

HSBC GCC Equity 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



Ernst & Young & Co. (Certified Public Accountants) Registration No. 45/11/323
General Partnership C.R. No. 1010383821
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia
Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730
ey.ksa@sa.ey.com
ey.com/mena

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC GCC Equity 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 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		3,049,396	10,449,137
Financial assets at fair value through profit or loss (FVTPL)	4	85,095,915	46,517,057
Receivables and advances		49,390	22,891
TOTAL ASSETS		88,194,701	56,989,085
LIABILITIES			
Management fee payable	5	44,356	12,274
Accrued expenses and other payables	6	87,636	542,555
TOTAL LIABILITIES		131,992	554,829
EQUITY			
Net assets attributable to unitholders of redeemable units		88,062,709	56,434,256
TOTAL LIABILITIES AND EQUITY		88,194,701	56,989,085
Redeemable units in issue		4,452,406	3,526,039
Net asset value attributable to each per unit		19.78	16.00

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

HSBC GCC Equity 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 loss on financial assets at FVTPL		(218,248)	(2,907,985)
Net realized gain / (loss) on disposal of financial assets at FVTPL		12,685,535	(1,716,999)
Dividend income		1,204,819	999,503
Net exchange losses		(6,355)	(6,279)
TOTAL INCOME / (LOSS)		13,665,751	(3,631,760)
EXPENSES			
Management fees	5	807,131	595,174
Other expenses		715	2,333
TOTAL EXPENSES		807,846	597,507
NET INCOME / (LOSS) FOR THE PERIOD		12,857,905	(4,229,267)
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		-	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		12,857,905	(4,229,267)

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

HSBC GCC Equity 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	56,434,256	57,092,178
Net income / (loss) for the period	12,857,905	(4,229,267)
Other comprehensive income / (loss) for the period	-	-
Total comprehensive income / (loss) for the period	12,857,905	(4,229,267)
Issue of units during the period	24,520,954	306,078
Redemption of units during the period	(5,750,406)	(2,918,277)
Net changes	18,770,548	(2,612,199)
EQUITY AT THE END OF THE PERIOD	88,062,709	50,250,712

	<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	3,526,039	3,888,519
Issue of units during the period	1,260,718	24,462
Redemption of units during the period	(334,351)	(207,559)
Net increase / (decrease) in units	926,367	(183,097)
UNITS AT THE END OF THE PERIOD	4,452,406	3,705,422

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

HSBC GCC Equity 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	12,857,905	(4,229,267)
<i>Adjustments to reconcile net income (loss) to net cash flows from operating activities:</i>		
Movement in unrealised loss on financial assets at FVTPL	218,248	2,907,985
	13,076,153	(1,321,282)
<i>Working capital adjustments:</i>		
(Increase) decrease in financial assets at FVTPL	(38,797,106)	7,690,113
(Increase) decrease in receivable and advances	(26,499)	734,812
Increase (decrease) in management fee payable	32,082	(6,059)
Decrease in accrued expenses and other payables	(454,919)	(93,030)
Net cash flows (used in) from operating activities	(26,170,289)	7,004,554
Financing activities		
Proceeds from issuance of units	24,520,954	306,078
Payment on redemption of units	(5,750,406)	(2,918,277)
Net cash flows from (used in) financing activities	18,770,548	(2,612,199)
Net (decrease) increase in bank balance	(7,399,741)	4,392,355
Bank balance at the beginning of the period	10,449,137	1,394,236
Bank balance at the end of the period	3,049,396	5,786,591

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

HSBC GCC Equity Fund

Notes to unaudited interim condensed financial statements

At 30 June 2021

1. INCORPORATION AND ACTIVITIES

HSBC GCC Equity 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

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 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.

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 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	30.83%	18,592,174	20,053,020	1,460,846
Banks	30.09%	14,606,966	19,577,232	4,970,266
Telecommunication Services	10.38%	5,587,074	6,754,768	1,167,694
Healthcare Equipment and Services	4.66%	2,863,069	3,034,747	171,678
Retailing	4.50%	1,967,471	2,929,924	962,453
Energy	3.34%	2,180,587	2,171,707	(8,880)
Pharma, Biotech and Life Science	3.05%	1,433,506	1,981,245	547,739
Utilities	2.68%	1,647,120	1,742,932	95,812
Transportation	2.65%	1,502,002	1,721,560	219,558
Real Estate Management and Development	2.63%	1,802,618	1,709,391	(93,227)
Consumer Services	2.62%	1,574,277	1,705,609	131,332
Insurance	2.57%	1,573,407	1,671,856	98,449
Total	100.00%	55,330,271	65,053,991	9,723,720

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	55,330,271	65,053,991
United Arab Emirates	16,497,553	17,324,880
State of Kuwait	2,384,809	2,717,044
Total	74,212,633	85,095,915

HSBC GCC Equity 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, net SR
<i>Investments in equities (by sector)</i>				
Banks	20.89%	4,674,041	7,936,509	3,262,468
Materials	16.16%	4,232,586	6,140,084	1,907,498
Energy	15.07%	5,394,095	5,727,748	333,653
Health Care Equipment and Services	11.84%	2,522,490	4,497,801	1,975,311
Retailing	9.61%	2,770,845	3,652,515	881,670
Telecommunication Services	9.03%	2,525,374	3,430,034	904,660
Food and Beverage	6.80%	1,923,803	2,583,053	659,250
Insurance	6.63%	1,733,918	2,519,275	785,357
Real Estate Management and Development	3.97%	1,718,851	1,509,512	(209,339)
Total	100.00%	27,496,003	37,996,531	10,500,528

	Cost SR	Market Value SR
<i>Investments (by country)</i>		
Kingdom of Saudi Arabia	27,496,003	37,996,531
United Arab Emirates	5,534,715	5,796,968
State of Kuwait	2,384,809	2,723,558
Total	35,415,527	46,517,057

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	807,131	595,174	44,356	12,274
	Cash at bank			3,049,396	10,449,137

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 20,030 units held by the employees of the Fund Manager (31 December 2020: 20,030 units) and units held by other funds managed by the Fund manager aggregating to 2,795,298 units (31 December 2020: 1,557,841 Units).

There are no units in issue as at 30 June 2021 (31 December 2020: Nil units) that are held by the Fund Manager.

HSBC GCC Equity Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

5. TRANSACTIONS WITH RELATED PARTIES (continued)

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”).

6. ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2021 (Unaudited) SR	31 December 2020 (Audited) SR
Accrued redemption payable	82,774	538,391
Shariah purification payable	4,862	4,164
	<u>87,636</u>	<u>542,555</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:

As at 30 June 2021 (Unaudited)	Within 12 months SR	After 12 months SR	Total SR
ASSETS			
Bank balance	3,049,396	-	3,049,396
Financial assets at fair value through profit or loss (FVTPL)	85,095,915	-	85,095,915
Receivables and advances	49,390	-	49,390
TOTAL ASSETS	<u>88,194,701</u>	<u>-</u>	<u>88,194,701</u>
LIABILITIES			
Management fee payable	44,356	-	44,356
Accrued expenses and other payables	87,636	-	87,636
TOTAL LIABILITIES	<u>131,992</u>	<u>-</u>	<u>131,992</u>

HSBC GCC Equity Fund

Notes to unaudited interim condensed financial statements (continued)

At 30 June 2021

8. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 31 December 2020 (Audited)	Within 12 months SR	After 12 months SR	Total SR
ASSETS			
Bank balance	10,449,137	-	10,449,137
Financial assets at fair value through profit or loss (FVTPL)	46,517,057	-	46,517,057
Receivables and advances	22,891	-	22,891
TOTAL ASSETS	56,989,085	-	56,989,085
LIABILITIES			
Management fee payable	12,274	-	12,274
Accrued expenses and other payables	542,555	-	542,555
TOTAL LIABILITIES	554,829	-	554,829

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.

As of the date of unaudited interim condensed financial statements for the six months period ended 30 June 2021, the Fund’s operations and financial results have witnessed impact due to the COVID-19 outbreak mainly as result of decline in the Fund’s investments’ fair values in line with share prices declining trend. The impact of the pandemic on the Fund’s operations and financial results till the date of the 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).