



Musharaka
REIT Fund

Annual Report 2018

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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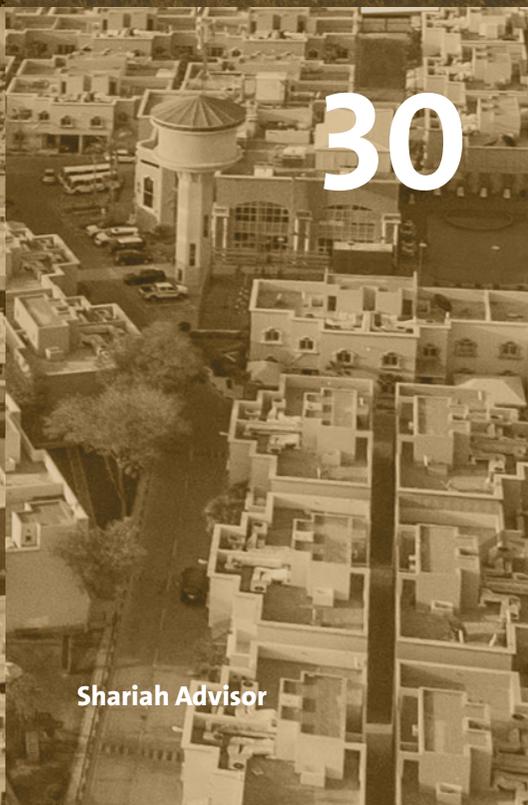
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Letter to Shareholders

Dear Shareholders:

We are pleased to present our FY18 annual report for your consideration. It was a year chock-full of achievements and gains that have brought a clear advantage for the fund and shareholders as well. Musharaka REIT Fund is a Sharia-compliant real estate investment trust established as per the regulations and instructions governing these types of funds. Its business strategy focuses on investing in constructionally developed and leasable assets that chiefly generate periodic and rental income.

The fund manager and teamwork have recognized that development of financial activities and services in Saudi Arabia poses challenges that should be encountered by new strategies. Such strategies should be translated into investment practices combining experience with the spirit of innovation in order to anticipate solutions and mechanisms meeting the shareholders' initial aspirations as well as the 2030 Vision. Therefore, we have created Musharaka REIT Fund to present an advanced investment experience and practice in terms of the quantitative and qualitative added-value that maximizes shareholder's interest and aligns with our national economic growth.

Within a brief span of time after our launch on 17 August 2017, we managed to enhance our role as one of the leading funds in the equity market on one hand, and the real estate market on the other hand. In this journey, we relied on reasonable studies, wide experiences in the real estate market, precise selection of target properties, up-to-date financial systems, and polarization of outstanding national human resources in the field.

Directly post establishment, the fund has started operations. By utilizing its unique administrative and scientific factors of experiences and efficiencies, the fund ended 2018 with a promising percentage of rewarding investment return that led the activity towards its objectives and goals with a clear vision. Thus, the fund acquired a number of remarkable properties as it runs a diverse portfolio of real estate assets in the residential, commercial, industrial and hospitality sectors inside major Saudi cities.

This bunch of investments resembles a significant stage in the fund history. Although having been set up recently, the fund targets further expansions intermediately and in the long-term for boosting its portfolio diversification in various Saudi and foreign areas. Over the past year, the investment experience proved our high efficiency in operating and managing portfolio investments. Following the stage of subscription and operation, the fund management acquired more properties in the form of four 17-year usufructs with a rewarding yield exceeding 16% through securing a local bank facility.

Moreover, the financial and investment results ensure that the fund will keep making gains. Last year, the distributed return on operating profits reached 7%, meeting our targeted estimates for 2018.

Thanks to this unique level of business and investment management, we look forward to exploring new horizons that will place our fund among the top REITs that deliver high profits and premium yields, as the fund owns highly qualitative and efficient properties. Our recent accomplishments during this short period can boost the fund onward in the near future as planned. Currently, we are working on this plan to stand as the first and favorite investment window in Saudi Arabia.

Sincerely,

Ibrahim Fahad Al Assaf
Chairman



Events Overview

2017

October 1, 2017
The fund was listed

2018

February 26, 2018
The fund announced its first dividend distribution at SR 0.35 per unit

May 31, 2018
The fund signed a facility agreement worth SR 400 million with Al Rajhi Bank

July 8, 2018
The fund acquired four (4) commercial properties at SR 146 million

August 13, 2018
The fund announced its second dividend distribution at SR 0.35 per unit

December 26, 2018
The fund announced its third dividend distribution at SR 0.28 per unit

Musharaka REIT Fund in a Nutshell

The Fund

Musharaka REIT Fund is a real estate investment trust publicly listed on Tadawul. Its strategic objectives examine investments in constructionally developed assets that can generate periodic and rental income. The fund distributes no less than 90% of net profits as cash dividends to unit holders semi-annually.

Fund Manager

Musharaka Capital Company is a closed joint-stock company, as per resolution no. 73/2014 issued by the Ministry of Trade and Industry. As a legal person authorized as per the regulations, the Capital Market Authority (CMA) approved granting the company license no. 13169-27 on October 23, 2013, to offer investment fund management, custodian, advisory, and arrangement services to deal as a securities principal.

Investment Goals

The fund mainly invests in constructionally developed and leasable real estate assets that could generate periodic and rental income. The fund may partly expose its assets to real estate development projects, provided that (1) income-generating assets invested in developed real properties may not be less than 75%, and (2) no investment shall be made in vacant lands.

Dividend Distribution Policy

As per terms and conditions of the fund, dividend distribution policy aims to make semi-annual payouts to unit holders based on the operating net profit.

Real Estate Portfolio (Listing Date)

As of the date of listing, the fund has acquired five (5) properties: Al Baraka Warehouse, Radisson Blu hotel apartments, Ajzala Compound 1, Seashore Compound, and Pearl Compound.

Sharia-complaint Facilities

The Fund manager secured Sharia-compliant Murabaha facilities worth SAR 400 million from Al Rajhi Bank.

Acquisitions Post Listing

Following listing, the fund had acquired four (4) usufructuary projects worth SAR 146.1 million in Riyadh, Al Kharj, and Al Jubail. The amount was funded by sharia-compliant banking facilities.

Asset Net Worth

Net Asset Value
Per Unit

Number of Units

848,631,161

9.64

88,000,000

SR

SR

Units

Income Per Unit

Expenses

Total Return

98

3%

123,103,621

Halalas

of Net Asset Value

SR

Service Providers

Custodian



Shariah Advisor



Financial Advisor



Technical Engineering Consultant



Legal Accountant



Legal Advisor



Estate Appraisers



Media Consultant





Investment Strategy and Policies

Investment Strategy

The fund management will invest in various sectors including, but not limited to, the industrial, residential, hospitality, commercial, agricultural, and commercial property sectors. The fund can acquire two types of assets:

- Constructionally developed real estates that are leasable and can generate periodic and rental income; and,
- Long-term real estate usufructs.

Given the fact that the fund mainly capitalizes on constructionally developed real estate assets that can generate rental and periodic income, it does not inject any value into vacant lands. Additionally, its investments in real estate development or renewal/redevelopment of fund-owned assets are limited to 25% of the total value according to its latest audited financial statements.

The selection of properties should rely on the following criteria:

- Minimum 50% of the gross leasable areas are rented.
- Properties shall be constructionally developed and produce annual rental returns.
- No improvements worth more than 15% of the total purchasing value may be required for the property.

Investment Concentration Policy

The fund primarily targets pumping investments in sites located in major Saudi cities, except Makkah and Al-Madinah Region; these sites are distinguished by positive population features, strong growth of business activities, progressive investment inflows, encouraging mechanism of supply and demand, and robust infrastructure as well. Although investments are chiefly concentrated inside Saudi Arabia, the fund can pump no more than 25% of total asset value in constructionally developed properties outside the Saudi borders, provided the properties can generate periodic and rental income according its latest audited financial statements. Furthermore, the fund manager may annually retain no more than 10% of net profits through retention of dividends that may be paid as per earnings collected from annual leases.



Borrowing Powers

The fund manager may secure Shariah-compliant finances on behalf of the fund, pending Board approval. The lending value may not exceed 50% of the total asset value pursuant to the latest audited financial statements. The fund may secure the lending value from any local bank and will bear all costs of funding.

The fund manager obtained Shariah-compliant Murabaha facilities from Al Rajhi Bank on May 30, 2018, detailed as follows:

- Facilities are worth SAR 400 million with a six month SAIBOR rate plus 1.85%.
- Term of the agreement is seven years.
- Facilities are guaranteed by a promissory note and a pledge on properties.
- Drawdown period is 18 months as of the signature date.

- Cost of funds will be paid within its valid term only.
- Whole value of facilities shall be repaid by the end of the seventh year.

By securing facilities, the fund intends to carry out expansions for boosting its strategic objectives, acquiring income-generating properties, and having long usufructuary contracts in accordance with the fund and risk mitigation policies. Such efforts leave an impact on profitability and dividend payout sustainability after cutting the annual cost of financing.

Methods for Investing Available Cash in the Fund

Available cash amounts in the fund may be invested in SAR-denominated Murabaha deposits and other Shariah-compliant short-term investments. The investment funds shall be publically listed and licensed by the Capital Market Authority, whether they are managed by the fund manager or other investment fund managers. They may also be traded or untraded such as local REIT or IPO funds. Suh investment funds may further include cash or Mutajara funds, provided the total of such investments may not exceed 25% of total asset value as per the latest audited financial statements.



Exit Policy

Musharaka REIT Fund's main objective is to produce periodic income to unit holders out of earnings. This purpose requires holding, for a span of time, constructionally developed property that generates rental income periodically. The fund manager will continuously monitor the market for seizing the opportunity to exit from a single or more than an investment. Reasons behind an exit include, but are not limited to:

- Reconstitution of real estate assets to add new properties that increase revenue efficiency and match the description of assets to which investments are directed.
- Change in the existing real estate dynamics such as the impact of property's geographical location as well as significantly and continuously lower revenues.

The fund intends to generally maintain its real estate assets in the long term. The fund manager will appraise each unit periodically and will give a sell recommendation pending Board approval, if such decisions are evidently lying in the interest of the fund and unit owners, without seeking the unit owners' decision. Any property granted a sell recommendation will be valued by two independent appraisers licensed by the Capital Market Authority. The fund manager will ensure the selling price is not less than the average appraised value. Moreover, the fund manager will seek to buy, within six months as of the date of sale, an alternative property compatible with the fund strategy to achieve its objectives.

Investment Decision-making Mechanism

The fund management shall report all key decisions affecting the fund, unit holders, and value of units to the Board of Directors. Such decisions shall include, but are not limited to, the following:

- Making significant decisions about the fund activities;
 - Approving the preliminary fund's objective and the target investment field;
 - Approving the appointment of key service providers such as the custodian, real estate developer, appraisers, marketer, religious authority, property manager, and the legal accountant;
 - Approving any new contracts integrated with the ordinary fund operation;
- Approving the terms and conditions of the fund;
 - Monitoring work progress, percentage of completion, and letters of credit;
 - Observing any process that could affect the fund performance or value of units; and
 - Noticing any tangible change in the aforementioned items.

■ Description of Investment Decision-making Steps

■ Studying Real Estate Markets

Musharaka REIT Fund depends on the department of real estate fund management, which includes the fund manager and external advisors, in order to periodically assess the most attractive areas in the real estate market. The fund manager will continuously monitor patterns, cycles, basics and features of the sector to benefit from the available investment opportunities and to maintain the long term fund objectives.

■ Acquisitions

Investment decisions are take in light of the following criteria:

- The real estate fund management assesses the proposed property to verify its feasibility and compatibility with the types of real estate assets targeted by the fund.
- The Board of Directors looks into the initial assessment to approve moving forward in acquisition procedures.
- The fund manager appoints independent estate appraisers to assess and determine the property market value.
- The fund manager appoints a technical engineering consultant to assess the property.
- By making certain that this potential transaction is feasible and achieves the fund objectives, the Board of Directors approves having a binding agreement with the owner.
- Finally, the fund acquires the property whose ownership will be registered under the name of the private company established by the custodian.

■ Operation and Property Management

The fund manager may appoint the tenant or a subsidiary/representative thereof as the property manager. The tenant shall fully administer the property as part of duties and responsibilities thereof set forth in the same lease contract. Accordingly, the fund manager shall periodically supervise the tenant. In case the Board of Directors is unsatisfied with the property manager's performance due to non-compliance with the contractual duties and responsibilities, this manager shall be replaced by a more competent one within no longer than three months as of the date of contract termination.

Unified Asset & Property Management Company (UAPM) was appointed to manage the following properties: Al-Oroubah Plaza, Al-Kharj Plaza, Al-Jubail Plaza, and Al-Faisaliah Plaza, due to its wide experience in real estate management. The company will work under the supervision of the Musharaka REIT Fund manager as per the five year contract signed between the two relevant parties. The property manager's fees will be linked to a percentage of total revenues generated from the above four projects as follows:

Total Revenue Per Project	Percentage of Fees
Annual Revenues Higher than SR 38 Million	3.5% of total Revenues
Annual Revenues Worth SAR 36-38 Million	2.5% of total Revenues
Annual Revenues Worth SAR 32.5-36 Million	2.25% of total Revenues
Annual Revenues Worth SAR 30-32.50 Million	2% of total Revenues
Annual Revenues Lower than SAR 30 Million	1.5% of total Revenues

Technical Engineering Consultant

The fund manager shall annually apply technical and engineering checks for all fund-owned properties to assure the properties are safe, secure, and void of any constructional damages or problems. The fund manager shall further assess periodic assessments for each property, ensuring the tenant uses the property properly without causing any damages or problems to the building. Al Masah Consultant Office is named the technical engineering consultant.

Governance



Board of Directors

Musharaka REIT Fund is superintended by a Board of Directors comprising three to a maximum of eleven members for a renewable five-year term. One third of the Board shall be independent directors, whose minimum representation shall be no less than two members. The board term commences as of the date when the Capital Market Authority (CMA) approves establishing the fund. The fund manager has the right to reshuffle the directors during the board term after securing the CMA approval and serving notices to unit holders. The Board of Directors shall convene twice a year, at least, in order to guarantee compliance with regulations, to agree on the fund plans, to review work progress reports, and to approve main contracts. The Board of Directors shall be responsible for the supervision of the unit holders' interests.



Directors



Chairman

Mr. Ibrahim Fahad Al-Assaf

- Has 25 years of experience holding leading positions in the financial and investment planning sectors.
- Managed a number of successful investments locally and internationally.
- Having a wide experience in the real estate investment sector.
- MBA holder Finance & Banking from KFUPM.
- BA in Accounting from KFUPM.



Independent
Member

Mr. Ahmed Ismail

- Has more than 23 years of experience in the Saudi banking sectors and financial firms in which he held leading positions.
- Specialized in the credit and business development sector.
- MBA holder from the University of Hull, USA.
- BA in industrial management from KFUPM.
- In 2007, appointed as head of corporate lending at the Saudi Hollandi Bank.
- In 1992, appointed as senior manager of the credit section at Samba Financial Group.



Independent
Member

Dr. Jassem Shahin Al Rumaihi

- 30 years of experience in finance, accounting, administrative, financial & strategic planning, corporate governance and project management.
- PhD in accounting from the University of Dundee, UK.
- MA in accounting from the University of Missouri, USA.
- BA in accounting science from King Saud University.
- Founder & CEO of Razan Holding.
- Former CEO of Mizat Al Khaleej Holding.



Dependent
Member

Mr. Ahmed Sultan Al Owaid

- BA in financial sciences from Imam Abdulrahman Bin Faisal University.
- Joined Musharaka Capital in 2016 to work in investment fund management.
- Holds the CMA securities certificate.
- Currently holds management of real estate funds at Musharaka Capital.

Board Meetings



First Board Meeting July 18, 2017

Agenda

- Discussion on terms and conditions of the fund.
- Discussion on financial and administrative powers, designating the same to the fund manager.
- Discussion on agreements with service providers.
- IPO timeframe.

Conclusions

- The board approved terms and conditions of the fund.
- The board approved designating all financial and administrative powers to the fund manager (Musharaka Capital Company) under the responsibility of Ibrahim Fahad Al-Assaf, the CEO of the fund manager. Mr. Ibrahim has the right to designate such powers to a third party for facilitating the fund's work procedures.
- The board approved appointing service providers as per terms and conditions of the fund and the fees mentioned.
- The board approved the IPO timeframe.

Second Meeting November 2, 2017

Agenda

- Discussion on securing sharia-compliant lending.
- Discussion on the policy of dividend distribution.
- Meeting with compliance & ML reporting officer.

Conclusions

- The board gave the fund manager a nod to propose a proper Shariah-compliant lending to be considered and approved by the board.
- The board approved applying and announcing the policy of dividend distribution.

Third Board Meeting February 25, 2018

Agenda

- Discussion on cash dividend payout to unit owners.
- Discussion on securing a banking facility.
- Discussion on the work progress of Musharaka REIT Fund.

Conclusions

- The board approved distributing SAR 30,800,000 cash dividends to unit owners.
- The board approved the proposal of Al Rajhi Bank, provided that the final agreement shall be considered and approved by the board of directors.

Fourth Meeting May 17, 2018

Agenda

- Tackling Shariah-compliant credit facilities granted by Al Rajhi Bank.
- Highlighting the new acquisitions proposed to the fund.
- Meeting with compliance and ML reporting officer.

Conclusions

- The board approved the credit facility agreement.
- The board approved acquiring usufructuary projects.

Fifth Meeting July 29, 2018

Agenda

- Considering the appointment of UAPM as a property manager responsible for managing and operating the newly acquired projects: Al-Oroubah Plaza, Al-Kharj Plaza, Al-Jubail Plaza, and Al-Faisaliah Plaza.
- Highlighting and discussing H1 financial statements of the fund.

Conclusions

- The board approved appointing UAPM as a property manager.
- The board approved H1 financial statements for the period from July 17, 2017 to June 30, 2018.

Sixth Meeting August 12, 2018

Agenda

- Discussing the proposed updates on terms and conditions of the fund.
- Considering cash dividend distribution to unit owners.

Conclusions

- The board approved the updates on the terms and conditions.
- The board approved distributing SAR 30,800,000 dividends to unit owners.

Seventh Meeting December 26, 2018

Agenda

- Discussing Cash dividend distributions to unit owners for the period from August 18, 2018 to December 31, 2018.
- Meeting with compliance and ML officer.

Conclusion

- The board approved distributing SAR 24,640,000 dividends to unit owners.



Sharia Advisor

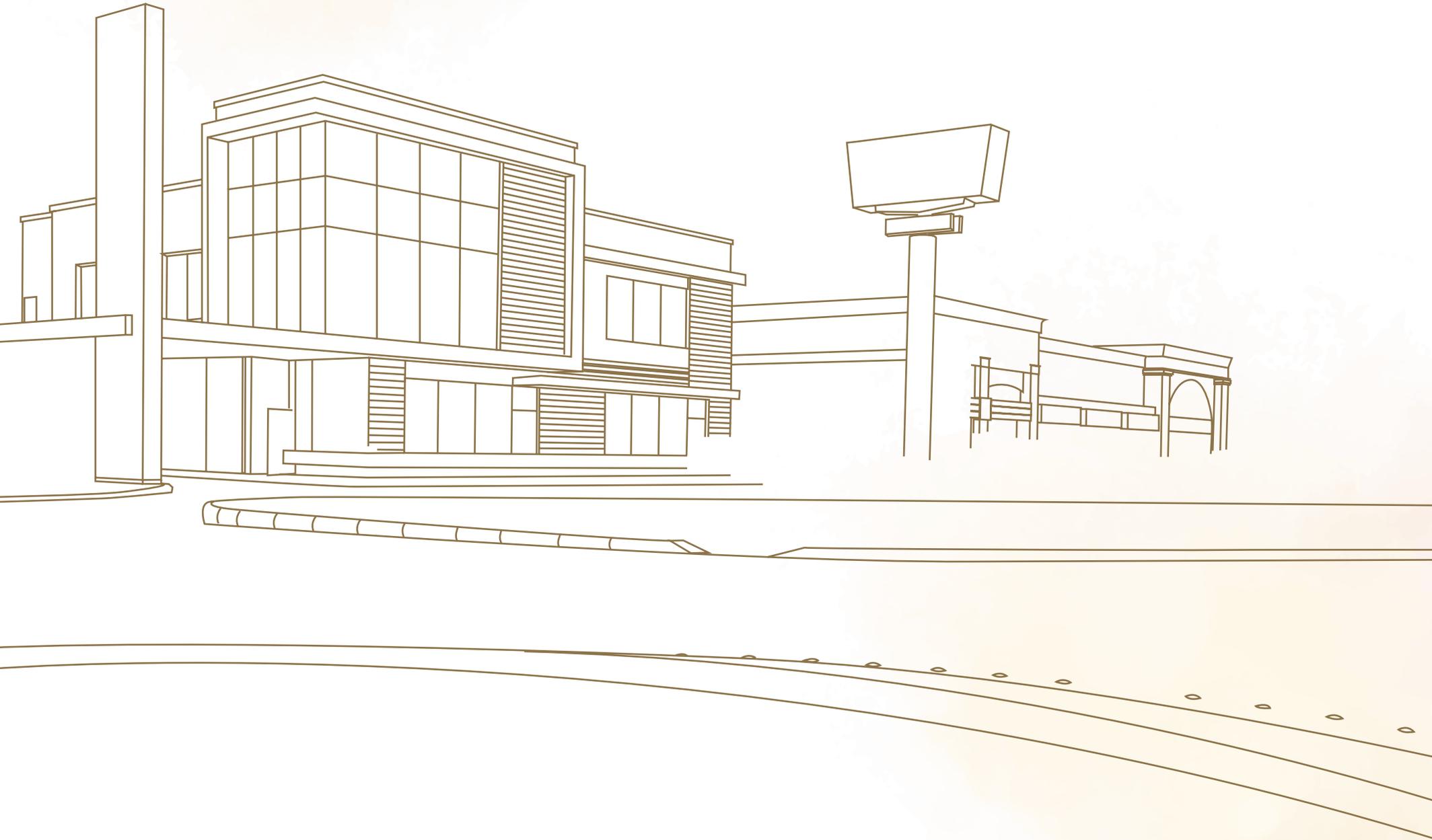
The Fund Shariah Advisor

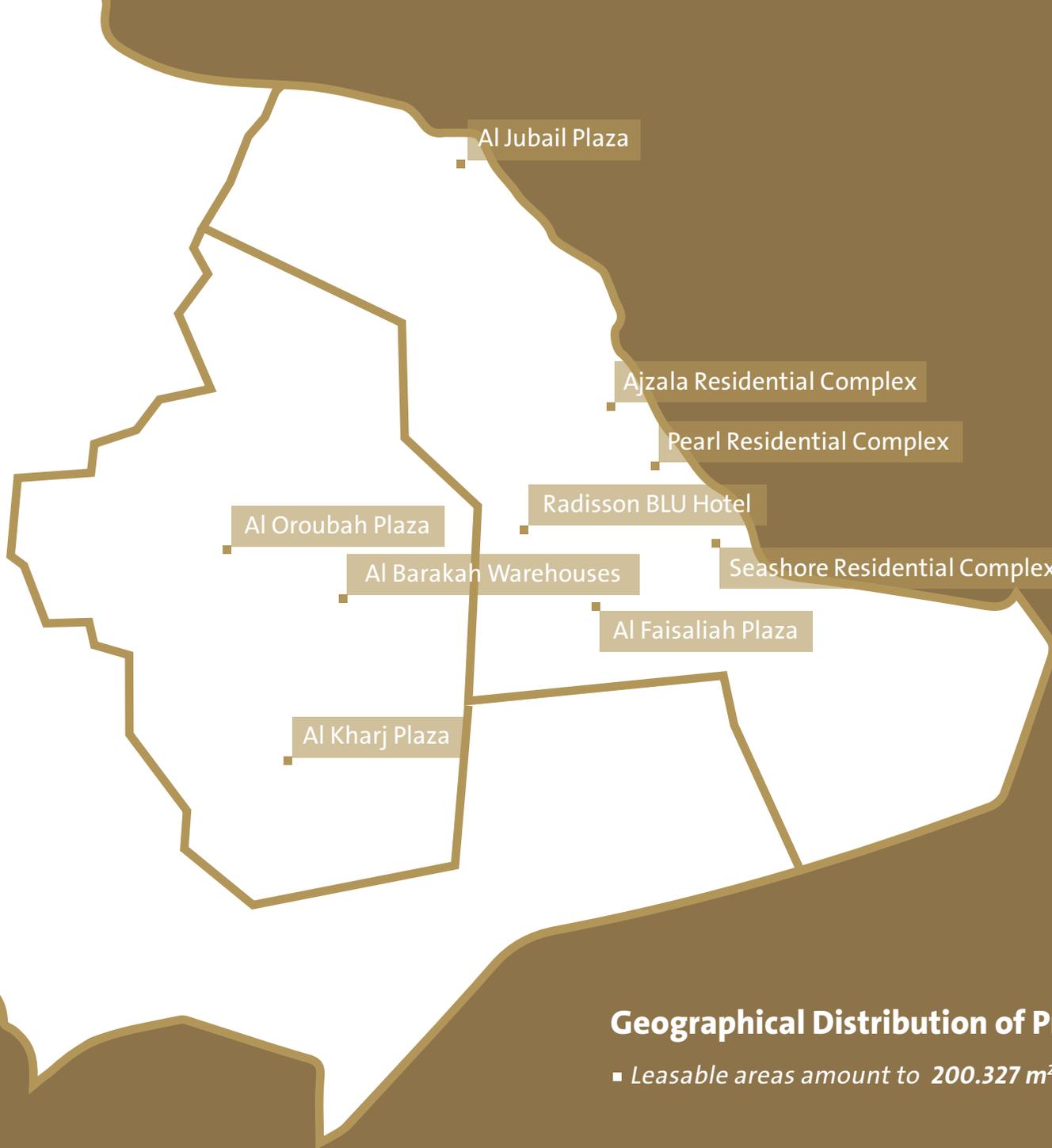
Shariyah Review Bureau is selected to function as the Shariah advisor of the Fund. The company is specialized in offering Shariah-compliant auditing services, having AAOIFI membership, and is licensed by the Central Bank of Bahrain to provide Sharia-based consultations.

The Bureau has chosen **Sheikh Muhammed Ahmed Al Sultan** only as a specialized party undertaking auditing the Fund's documents and Shariah criteria; ensuring the Fund's compliance with the standards of the religious authority; reviewing all transactions and investments; conducting the annual auditing process; reviewing contract and agreements; and monitoring the implementation of the religious authority standards to assure the council that all transactions and investments are compliant with the authority's Shariah Standards.

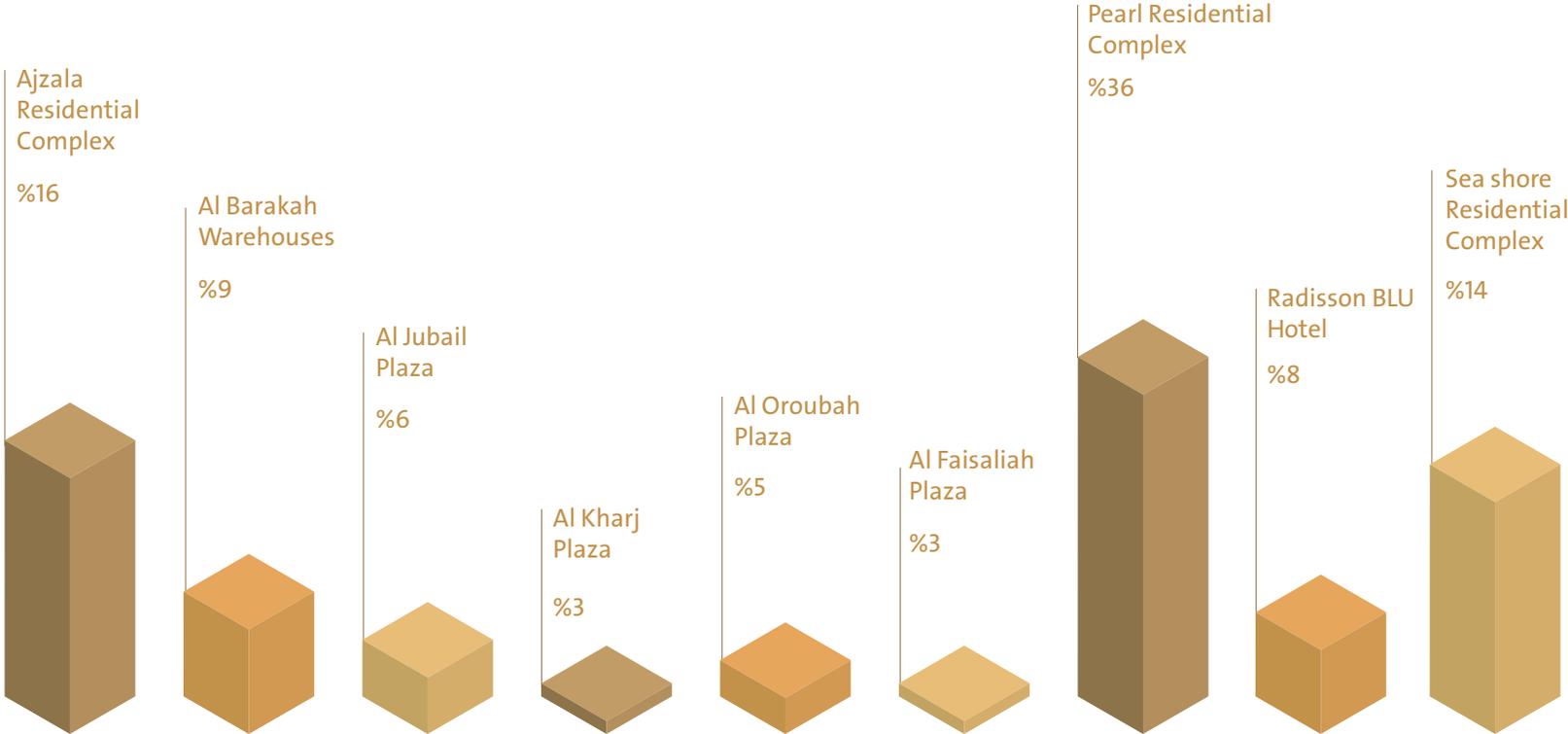
Fees of the Bureau amount to SAR 33,000 annually, paid in two installments every six months out of the Fund's total assets.

Portfolio Breakdown

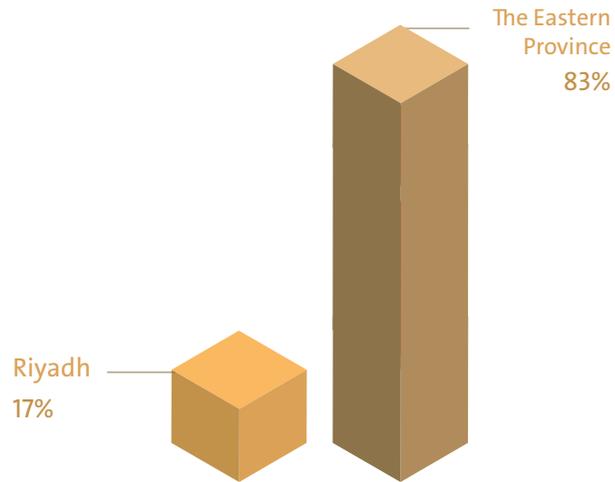




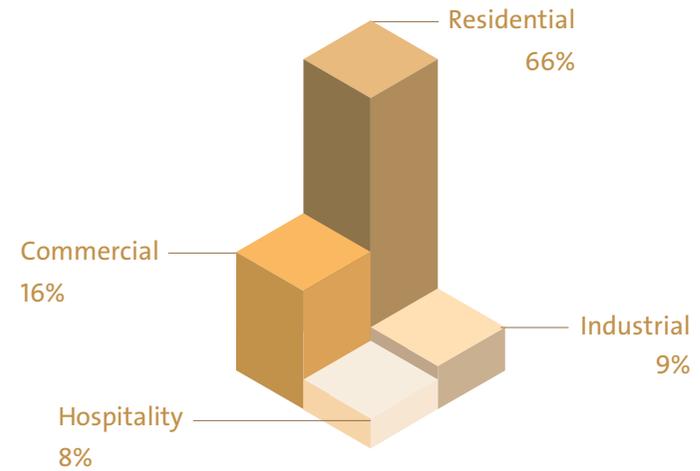
Value-based Asset Allocations



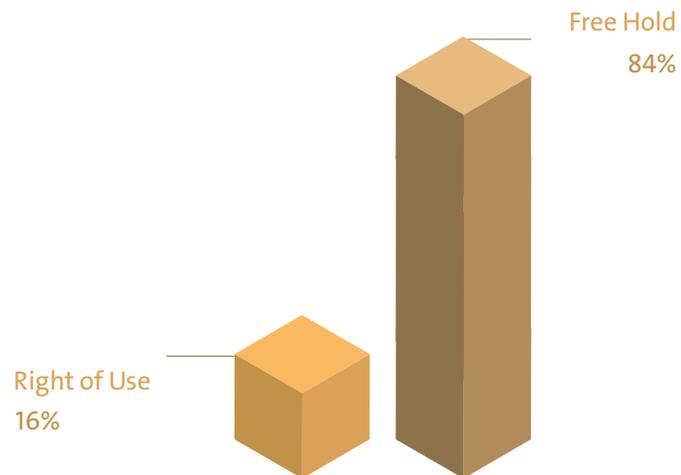
Geography-based Allocation



Sector-based Allocation



Property Type

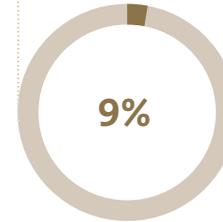


Major Tenants

Gulf Address Real Estate Investment	Danube Company Limited
Three Bees Hotels Co.	Al Riyadh International Food (MacDonald's)
Built Contracting Co.	Jazirat SMAA Fashion Co. (REDTAG)
Tanami Arabia Co.	Alshaya International Trading Co.(Starbucks)
Flow Progressive Logistics	Al Jazeera Bank
Panda Retail Company (Hyper Panda)	Hakeem Oyuon Optics Company



Annual Return on Investment as per the acquisition value



Location
Al Khobar

Land Area
29,486.73 sqm

Sector
Residential

Property Age
15 years

Net Annual Income
14,400.00 SR

Lease Percentage
100%

Number of Leases
One

Contract Term
Five years bounded by promissory notes

Tenant
Three Bees Hotels Co.

Property Manager
Three Bees Hotels Co.

Appraisal Average
163,157,915.50 SR

The complex is located in Al Khobar on King Saud Road (Qashla), which connects King Fahd Road with the city of Dhahran. It consists of 101 villas surrounded by a full fledge of services that residents may need, including health, sports and entertainment center, multi-functional playgrounds and hall, nurseries, pools, and a commercial center that meets their needs.

Being on one of the most vital roads in Al Khobar, the complex is featured by its strategic location, which is close to all significant major areas and close to the most important commercial centers in Al Khobar, such as Al Rashid and Dhahran Malls.

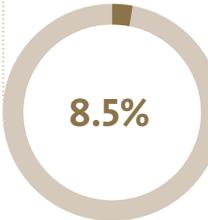
Ajzala Residential Complex





Pearl Residential Complex

Annual Return on Investment as per the acquisition value



Location
Al Khobar

Land Area
22,500 sqm

Sector
Residential

Property Age
6 years

Net Annual Income
32,045,000 SR

Lease Percentage
100%

Number of Leases
One Contract

Contract Term
Five years bounded by promissory notes

Tenant
Gulf Address Real Estate Investment

Property Manager
Gulf Address Real Estate Investment

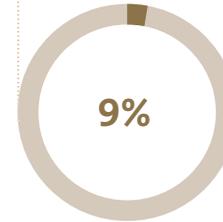
Appraisal Average
361,785,399.50 SR

The complex is located in the strategic area of Raqqa, Al Khobar. It is a few yards away from the main King Fahd that connects Al Dammam with Al Khobar. The complex contains 332 residential units distinguished by the various designs and areas. As a state of art complex equipped with the most efficient security systems, it affords services, facilities, and a full scale of amenities such as a health club (male section & female section), an outdoor pool, and a multi-functional hall.





Annual Return on Investment as per the acquisition value



Location
Al Khobar

Land Area
38,121.50 sqm

Sector
Residential

Property Age
1.5 years

Net Annual Income
13,050,000 SR

Lease Percentage
100%

Number of Leases
One Contract

Contract Term
Five years bounded by promissory notes

Tenant
Built Contracting Co.

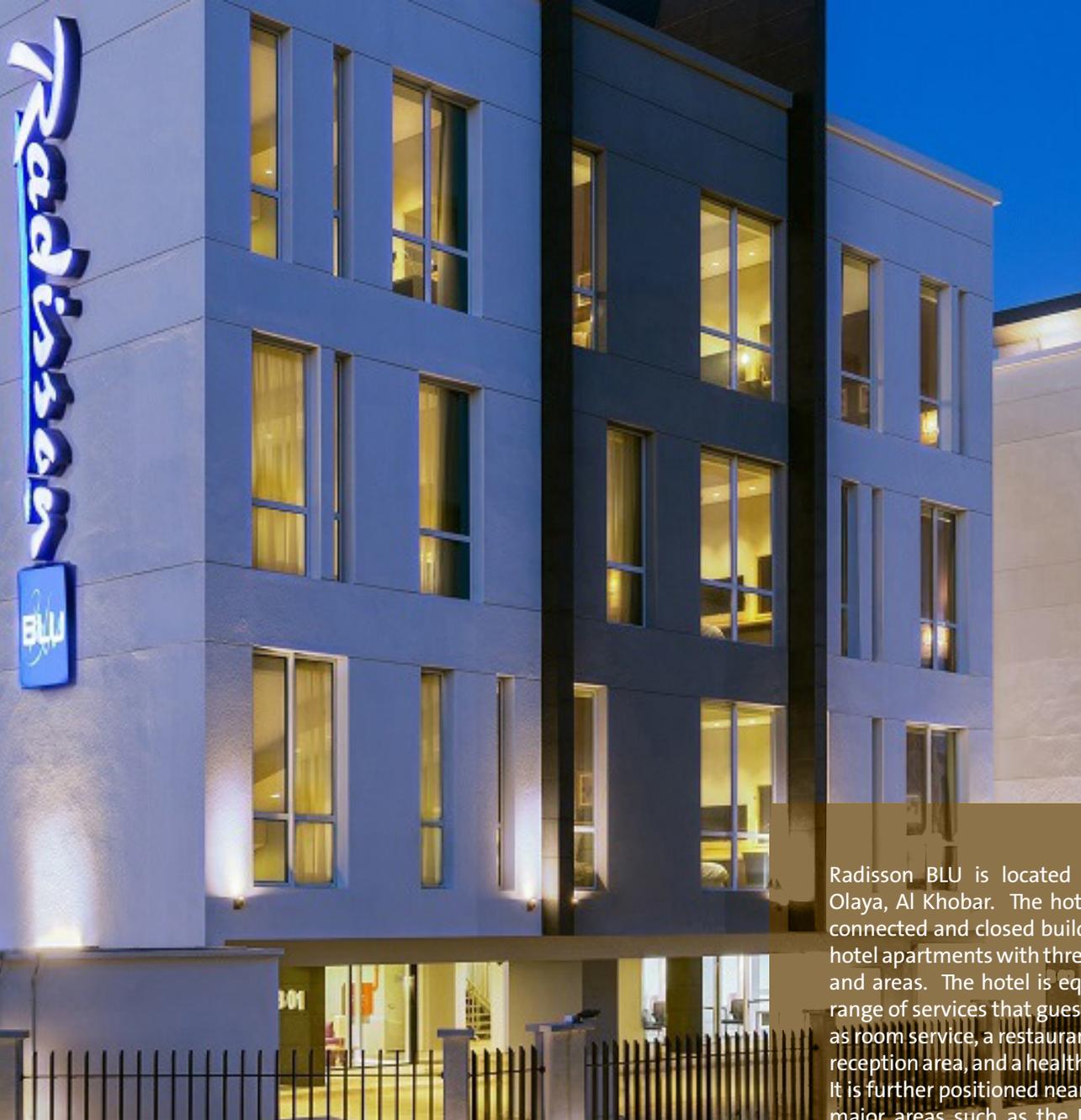
Property Manager
Built Contracting Co.

Appraisal Average
147,422,949.50 SR

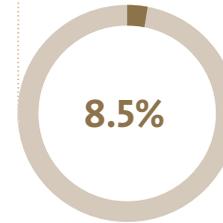
The complex is located in the district of Al-Aziziyah district, Al Khobar, near the most important tourist sites in the city such as Corniche Al Khobar and King Fahd Bridge that leads to the Kingdom of Bahrain. The complex contains 113 fully developed units. It has many entertainment and service facilities, including pools, health clubs, sports centers for men and women, and a luxurious restaurant.

Sea Shore Residential Complex





Annual Return on Investment as per the acquisition value



Location
Al Khobar

Land Area
3,798.08 sqm

Sector
Hospitality

Property Age
2 years

Net Annual Income
7,225,000 SR

Lease Percentage
100%

Number of Leases
One Contract

Contract Term
Five years bounded by promissory notes

Tenant
Tanami Arabia

Property Manager
Tanami Arabia Co.

Appraisal Average
85,427,071.00 SR

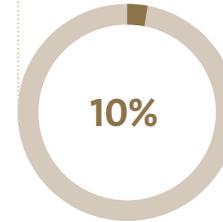
Radisson BLU is located in the district of Olaya, Al Khobar. The hotel consists of four connected and closed buildings, including 93 hotel apartments with three different designs and areas. The hotel is equipped with a full range of services that guests may utilize such as room service, a restaurant, business center, reception area, and a health and sports center. It is further positioned near all important and major areas such as the Dhahran complex, which is a main attraction point in the area, the Rashid commercial complex, and King Fahd University of Petroleum and Minerals.

Radisson BLU Hotel Apartments





Annual Return on Investment as per the acquisition value



Location
Riyadh

Land Area
29,955.2 sqm

Sector
Industrial

Property Age
3 years

Net Annual Income
9,000,000 SR

Lease Percentage
100%

Number of Leases
One Contract

Contract Term
Five binding years, ending in Dhul Qadah 1441

Tenant
Flow Progressive Logistics

Property Manager
Flow Progressive Logistics

Appraisal Average
89,624, 872.50 SR

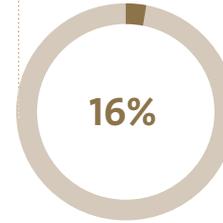
The warehouses are located in Al – Sali, Riyadh and built as per the highest standards and levels. The warehouses are fully leased to Flow Progressive Logistics, IKEA's logistic arm and exclusive carrier.

Al Barakah Warehouses





Annual Return on Investment as per the acquisition value



Location
Riyadh

Land Area
19,212.22 sqm

Commercial Area
11,057 sqm

Sector
Commercial

Property Age
1 year

Net Annual Income
11,427,479 SR

Lease Percentage based on the leasable area
96%

Number of Leases
13 Contracts

Main Tenant/expiry dates of contracts

- Hyper Panda (May 11, 2036)
- Hakeem Oyuon Optics (October 20, 2027)
- Starbucks (May 18, 2022)

Property Manager
UAPM

Acquisition Value
42,970,348 SR

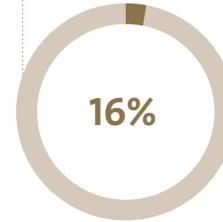
The complex is located in Umm Al-Hamam Al-Gharba district, Riyadh, where Al Oroubah Road and Prince Turkey Al-Awwal Road intersect. It is considered one of the most significant and active sites in the area. It includes up to 19 commercial fairs, including restaurants, cafes, and a supermarket.

Al Oroubah Plaza Complex





Annual Return on Investment as per the acquisition value



Location
Al Kharj

Land Area
16,095.97 sqm

Commercial Area
11,220 sqm

Sector
Commercial

Property Age
4 years

Net Annual Income
5,754,640 SR

Lease Percentage based on the leasable area
97%

Number of Leases
12 Contracts

Main Tenant/expiry dates of contracts

- Danube (January 14, 2034)
- McDonald's (May 7, 2033)
- REDTAG (December 29, 2023)

Property Manager
UAPM

Acquisition Value
28,053,949 SR

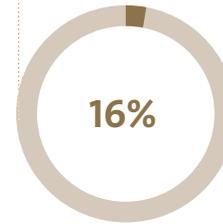
The project is placed in the district of Granada, Al Kharj City, King Abdullah Road, and near Prince Sattam bin Abdul-Aziz University. Its location is one of the most vital and active places in the city near neighboring residential districts, Prince Sattam University, and a main city road. The Plaza comprises up to 18 commercial fairs, including restaurants, stores, and a supermarket.

Al Kharj Plaza





Annual Return on Investment as per the acquisition value



Location
Al Jubail

Land Area
39,750 sqm

Commercial Area
15,636 sqm

Sector
Commercial

Property Age
3 years

Net Annual Income
10,529,178 SR

Lease Percentage based on the leasable area
99%

Number of Leases
21 Contracts

Main Tenant/expiry dates of contracts

- Hyper Panda (Dec. 25, 2033)
- McDonald's (Dec. 8, 2033)
- Bank Al Jazira (August 9, 2025)
- Home Center (July 14, 2024)

Property Manager
UAPM

Acquisition Value
52,084,666 SR

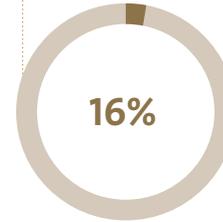
The complex is positioned in the west farm area, Jubail City, where King Fahd bin Abdul-Aziz Road and King Faisal bin Abdul Aziz Road intersect. Being located in the heart of the city, it is near commercial and residential sites such as the Oasis district, as well as other neighboring districts. The complex comprises up to 25 commercial fairs, including restaurants, stores, a commercial bank, and a supermarket.

Al Jubail Plaza





Annual Return on Investment as per the acquisition value



Location
Al Dammam

Land Area
10,769.50 sqm

Commercial Area
7,495 sqm

Sector
Commercial

Property Age
6 years

Net Annual Income
5,576,562 SR

Lease Percentage based on the leasable area
98%

Number of Leases
21 Contracts

Main Tenant/expiry dates of contracts

- Danube (March 1, 2034)
- McDonald's (May 9, 2033)

Property Manager
UAPM

Acquisition Value
22,984,492 SR

At the entrance of Al Dammam city, the complex is located in Al Faisaliah neighborhood, King Fahd Bin Abdul Aziz Road. It is placed in a strategic location near all neighborhoods characterized by high population density. The Plaza includes up to 22 fairs, including restaurants, stores, and a supermarket.

Al Faisaliah Plaza Complex





Financial Statements

For the period from 17 July 2017 to 31 December 2018
and Independent Auditor's Report

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Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)

Opinion

We have audited the financial statements of Musharaka REIT Fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows for the period from 17 July 2017 to 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the period from 17 July 2017 to 31 December 2018, in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia ("ISAs"). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion there on, and we do not provide a separate opinion on these matters.

Impairment of investment properties	
Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2018, the carrying value of the Fund's investment properties amounted to SR 843.73 million.</p> <p>As part of the assessment of impairment on its investment properties, the Fund uses valuations carried out by third party valuers to ascertain the fair value of these properties.</p> <p>We considered this as a key audit matter as the valuation of the investment properties involves significant estimation and assumptions that could have a material impact on the financial statements of the Fund.</p> <p>Refer to note 4 to the financial statements on the accounting policy for impairment of non-financial assets and note 7 for the disclosures on investment properties.</p>	<ul style="list-style-type: none"> Assessed the qualifications and expertise of the third party valuers engaged in the valuation of investment properties. Involved our real estate valuation specialists to review the valuation reports for selected properties and assessed whether the valuation approaches and methods used are in accordance with the established standards for valuation of properties and suitable for use in determining the fair value for the purpose of assessment of impairment and disclosure of fair value in the financial statements. Assessed the appropriateness and adequacy of the accounting treatment and policies used and disclosures made in the Fund's financial statements related to the impairment of investment properties.

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Independent member of
Baker Tilly International

Mixed Professional Partnership
License 323/11478 Dated 9/9/1433H
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INDEPENDENT AUDITOR'S REPORT

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)
(Managed by Musharaka Capital Company)

Responsibilities of Fund Manager and Those Charged with Governance for the Financial Statements

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.
- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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Independent member of
Baker Tilly International

INDEPENDENT AUDITOR'S REPORT

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)
(Managed by Musharaka Capital Company)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We communicate with the those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BAKER TILLY MKM & CO.
Certified Public Accountants



Majid Muneer Alnemer
License No. 381

Al-Khobar 10 Rajab 1440H
17 March 2019



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	SR
ASSETS		
Investment properties	7	843,727,725
Prepaid right of use	8	145,422,566
Rent receivables	9	2,671,655
Prepayments and other assets	10	5,715,843
Short term deposits	11	25,000,000
Cash and cash equivalents		35,127,521
TOTAL ASSETS		1,057,665,310
LIABILITIES		
Long term loan	12	159,792,309
Unearned rental revenue		14,297,549
Accrued management fees	16	6,428,194
Other liabilities	13	3,876,097
Dividend payable	14	24,640,000
TOTAL LIABILITIES		209,034,149
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		848,631,161
Units in issue		88,000,000
Per unit value		9.64
Per unit fair value		9.87

The accompanying notes from 1 to 21 form an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD FROM 17 JULY 2017 TO 31 DECEMBER 2018

	Note	SR
Revenue		
Rental revenue		123,103,621
Expenses		
Depreciation	7	(20,515,942)
Amortization of prepaid right of use	8	(4,323,225)
Impairment loss on investment properties	7	(14,181,333)
Rent expense	18	(7,227,797)
Fund management fee	16	(15,827,316)
Other operating expenses	15	(2,846,014)
		<u>(64,921,627)</u>
Operating profit		58,181,994
Finance income	11	1,012,784
Finance costs	12	(4,323,617)
		<u>54,871,161</u>
Profit for the period		54,871,161
Other comprehensive income		-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		54,871,161
Weighted average number of units outstanding		88,000,000
Basic and diluted earnings per unit	19	0.62

The accompanying notes from 1 to 21 form an integral part of these financial statements

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

FOR THE PERIOD FROM 17 JULY 2017 TO 31 DECEMBER 2018

	Note	SR
Units issued		880,000,000
Profit for the period		54,871,161
Other comprehensive income		—
Total comprehensive income for the period		54,871,161
Dividends	14	(86,240,000)
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		848,631,161

The accompanying notes from 1 to 21 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 17 JULY 2017 TO 31 DECEMBER 2018

	<u>SR</u>
OPERATING ACTIVITIES	
Profit for the period	54,871,161
Adjustments for:	
Depreciation	20,515,942
Amortization of prepaid right of use	4,323,225
Impairment loss on investment properties	14,181,333
Finance costs	4,323,617
Finance income	(1,012,784)
Changes in operating assets and liabilities:	
Rent receivables	(2,671,655)
Prepayments and other assets	(869,780)
Unearned rental revenue	14,297,549
Accrued management fees	6,428,194
Other liabilities	3,830,390
Net cash from operating activities	<u>118,217,192</u>
INVESTING ACTIVITIES	
Acquisition of right of use	(149,745,791)
Acquisition of investment properties	(375,525,000)
Short term deposits	(25,000,000)
Interest received on short term deposits	863,721
Net cash used in investing activities	<u>(549,407,070)</u>

The accompanying notes from 1 to 21 form an integral part of these financial statements

FINANCING ACTIVITIES

Proceeds from units issue	377,100,000
Net proceeds from long term loan	160,672,750
Finance costs paid	(9,855,351)
Dividends paid	(61,600,000)
Net cash generated from financing activities	466,317,399
Net change in cash and cash equivalents	35,127,521
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	35,127,521

Non-cash transaction:

Acquisition of investment properties against units issued	502,900,000
---	-------------

The accompanying notes from 1 to 21 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 17 JULY 2017 TO 31 DECEMBER 2018

1 - GENERAL

Musharaka REIT (the “Fund”) is a closed-ended real estate investment fund incorporated in the Kingdom of Saudi Arabia in compliance with the real estate investment funds regulations and real estate investment traded funds instructions issued by board of the Capital Market Authority (CMA). The Fund is listed and traded in the Saudi Stock Exchange (“Tadawul”) and is in compliance with Shari’a Committee requirements. The Fund is managed by Musharaka Capital Company (the “Fund Manager”).

The offering of the units of the Fund has been approved by the CMA on 23/10/1438H (corresponding to 17 July 2017) and started its operations on 17 August 2017. The Fund’s term is 99 years extendable for additional two years at the discretion of the Fund Manager after obtaining CMA approval.

The primary investment objective of the Fund is to invest in developed properties that are qualified to generate periodic rental income and distribute at least 90% of the Fund’s net profit as cash dividends to the unit holders annually.

2 - BASIS OF PREPARATION

The financial statements of the Fund for the period from 17 July 2017 to 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the Kingdom of Saudi Arabia and other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants (SOCPA).

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Saudi Riyals which is also the functional currency of the Fund and all values are rounded to the nearest Saudi Riyal (SR), except when otherwise indicated.

As per CMA instructions, the Fund has adopted the cost model for investment properties. Accordingly, investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses.

3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires Fund manager to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The key judgments, estimates and assumptions that have a significant impact on the financial statements of the Fund are discussed below:

3.1 Judgements

Classification of leases as operating or finance leases -

■ Fund as a lessor

The Fund has entered into commercial and residential property leases on its investment property portfolio. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and as such accounts for the contracts as operating leases.

■ Fund as lessee

The Fund has leased properties under right of use arrangements. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, that lessor would retain all the significant risks and rewards of ownership and as such accounts for the right of use as operating leases.

3.2 Estimates and assumptions

Valuation of investment properties

The Fund hires the services of third party to obtain estimates of the market value of investment properties using recognised valuation techniques for the purposes of their impairment review and disclosures in the financial statements.

Useful lives of investment properties

The Fund's management determines the estimated useful lives of its investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The fund's manager periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of investment properties

The Fund assesses whether there are any indicators of impairment for all investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Investment properties

Investment property is the property which is held (by owner or lessee under finance lease) either to earn rental income or for capital appreciation or for both. Investment property is initially measured at cost and are stated subsequently at cost less accumulated depreciation and impairment in value, if any. Freehold land is not depreciated. The cost of investment property is depreciated on a straight-line basis over estimated useful lives of the assets.

The estimated useful lives of the principal classes of investment properties are as follows:

	Years
Buildings	40
Furniture, fixture and equipment	10

4.2 Rental revenue

Rental income arising from operating leases on investment properties is recognised, net of discount, in accordance with the terms of lease contracts over the lease term on a straight-line basis over the non-cancellable period of lease.

4.3 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

4.4 Provisions

Provisions are recognised when the Fund has a present, legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Finance income

Finance income is recognised as the interest accrues using the effective interest method.

4.6 Net assets value per unit

The net assets value (NAV) per unit as disclosed on the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at the period end.

4.7 Earnings per unit

Earnings per unit (EPU) is calculated by dividing the profit or loss attributable to unit holders of the Fund by the weighted average number of units outstanding during the period.

4.8 Dividend

Dividend distribution to the unit holders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Fund's Board.

4.9 Zakat

Zakat and income tax are the unit holders obligations and are not provided for in these financial statements.

4.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

4.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

4.11 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Leases (Continued)

■ Fund as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income in accordance with the terms of the lease contracts over the lease term based on a systematic basis as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

■ Fund as a lessor

The Fund has entered into leases on its investment property portfolio. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Lease income is recognised in the statement of profit or loss and other comprehensive income in accordance with the terms of the lease contracts over the lease term on a systematic basis as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

4.12 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any

indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

4.13 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's financial assets at amortised cost includes rent receivables, short term deposits and cash and cash equivalents.

Derecognition

A financial asset is primarily derecognised when:

The rights to receive cash flows from the asset have

expired, or

The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Financial assets (Continued)

Impairment of financial assets

The Fund recognises an allowance for expected credit losses (ECLs).

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For rent receivables, the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the tenants and the economic environment.

4.14 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

Loans, borrowings and payables

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well through the EIR amortisation process.

Transaction costs are amortised using the EIR method from the date at which the loan is recognised over the repayment term.

Derecognition

A financial liability is derecognised when the obligation is discharged, cancelled or expires.

4.15 Fair value measurement

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level I** - Fair value measurements are those derived from quoted prices in an active market (that are unadjusted) for identical assets or liabilities.

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

4.15 Fair value measurement (Continued)

- **Level 2** - Fair value measurements are those derived from inputs other than quoted prices included within Level I that are observable for the asset or liability either directly (i.e. as prices) or indirectly observable.
- **Level 3** - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

5 - STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

■ IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transaction Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

5 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Fund is still in the process of assessing the potential effect of IFRS 16 on its financial statements.

■ Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Fund's financial statements:

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

6 - SEGMENT INFORMATION

The Fund Manager monitors the operating results of the Fund's business segments separately for the purpose of making decisions about resource allocation and performance assessment.

Business segments

For management purposes, the Fund is organised into three major segments, namely:

- **Commercial properties:**
Includes commercial complexes that offer leasable space.
- **Residential properties:**
Includes residential compounds and hotel apartments.
- **Warehouse properties:**
Includes closed warehouse facilities.

6 - SEGMENT INFORMATION (Continued)

Allocation of the segment revenues, profit or loss, assets and liabilities is as following:

	Commercial properties	Residential properties	Warehouse properties	Unallocated	Total
	SR	SR	SR	SR	SR
Revenue					
Major customers	-	80,780,712	13,144,068	-	93,924,780
Others	19,321,170	9,857,671	-	-	29,178,841
Expenses					
	19,321,170	90,638,383	13,144,068	-	123,103,621
Depreciation, amortization and impairment loss	(4,323,225)	(33,338,835)	(1,358,440)	-	(39,020,500)
Rent expense	(7,227,797)	-	-	-	(7,227,797)
Profit for the period	7,770,148	57,299,548	11,785,628	(21,984,163)	54,871,161
Total assets	148,094,221	752,836,165	90,891,560	65,843,364	1,057,665,310
Total liabilities	162,123,647	9,441,616	4,855,933	32,612,953	209,034,149

Geographical segments

The Fund's assets and operations are all located in the Kingdom of Saudi Arabia.

7 - INVESTMENT PROPERTIES

	Land	Buildings	Furniture, fixture and equipment	Total
	SR	SR	SR	SR
Cost				
Additions	437,037,270	388,708,950	52,678,780	878,425,000
31 December 2018	437,037,270	388,708,950	52,678,780	878,425,000
Depreciation and impairment loss				
Depreciation charge	-	13,309,764	7,206,178	20,515,942
Impairment loss	7,082,415	7,098,918	-	14,181,333
31 December 2018	7,082,415	20,408,682	7,206,178	34,697,275
Net book value				
31 December 2018	429,954,855	368,300,268	45,472,602	843,727,725

7 - INVESTMENT PROPERTIES (Continued)

Investment properties represent the Fund's investments in various residential compounds, warehousing facilities and hotel apartments located within the Kingdom of Saudi Arabia.

Investment properties at 31 December 2018 with a net book value of SR 843.73 million are pledged as security against bank borrowings (note 12).

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on valuations prepared by two independent evaluators. In accordance with CMA instructions, investment properties are carried at cost less accumulated depreciation and impairment loss if any.

The fair values of the properties are based on valuations performed by Olaat Valuation Company and Remax Real Estate, both are independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 31 December 2018, the average valuation of the above investment properties amounted to SR 847,418,209. Key assumptions used for the valuation of investment properties include discount rate at 9% and income yield rate ranging from 7.4% to 9%.

Management has adjusted the valuation performed by Olaat Valuation Company and Remax Real Estate by reducing expected yield to match market average for similar properties and increased the weight given to the

"Income Approach" as it is more reliable than the "Cost Approach". As a result of these adjustments, fair value dropped by SR 14,181,333 for certain investment properties.

Fair value hierarchy

The fair value of investment properties is classified in the third level of fair value hierarchy.

Any significant movement in the assumptions used for fair valuation of investment properties such as discount rates, yield, rental growth, vacancy rate etc. would result in significantly lower/higher fair value of those assets.

8 - PREPAID RIGHT OF USE

The Fund has acquired right of use ("ROU") of certain commercial properties for tenure ranging from 15.5 to 16.5 years.

The fair values of the ROU are based on valuations performed by Olaat Valuation Company and Remax Real Estate both are, independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 31 December 2018, the average valuation of the above ROU properties amounted to SR 161,705,072. Key assumptions used for the valuation of the ROU include discount rate ranging between 11% to 12%.

9- RENT RECEIVABLES

	SR
Rent receivables - Billed	435,391
Rent receivables - Unbilled	2,236,264
	2,671,655

An aged analysis of rent receivables as at 31 December 2018 is as follows:

Neither past due nor impaired	Past due but not impaired				Total
	< 180 days	181-365 days	366- 730 days	> 730 days	
SR	SR	SR	SR	SR	SR
2,236,264	435,391	-	-	-	2,671,655

The Fund records an allowance for expected credit losses considering various factors including age of the receivable balances, financial condition of the customers, and general economic conditions, etc. Management believes that the exposure on expected credit loss is not material.

10- PREPAYMENTS AND OTHER ASSETS

	SR
Deferred loan arrangement fee	4,697,000
Prepaid expenses	258,268
Accrued interest income	149,063
VAT receivable	611,512
	5,715,843

Deferred loan arrangement fee constitutes administrative and consultancy fee on the unavailed loan facility amounting to SR 234.85 million (note12).

11- SHORT TERM DEPOSITS

Short term deposits represent the amount invested by the Fund in a Murahaba deposit with a local commercial bank which has an original maturity of more than 3 months for the purpose of yielding finance income at commercial rates.

Deposits earn interest at rate ranging between 2% to 2.65%.

Profit amounting to SR 1,012,784 generated from short term deposits is recognised as finance income.

12- LONG TERM LOAN

	SR
Long term loan	165,150,000
Less: transaction costs	(5,357,691)
	159,792,309

The Fund entered into a bank facility agreement with a local commercial bank in the form of long term loans with an overall withdrawing limit of SR 400 million to finance the acquisition of income generating assets. These facilities carry interest at SIBOR (6 months) plus a margin of 1.85%.

The Fund has withdrawn SR 165.15 million during the period for the purpose of acquiring certain rights of use. The loan is repayable on a single lump sum payment after seven years from the date of withdrawal (28 June 2018). Interest is payable on a semi-annual basis.

The loan is secured by a mortgage of the Fund's investment properties, promissory note and assignment of rental income (note 7).

13- OTHER LIABILITIES

	SR
Accrued expenses	1,544,759
Deferred rent payable	1,315,503
Security deposits	992,235
Others	23,600
	3,876,097

14- DIVIDEND PAYABLE

During the period, the Fund declared dividends of SR 86.24 million out of which SR 61.60 million were paid. As per the terms and conditions of the Fund, it aims to distribute cash dividend, at least once annually, not less than 90% of the net profit.

15- OTHER OPERATING EXPENSES

	SR
Fees and subscriptions	1,337,172
Valuation fee	271,000
Security	258,284
Utilities	255,919
Repair and maintenance	167,227
Advertising and branding	123,816
Insurance	108,152
Board of director's fee	60,000
Others	264,444
	2,846,014

16- RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent Musharaka Capital Company (Fund Manager), Alinma Bank (Custodian), the unit holders, the Fund Board and the Fund Sharia Committee.

The following table provides the total amount of transactions that have been entered into with related parties during the period and their related balances as at 31 December 2018:

Related party	Nature of transaction	Transactions for the period
		SR
Fund Manager	Management fees	15,827,316
	Commission on purchase of investment property and right of use	9,130,935
	Loan arrangement fee	6,000,000
Fund Board	Board of directors remunerations	60,000
Sharia Committee	Sharia Committee remunerations	16,500
Custodian	Custody fee	141,667
Unit holder	Rental revenue	43,721,671

The Fund Manager's investment in the Fund at 31 December 2018 is 4 million units.

The Directors of the Fund hold 474,611 units as at 31 December 2018.

16- RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

Balances with related parties as at 31 December 2018 are as follows:

	SR
Fund Manager	6,428,194
Custodian	141,667
	6,569,861

The basis and term of payment for fees payable to related parties are as per terms and conditions of the Fund approved by CMA as follows:

Type of fee	Basis and rate	Payment term
Management fees	1.2% of the total assets	Every six (6) months
Commission on purchase of investment property and right of use	Up to 1% of the value of real estate's assets purchased or sold	Upon completion of the transaction
Loan arrangement fees	Up to 2% of the value of financing.	After obtaining financing
Board of directors remunerations	SR 5,000 per meeting only payable to the independent members, maximum up to SR 80,000 per annum.	After the meeting of the Board of Directors
Sharia Committee remunerations	SR 33,000 per annum	Every six (6) months
Custody fees	SR 100,000 per annum	Annually

17- FAIR VALUES AND RISK MANAGEMENT

17.1 Fair value measurements of financial instruments

The Fund does not have financial assets and financial liabilities which are measured at fair value.

17.2 Risk Management

The Fund's activities expose it to a variety of financial risks, credit risk, liquidity risk and market price risk.

Credit Risk:

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to credit risk on the followings:

	SR
Cash and cash equivalents	35,127,521
Short term deposits	25,000,000
Rent receivables	2,671,655
Other assets	149,063
	62,948,239

The carrying amount of financial assets represents the maximum credit exposure.

The Fund seeks to limit its credit risk with respect to rent receivables by charging rent in advance and by monitoring outstanding balances on an ongoing basis. The receivable balances are monitored with the result that the Fund's exposure to bad debts is not significant.

Bank balances and short term deposits are held with banks with sound credit ratings.

17- FAIR VALUES AND RISK MANAGEMENT (Continued)

Liquidity Risk:

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities.

	31 December 2018			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR	SR	SR	SR
Financial Liabilities				
Borrowings	159,792,309	-	-	159,792,309
Accrued management fees	6,428,194	6,428,194	-	-
Other liabilities	3,876,097	3,876,097	-	-
Dividend payable	24,640,000	24,640,000	-	-
	194,736,600	34,944,291	-	159,792,309

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and credit facilities are available to meet the Fund's future commitments.

17- FAIR VALUES AND RISK MANAGEMENT (Continued)

Market Risk:

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates and interest rates, and will affect the Fund's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

■ Currency Risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Fund's currency. The Fund has no exposure to currency risk.

■ Interest Rate Risk:

Interest rate risk is the exposure associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial position and cash flows. Variable rate financial liabilities as at 31 December 2018 amounted to SR 159,792,309.

An increase of 100 basis points in the interest rate would have increased finance costs for the year ended 31 December 2018 by SR 825,750.

Management monitors the changes in interest rates and manages its impact on the financial statements.

18- OPERATING LEASE ARRANGEMENTS

Fund as a lessee

The Fund has entered into operating leases on certain commercial plots of land with lease terms between 15.5 to 16.5 years. Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 are as follows:

	SR
Within one year	13,325,000
After one year but less than five years	55,532,500
More than five years	173,309,800
	242,167,300

18- OPERATING LEASE ARRANGEMENTS (Continued)

Fund as a lessor

The Fund has entered into operating leases on its investment properties and right of use with lease terms between 5 to 16.5 years. The minimum rents receivable under non-cancellable lease agreements are as at 31 December 2018 are as follows:

SR

Within one year	97,344,807
After one year but not more than five years	278,787,603
More than five years	190,482,342
	<hr/>
	566,614,752

10- EARNINGS PER UNIT

The calculation of basic earnings per unit is based on the profit attributable to unit holders and the weighted average number of units outstanding.

SR

Profit for the period	54,871,161
Weighted average number of units	88,000,000
	<hr/>
Basic and diluted earnings per unit	0.62

20- MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Investment properties, prepaid right of use and long term loan are expected to be realised after twelve (12) months from the reporting date. All other assets and liabilities are of a current nature.

21- APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board of Directors on 17 March 2019.