTAL LIABILITIES		<u>1,119,237</u>	<u>2,041,021</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>235,341,117</u>	<u>356,487,532</u>
Units in issue (numbers)		<u>2,571,168</u>	<u>2,652,891</u>
Net assets attributable to each unit		<u>91.53</u>	<u>134.38</u>

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

HSBC SAUDI 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)

INCOME	<u><i>Note</i></u>	<u>2016</u>	<u>2015</u>
Trading (loss) / gain, net	8	(17,266,972)	34,970,690
Dividend income		8,407,922	6,923,612
		<u>(8,859,050)</u>	<u>41,894,302</u>
EXPENSES			
Fund management fee		1,911,395	3,019,847
Other fee		15	1,770
		<u>1,911,410</u>	<u>3,021,617</u>
NET (LOSS) / INCOME FOR THE PERIOD		<u>(10,770,460)</u>	<u>38,872,685</u>

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

HSBC SAUDI 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>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) / income for the period	(10,770,460)	38,872,685
Adjustment for:		
Unrealized gain on held for trading investments	(28,731,568)	(15,663,287)
	<u>(39,502,028)</u>	<u>23,209,398</u>
Changes in operating assets and liabilities		
Held for trading investments, net	52,849,288	(12,592,972)
Other receivables	(737,109)	(474,500)
Other liabilities	348,465	1,972,048
Dividends payable	141,186	---
Net cash generated from operating activities	<u>13,099,802</u>	<u>12,113,974</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of units	720,300	1,044,195
Payments against redemption of units	(3,626,745)	(10,516,966)
Dividends paid during the period	(2,984,499)	(3,360,417)
Net cash used in financing activities	<u>(5,890,944)</u>	<u>(12,833,188)</u>
Net change in cash and cash equivalents	7,208,858	(719,214)
Cash and cash equivalents at beginning of the period	478,193	2,224,267
Cash and cash equivalents at end of the period	<u>7,687,051</u>	<u>1,505,053</u>

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

HSBC SAUDI EQUITY INCOME 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	252,002,521	330,448,035
Net (loss) / income for the period	(10,770,460)	38,872,685
Dividends paid during the period	<i>11</i> (2,984,499)	(3,360,417)
Changes from unit transactions		
Proceeds from issuance of units	720,300	1,044,195
Payments against redemption of units	(3,626,745)	(10,516,966)
Net change from unit transactions	(2,906,445)	(9,472,771)
Net assets attributable to the unit holders at end of the period	235,341,117	356,487,532

UNIT TRANSACTIONS:

	<i>(In numbers)</i>	
Units at beginning of the period	2,602,519	2,723,167
Units issued	7,779	8,034
Units redeemed	(39,130)	(78,310)
Net change in units	(31,351)	(70,276)
Units at end of the period	2,571,168	2,652,891

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

HSBC SAUDI 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 Equity Income Fund (“the Fund”), formerly HSBC Saudi Equity Trading 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 seek capital appreciation and returns from investments in shariah compliant equities of companies listed on Tadawul (Saudi equity market) over the long term.

The Fund is managed by the Fund Manager who also acts as the custodian and the administrator of the Fund. . The Fund distributes 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.

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 PREPARATION

4.1 Statement of compliance

These interim condensed financial statements have been presented in accordance with the requirements of accounting standard on interim condensed 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 SAUDI 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 PREPARATION (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 1.7% per annum (2015: 1.7% 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 sector-wise composition of held for trading investments is summarized as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Petrochemical Industries	48,619,485	83,723,549
Banks and Financial Services	31,732,225	69,617,716
Retail	30,751,268	36,019,238
Cement	26,568,841	38,646,534
Agriculture & food	25,978,370	45,333,844
Telecommunication and Information Technology	21,683,236	24,150,752
Building and Construction	15,851,745	15,807,872
Transport	14,389,581	8,233,020
Industrial investments	12,461,443	25,513,475
Real estate investments	---	9,503,000
	<u>228,036,194</u>	<u>356,549,000</u>

7.1 As at 30 June 2016, cost of the above mentioned held for trading investments amounted to SAR 262.52 million (30 June 2015: SAR 334.02 million).

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8. TRADING (LOSS) / GAIN, NET

	<u>2016</u>	<u>2015</u>
Realised loss on held for trading investments	(45,998,540)	19,307,403
Unrealised gain on held for trading investments	28,731,568	15,663,287
	(17,266,972)	34,970,690

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 period		Closing balance Receivable/(Payable)	
		2016	2015	2016	2015
HSBC Saudi Arabia Limited (<i>Fund Manager</i>)	Fund management fee	1,911,395	3,019,847	(383,692)	(83,037)
	Other fee	--	15	--	--
SABB (<i>shareholder</i>)	Cash and cash equivalents		--	7,687,051	1,505,053

Other fee comprises custody and administration fee at a rate of 0.2% per annum of the Fund's net assets value payable to the Fund Manager effective until 17 January 2015 in accordance with the terms and conditions applicable at that time. Subsequent to 17 January 2015, the custody and administration fee is reduced to nil as per the updated terms and conditions.

Cash and cash equivalents are deposited in a current account maintained with SABB under the name of the Fund Manager (HSBC Saudi Arabia Limited). 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.

For investments traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of other financial instruments is 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 2.98 million at the rate of 1.15 SAR per unit (2015: SAR 3.36 million at the rate of 1.25 SAR per unit) during the period.

12. LAST VALUATION DAY

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