

**HSBC GCC Equity Income Fund
(Managed by HSBC Saudi Arabia)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT**

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021



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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE UNITHOLDERS OF HSBC GCC EQUITY INCOME FUND (MANAGED BY HSBC SAUDI ARABIA)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC GCC Equity Income Fund (the "Fund") managed by HSBC Saudi Arabia (the "Fund Manager") as at 30 June 2021, and the related interim condensed statements of comprehensive income, changes in equity attributable to the unitholders and cash flows for the six-month period ended 30 June 2021, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other matter

The financial statements of the Fund for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 8 April 2021. Further, the interim condensed financial statements of the Fund for the six months period ended 30 June 2020 were reviewed by another auditor who expressed an unmodified review conclusion on those interim condensed financial statements on 24 August 2020.

For Ernst & Young


Saad M. Al-Khathlan
Certified Public Accountant
License No. 509

Riyadh: 7 Muharram 1443H
(15 August 2021)



HSBC GCC Equity Income Fund

Interim condensed statement of financial position

As at 30 June 2021

	Note	30 June 2021 (Unaudited) SR	31 December 2020 (Audited) SR
ASSETS			
Bank balance		1,386,403	15,117,500
Financial assets at fair value through profit or loss (FVTPL)	4	126,120,659	105,844,098
Receivables and advances		1,562,644	28,188
TOTAL ASSETS		129,069,706	120,989,786
LIABILITIES			
Management fee payable	5	48,375	19,401
Accrued expenses and other payables	6	568,079	450,187
TOTAL LIABILITIES		616,454	469,588
EQUITY			
Net assets attributable to unitholders of redeemable units		128,453,252	120,520,198
TOTAL LIABILITIES AND EQUITY		129,069,706	120,989,786
Redeemable units in issue		10,359,658	11,535,002
Net asset value attributable to each per unit		12.40	10.45

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

HSBC GCC Equity Income Fund

Interim condensed statement of comprehensive income (unaudited)

For the six-month period ended 30 June 2021

	Note	30 June 2021 SR	30 June 2020 SR
INCOME			
Net unrealized gain (loss) on financial assets at FVTPL		19,593,297	(6,415,769)
Net realized gain (loss) on disposal of financial assets at FVTPL		3,564,624	(7,584,613)
Dividend income		2,433,128	2,981,795
Net exchange losses		(14,974)	(26,739)
TOTAL INCOME / (LOSS)		25,576,075	(11,045,326)
EXPENSES			
Management fees	5	1,197,812	952,965
Other expenses		6,085	5,689
TOTAL EXPENSES		1,203,897	958,654
NET INCOME / (LOSS) FOR THE PERIOD		24,372,178	(12,003,980)
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		-	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		24,372,178	(12,003,980)

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

HSBC GCC Equity Income Fund

Interim condensed statement of changes in equity attributable to the unitholders (unaudited)

For the six-month period ended 30 June 2021

	2021 SR	2020 SR
EQUITY AT THE BEGINNING OF THE PERIOD	120,520,198	123,540,875
Net income / (loss) for the period	24,372,178	(12,003,980)
Other comprehensive income / (loss) for the period	-	-
Total comprehensive income / (loss) for the period	24,372,178	(12,003,980)
Issue of units during the period	3,222,295	4,667,489
Redemption of units during the period	(16,387,650)	(5,439,500)
Net changes	(13,165,355)	772,011
DIVIDENDS TO UNITHOLDERS	(3,273,769)	(3,478,073)
EQUITY AT THE END OF THE PERIOD	128,453,252	107,286,811

	<u>Units</u>	<u>Units</u>
REDEEMABLE UNIT TRANSACTIONS		
Transactions in redeemable units during the period are summarised as follows:		
UNITS AT THE BEGINNING OF THE PERIOD	11,535,002	11,570,684
Issue of units during the period	282,756	456,481
Redemption of units during the period	(1,458,100)	(565,110)
Net decrease in units	(1,175,344)	(108,629)
UNITS AT THE END OF THE PERIOD	10,359,658	11,462,055

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

HSBC GCC Equity Income Fund

Interim condensed statement of cash flows (unaudited)

For the six-month period ended 30 June 2021

	2021 SR	2020 SR
Operating activities		
Net income / (loss) for the period	24,372,178	(12,003,980)
<i>Adjustments to reconcile net income (loss) to net cash flows from operating activities:</i>		
Unrealised (gain)/ loss on financial assets at FVTPL	(19,593,297)	6,415,769
	4,778,881	(5,588,211)
<i>Working capital adjustments:</i>		
(Increase) decrease in financial assets at FVTPL	(683,264)	8,517,417
Increase in receivables and advances	(1,534,456)	(97,381)
Increase (decrease) in management fee payable	28,974	(10,138)
Increase (decrease) in accrued expenses and other payables	117,892	(249,098)
Net cash flows from operating activities	2,708,027	2,572,589
Financing activities		
Proceeds from issuance of units	3,222,295	4,667,489
Payment on redemption of units	(16,387,650)	(5,439,500)
Payment of dividends	(3,273,769)	(3,478,073)
Net cash flows used in financing activities	(16,439,124)	(4,250,084)
Net decrease in bank balance	(13,731,097)	(1,677,495)
Bank balance at the beginning of the period	15,117,500	6,112,265
Bank balance at the end of the period	1,386,403	4,434,770

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

HSBC GCC Equity Income Fund

Notes to unaudited interim condensed financial statements

At 30 June 2021

1. INCORPORATION AND ACTIVITIES

HSBC GCC Equity Income Fund (the “Fund”) is an open-ended investment fund created by an agreement between HSBC Saudi Arabia (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

HSBC Saudi Arabia, Head Office
HSBC Building 7267
Olaya Street (Al-Murooj District)
Riyadh 12283-2255
Kingdom of Saudi Arabia

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

The Fund seeks to achieve long-term capital appreciation 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 the Shariah supervisory committee.

The Fund is managed by the Fund Manager who also acts as the administrator of the Fund. Albilad Capital is the custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price. The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The main changes in the Terms and Conditions relates to the enhancement of investment objectives. The Fund updated its terms and conditions which were approved by the CMA on 11 Rabi Al-Awwal 1442H (corresponding to 28 October 2020).

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and effective from 6 Safar 1438H (corresponding to 6 November 2016) by the New Investment Fund Regulations (“Amended Regulations”) published by the CMA on 16 Sha’aban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia. The Regulations were further Amended by Resolution of the Board of the Capital Market Authority Number 2-22-2021 Dated 12/7/1442H. Corresponding to 24/2/2021G.

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

3.1. Basis of preparation

These unaudited interim condensed financial statements for the six-month period ended 30 June 2021 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) as endorsed in the kingdom of Saudi Arabia.

The unaudited interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Fund’s annual financial statements as at 31 December 2020.

The unaudited interim condensed financial statements have been prepared on a historical cost basis, using the accrual basis of accounting except for financial assets held at FVTPL that are measured at fair value. These unaudited interim condensed financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest SR.

3.2 New standards, interpretations and amendments

The accounting policies adopted in the preparation of the unaudited interim condensed financial statements are consistent with those followed in the preparation of the Fund’s annual financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the unaudited interim condensed financial statements of the fund.

HSBC GCC Equity Income Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES (continued)

3.2 New standards, interpretations and amendments (continued)

Interest Rate Benchmark Reform–Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the unaudited interim condensed financial statements of the Fund.

The Fund intends to use the practical expedients in future periods if they become applicable.

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

The composition of the investment's portfolio on the last valuation day of the period/year end is summarised below:

	30 June 2021 (Unaudited)			
	% of Market value	Cost SR	Market value SR	Unrealised gain, net SR
<i>Investments in equities (by sector)</i>				
Materials	31.73%	24,695,692	32,617,260	7,921,568
Banks	21.90%	9,379,374	22,514,463	13,135,089
Energy	13.04%	11,421,959	13,403,750	1,981,791
Retailing	9.35%	5,604,276	9,612,979	4,008,703
Telecommunication Services	8.40%	4,724,662	8,637,829	3,913,167
Utilities	5.78%	5,308,973	5,945,513	636,540
Health Care Equipment & Svc	4.77%	1,501,250	4,906,085	3,404,835
Commercial & Professional Svc	2.98%	2,904,355	3,065,365	161,010
Transportation	2.05%	1,697,071	2,097,301	400,230
Total	100.00%	67,237,612	102,800,545	35,562,933

The above equity investments are listed on the Saudi Stock Exchange ("Tadawul"). The Fund Manager seeks to limit risk for the Fund by monitoring exposures in each investment sector and individual securities.

	Cost SR	Market value SR
<i>Investments (by country)</i>		
Kingdom of Saudi Arabia	67,237,612	102,800,545
United Arab Emirates	18,562,130	23,320,114
Total	85,799,742	126,120,659

HSBC GCC Equity Income Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL) (Continued)

	31 December 2020 (Audited)			
	% of Market value	Cost SR	Market value SR	Unrealised gain (loss), net SR
<i>Investments in equities (by sector)</i>				
Materials	20.15%	14,121,212	18,508,766	4,387,554
Bank	19.00%	10,965,054	17,452,326	6,487,272
Energy	16.50%	14,076,255	15,162,229	1,085,974
Real Estate Management and Development	10.50%	10,409,788	9,643,874	(765,914)
Retailing	9.26%	6,038,793	8,504,403	2,465,610
Telecommunication Services	8.16%	5,091,049	7,497,062	2,406,013
Utilities	6.15%	5,720,662	5,652,850	(67,812)
Food and Beverage	5.44%	4,956,435	4,994,675	38,240
Health Care Equipment and Services	4.86%	2,046,499	4,461,370	2,414,871
Total	100.00%	73,425,747	91,877,555	18,451,808
			Cost SR	Market value SR
<i>Investments (by country)</i>				
Kingdom of Saudi Arabia			73,425,747	91,877,555
United Arab Emirates			11,690,731	13,966,543
Total			85,116,478	105,844,098

5. TRANSACTIONS WITH RELATED PARTIES

A. *Transactions and balances with Fund Manager*

In the ordinary course of its activities, the Fund transacts business with related parties. The following are the details of major related party transactions during the period:

Related party	Nature of transactions	Amount of transactions		Balance	
		2021 SR	2020 SR	2021 SR	2020 SR
HSBC Saudi Arabia (Fund Manager)	Fund management fee	1,197,812	952,965	48,375	19,401

The Fund pays the Fund Manager a management fee calculated at an annual rate of 2.30% per annum calculated on the total asset value at each valuation date. The fee is intended to compensate the Fund Manager for administration of the Fund.

The units in issue at 30 June 2021 include 500 units held by the employees of the Fund Manager (31 December 2020: 500 units).

The units in issue at 30 June 2021 include 2,000,000 units held by the Fund Manager (31 December 2020: 2,000,000 units).

B. *Transactions with Board of Directors*

Board member compensation and other fees such as custodian fee and administration fee during the period has been borne and paid by HSBC Saudi Arabia (“the Fund Manager”).

HSBC GCC Equity Income Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

6. ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2021 (Unaudited) SR	31 December 2020 (Audited) SR
Dividend payable	241,427	236,075
Redemption payable	307,237	203,978
Shariah purification payable	16,202	10,134
Other payable	3,213	-
	<u>568,079</u>	<u>450,187</u>

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund has only investments at fair value through profit or loss which is measured at fair values and are classified within level 1 of the fair value hierarchy. All other financial assets and liabilities are classified as amortized cost and management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short-term tenure and the fact that these are readily liquid. These are all classified within level 2 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current period or prior year.

8. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

	Within 12 months SR	After 12 months SR	Total SR
As at 30 June 2021 (Unaudited)			
ASSETS			
Bank balance	1,386,403	-	1,386,403
Financial assets at fair value through profit or loss (FVTPL)	126,120,659	-	126,120,659
Receivables and advances	1,562,644	-	1,562,644
TOTAL ASSETS	<u>129,069,706</u>	<u>-</u>	<u>129,069,706</u>
LIABILITIES			
Management fee payable	48,375	-	48,375
Accrued expenses and other payables	568,079	-	568,079
TOTAL LIABILITIES	<u>616,454</u>	<u>-</u>	<u>616,454</u>
As at 31 December 2020 (Audited)			
ASSETS			
Bank balance	15,117,500	-	15,117,500
Financial assets at fair value through profit or loss (FVTPL)	105,844,098	-	105,844,098
Receivables and advances	28,188	-	28,188
TOTAL ASSETS	<u>120,989,786</u>	<u>-</u>	<u>120,989,786</u>
LIABILITIES			
Management fee payable	19,401	-	19,401
Accrued expenses and other payables	450,187	-	450,187
TOTAL LIABILITIES	<u>469,588</u>	<u>-</u>	<u>469,588</u>

HSBC GCC Equity Income Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

9. LAST VALUATION DAY

The last valuation day of the period/year was 30 June 2021 (year ended 31 December 2020: 31 December 2020).

10. IMPACT OF COVID-19 ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities and business continuity, the Fund Manager has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families.

The impact of the pandemic on the Fund’s operations and financial results till the date of the unaudited interim financial statements has been reflected in the net assets value and investments value. These developments could further impact our future financial results, cash flows and financial condition and the Fund Manager will continue to assess the nature and extent of the impact on its business and financial results.

11. APPROVAL OF THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

These unaudited interim condensed financial statements were approved by the Fund’s management on 7 Muharram 1443H (corresponding to 15 August 2021).