



Musharaka
REIT Fund

ANNUAL REPORT

We participate in the
development of your future, We
share the best investment

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2019

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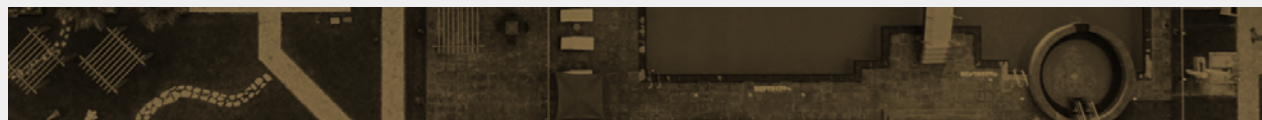
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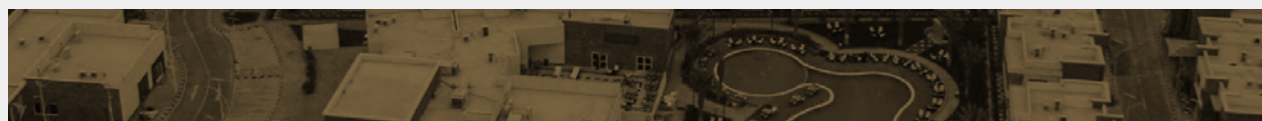
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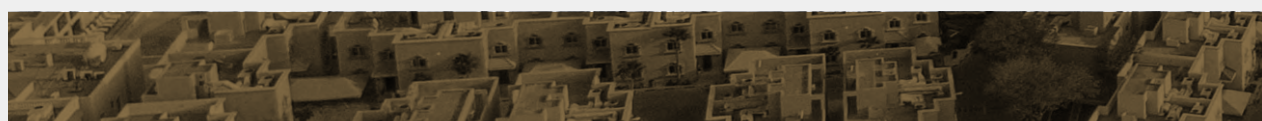
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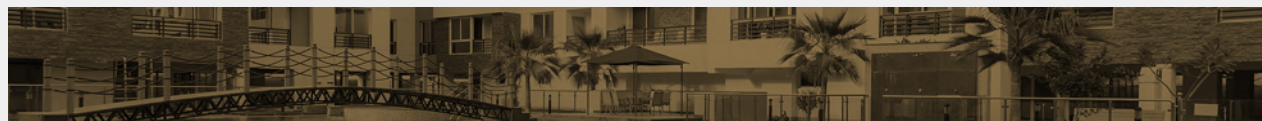
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Letter to Shareholders Musharaka REIT Fund

Dear Shareholders:

We are pleased to present our financial year results that are included in this annual report of Musharaka REIT Fund for 2019. It reflects the great efforts in operating the fund's business and investments, thanks to God Almighty, we managed to overcome many challenges, and we have demonstrated operational efficiency that matches the aspirations of the honorable units owners and their confidence in the Board and the Musharaka REIT Fund team, who made great efforts during last year, so that the fund achieves satisfactory results compared to the changing economic conditions according to the global economy changes and growth, internally and externally.

During 2019, the Fund's administration has succeeded in encountering the challenges facing the financial and real estate sectors, and benefited from the cumulative experience of investment management, growth of operations and business development through offering solutions and outcomes that keep pace with reality and meet the aspirations of the units' owners, and this has already contributed to a distinct level of the Fund's performance during the year, so that to continue his career with the same success and perseverance, and maintaining his gains, and even to develop his capabilities to become a considerable fund in the internal and external financial market.

In sum, the Fund succeeded in achieving its goals for the last year, as its investment portfolio expanded according to what was planned, as well as based on the directives of the operational strategy that the Fund management followed in expanding, growing and increasing assets, in order to maintain its reliability, flexibility and efficiency to meet investment challenges with the highest standards of administrative and investment business.

The Fund succeeded in achieving its goals in 2019, and continued its growth progress and maintaining the gains of the year 2018 with the same vision and practical approach with which he gained estimated confidence that strengthened his growth opportunities and achieving important returns in various areas of his financial and real estate investment. As a result, the value of assets raised and reached 1,000,000,000 riyals, as well as the fund's revenues until it reached 94,000,000 riyals, and the fund became an investor in the commercial, residential, industrial and hospitality sectors, so that it had achieved one of the goals of 2019.

The financial results of the fund reflect the Fund's keeping pace with the movement and growth of the real estate sector, as the market witnessed many fluctuations between the slowdown and activity in the implementation of real estate projects. Moreover, throughout the efforts of the Fund's management in expecting the changes of the real estate market, the number of fund's real estates has been raised to 10 estates, and one of the projects in the real estate's portfolio has been transformed from an usufruct project into a free property by purchasing the project's land, which confirms the effectiveness of the investment procedures of the fund in light of the changing circumstances of the real estate market.

Through these distinguished results of the fund in 2019 , we proceed steadfastly, God willing, towards achieving our goals and reaching to our purposes of raising the volume of the fund's business, supporting its assets with more gains to continue the development and achievement process, and building a strong and influential investment fund in the financial and real estate market, and that it will be more flexible in encountering the investment challenges, as our goal is to be one of the leading funds that have more appeal from investors according to a strong reputation that attracts them, and to be built on realistic and distinctive financial results, God willing.

Ibrahim Fahad Al Assaf
Chairman

Events Overview



2017

01

The Fund was listed
October 2017

2018

26

February 2018

The fund announced its dividend distribution at SAR 0.35 per unit.

08

July 2018

The fund acquired four (4) commercial properties at SAR 146 million.

26

December 2018

The fund announced its dividend distribution at SAR 0.28 per unit.

31

May 2018

The fund signed a facility agreement worth SAR 400 million with Al Rajhi Bank.

13

August 2018

The fund announced its dividend distribution at SAR 0.35 per unit.

02

January 2020

The fund announced its dividend distribution at SAR 0.35 per unit for the second half of 2019.

18

December 2019

The fund joined The FTSE EPRA Nareit Global Real Estate Index.

23

July 2019

The fund announced its dividend distribution at SAR 0.35 per unit for the first half of 2019.

31

December 2019

The acquisition of AlBazai Car Showrooms in Riyadh.

21

November 2019

The Fund announces the acquisition of the entire land of the Al-Kharj Plaza, making it fully owned by the Fund

2019

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

Key Decisions:

- Approving on the fees of the fund's accountant to be 80.000 S.R annually.
- November 21, 2019: Transforming Al-Kharj Plaza land from an usufruct project into a free property for REIT Musharakah Fund by purchasing the project's land.
- December 31, 2019: The agreement has been signed to purchase a new real estate for REIT Musharakah Fund which is the Al-Bazai Car Showrooms in Riyadh.

A comparison of fund performance:

Year	Item							
	Net Asset Value	Net Asset Value/Unit	Maximum Net Asset Value/Unit	Minimum Net Asset Value/Unit	Number of Units	Income/Unit	Expenses	Total Return
2018 (for 17 months)	848,631,161 S.R	9.64 S.R	10.13 S.R	9.64 S.R	88 million units	98 Halala	3 % of Asset Net Worth	101,119,458 S.R
2019	907,224,375 S.R	10.31 S.R	10.31 S.R	10.11 S.R	88 million units	70 Halala	3.3 % of Asset Net Worth	64,529,997 S.R

Service Providers

Custodian



Shariah Advisor



Financial Advisor



Technical Engineering Consultant



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:

- Constructional developed real estates that are leasable and can generate periodic and rental income.
- 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:

- Properties shall be in sites located in major Saudi cities, except Makkah and Al-Madinah Region.
- No improvements worth more than 15% of the total purchasing value may be required for the property.
- Minimum 50% of the gross leasable areas are rented.



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.



Fund Borrowing

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 mortgaging on properties.
- Cost of borrowing 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.



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 publicly 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. Such 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

Key Decisions about the Fund Activities

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:

- 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 taken 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 Osool Company for managing properties 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 starting from July,12,2018. The property manager's fees will be linked to a percentage of total revenue generated from the above four projects as follows



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.

Fund Board



Introduction

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



Mr. Ibrahim Fahad Al-Assaf
Chairman

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



Dr. Jassem Shahin Al Rumaihi
Independent Member

- 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
- Founder & Former CEO of Mizat Al Khaleej Holding
- Financial and management consul

Directors



Mr. Ahmed Ismail

Independent Member

- 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.
- CEO of Rimas Consultant Office
- Was CEO of Saudi Global Investment House 2008-2010.
- 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.



Ahmed Sultan Al Owaid

Non - Independent Member

- 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 Meeting: March 17th, 2019

Agenda:

- Highlighting and discussing the latest audited financial statements and the legal advisor's report of the fund for 2018.
- Discussion on the fund manager's guarantee compliance with regulations.

Conclusions:

- The board approved the latest audited financial statements and the legal advisor's report of the period July,17 2017 to December,31 2018.

Second Meeting: May 22, 2019

Agenda:

- Highlighting and discussing the proposals from the legal reviewing offices to set the external reviewing office for 2019 to review and edit the fund's semi-annual and annual financial statements.
- Discussion on the fund's business, activities, and the developments in the real estate market.

Conclusions:

- The board approved to renew the contract with the fund's legal accountant Baker Telly MKM and his partners for the financial year 2019.

Third Meeting: June 20, 2019

Agenda:

- Highlighting and discussing the fund's financial model and present the future financial performance expectations of Musharaka REIT Fund.
- Highlighting and discussing the details of some of the real estates that the fund aims to acquire.
- Discussion on the distribution of cash dividends to unit owners.

Conclusions:

- The board approved to continue the bargaining and procedures to acquire the highlighted and discussed real estates.
- The board approved distributing SAR30,800,000 cash dividends distribution to unit owners for the period January,1 2019 to June,30 2019.

Fourth Meeting: October 27, 2019

Agenda:

- Discussion on acquiring AlBazai Car Showrooms in Riyadh to the property of the fund.

Conclusions:

- The board approved The acquire AlBazai Car Showrooms in Riyadh district.

Fifth Meeting: November 14, 2019

Agenda:

- Discussion on acquiring the land of AlKharj Plaza project related to the fund's real estate portfolio.

Conclusions:

- The board approved to continue the procedures of acquiring the project's land with a total value of 25 million S.R.

Sixth Meeting: December 15, 2019

Agenda:

- Highlighting and discussing the details of some real estates that the fund aims to acquire.
- The discussion of the additional Borrowing.
- Discussion on the fund's registration with the General Authority of Zakat and Tax.
- Discussion on the fund manager's guarantee compliance with regulations.

Conclusions:

- The board approved to continue the bargaining and procedures to acquire the highlighted and discussed real estates.
- The board approved to register the fund with the General Authority of Zakat and Tax.

Seventh Meeting: December 31th, 2019

Agenda:

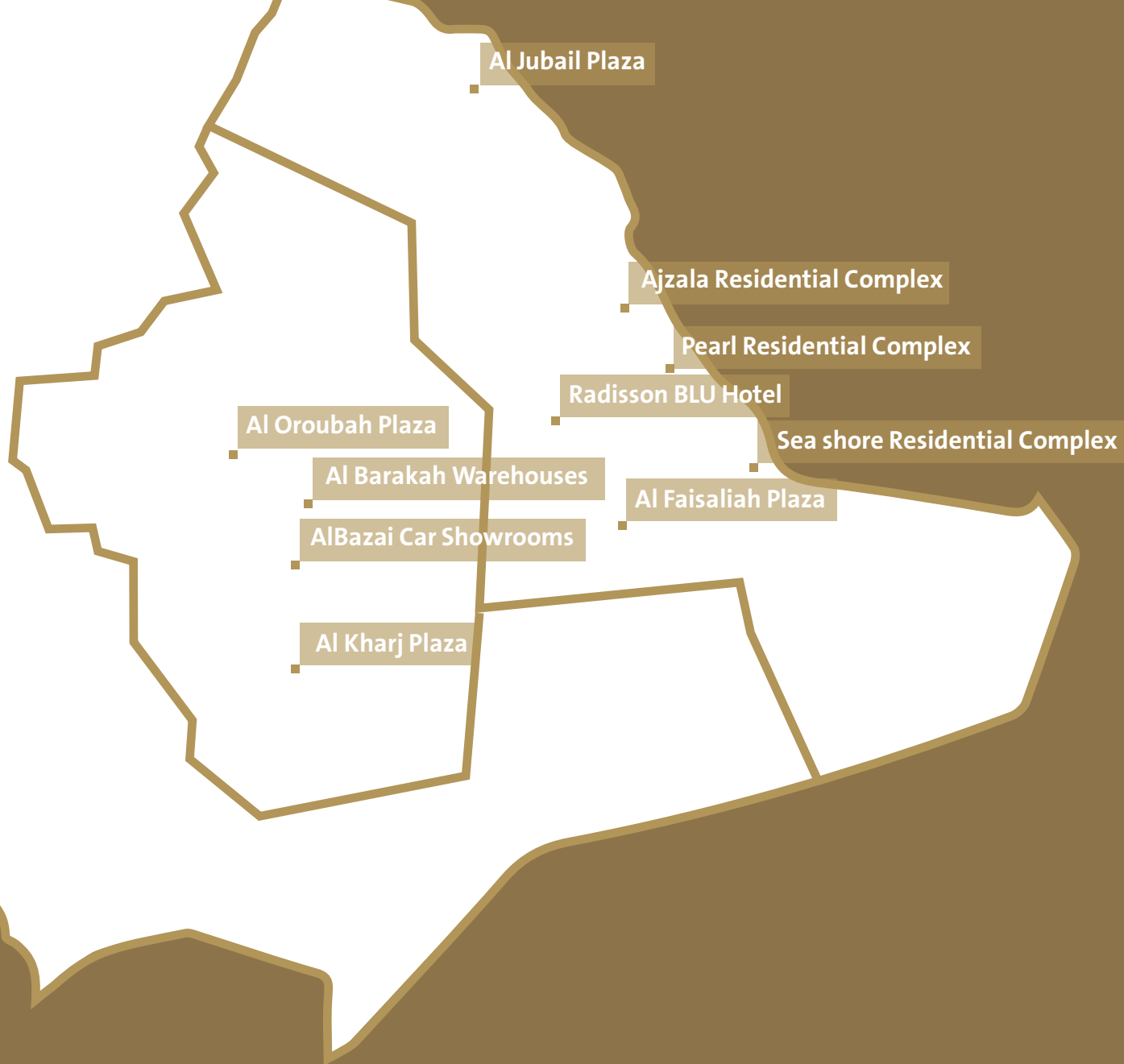
- Discussion on the the distribution of cash dividends to unit owners.

Conclusions:

- The board approved distributing SAR30,800,000 cash dividends distribution to unit owners for the period July,1 2019 to Decamber,31 2019.

Portfolio Breakdown

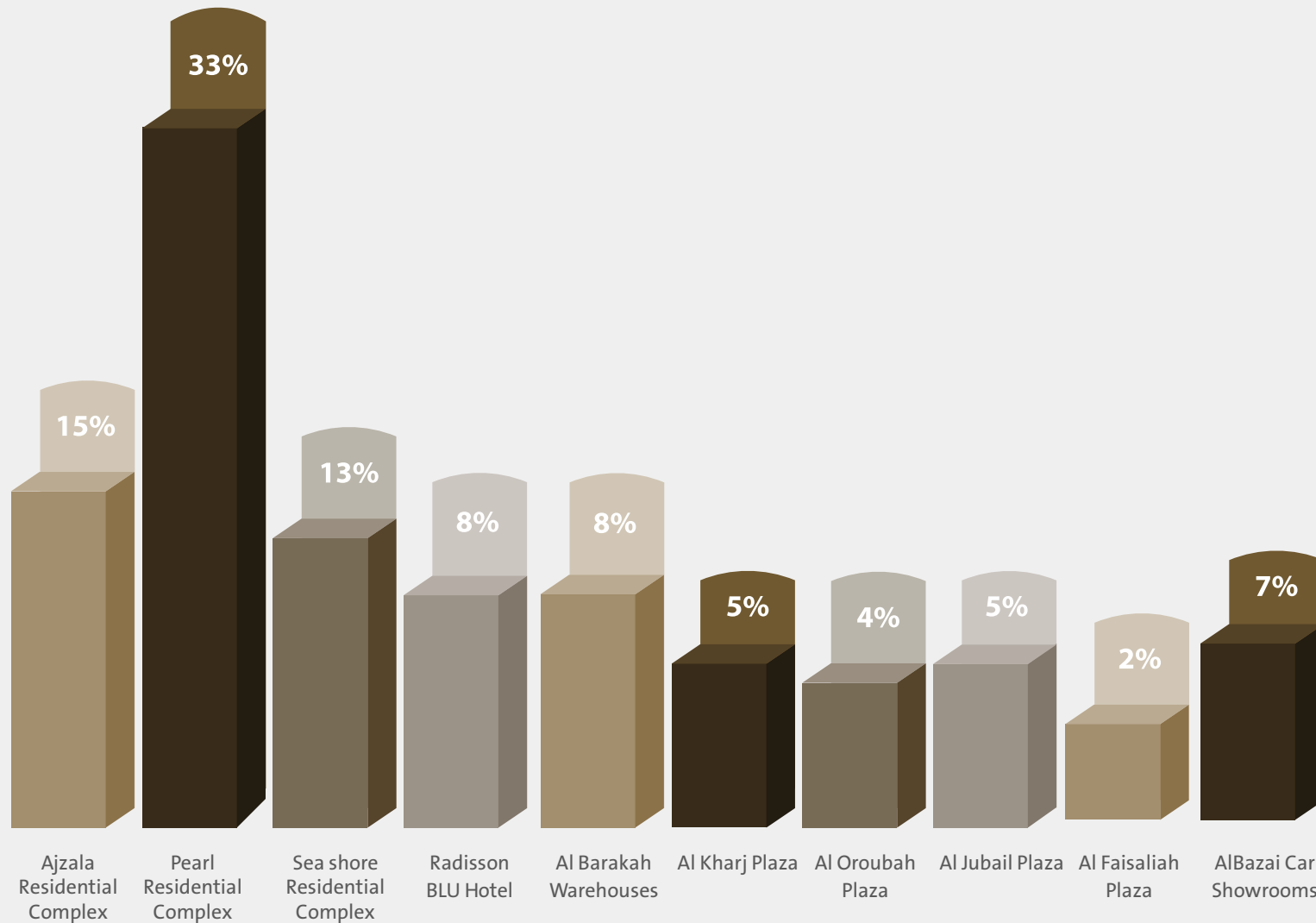




Geographical Distribution of Properties

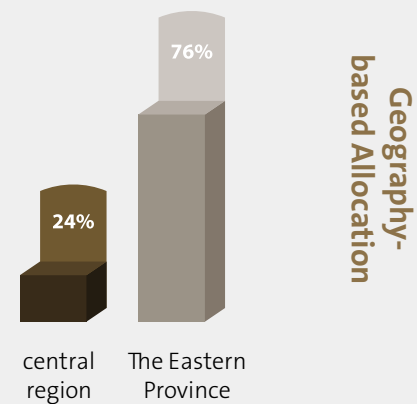
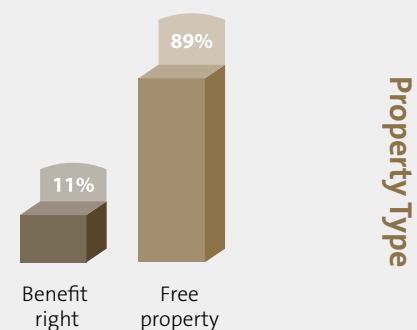
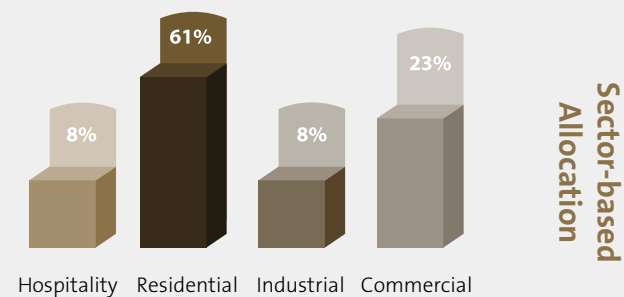
- Leasable areas amount to 212,305 square meters

Value-based Asset Allocations



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)	Saleh Abdullah Al Bazai & Sons Company



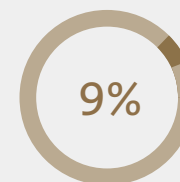


Ajzala Residential Complex

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 Mall.

**Annual Return on Investment
as per the acquisition value**



Location

Al-Khobar

Land Area

29,486.73 sqm

Sector

Residential

Property Age

16 years

Lease Percentage

100 %

Number of leases

One

Contract Term

Five years bounded by promissory notes

Net Annual Income

14,400,000 SAR

Property Manager

Three Bees Hotels Co.

Tenant

Three Bees Hotels Co.

Appraisal Average

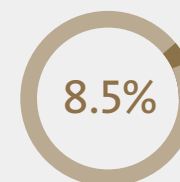
165,753,725 SAR



Pearl Residential Complex

The complex is located in the strategic area of Raqqa, Al Khobar. It is a few yards away from the main King Fahd Road that connects Al Dammam with Al Khobar. The complex contains 233 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

22,500 sqm

Sector

Residential

Property Age

7 years

Lease Percentage

100 %

Number of leases

One

Contract Term

Five years bounded by promissory notes

Net Annual Income

32,045,000 SAR

Property Manager

Gulf Address Real Estate Investment

Tenant

Gulf Address Real Estate Investment

Appraisal Average

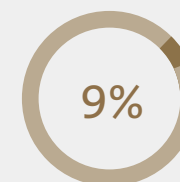
362,004,717.50 SAR



Sea Shore Residential Complex

The complex is located in the district of Al-Aziziyah, 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 112 fully developed units. It has many entertainment and service facilities, including pools, health clubs, sports centers for men and women, and a luxurious restaurant.

**Annual Return on Investment
as per the acquisition value**



Location

Al-Khobar

Land Area

38,121.50 sqm

Sector

Residential

Property Age

2.5 years

Lease Percentage

100 %

Number of leases

One

Contract Term

Five years bounded by promissory notes

Net Annual Income

13,050,000 SAR

Property Manager

Built Contracting Co.

Tenant

Built Contracting Co.

Appraisal Average

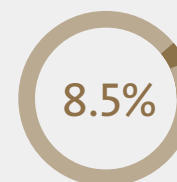
147,488,972.50 SAR



Radisson BLU Hotel Apartments

Radisson BLU is located in the district of Olaya, Al Khobar. The hotel consists of four connected and closed buildings, including 92 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 Mall, which is a main attraction point in the area, Al-Rashid commercial Mall, and King Fahd University of Petroleum and Minerals

**Annual Return on Investment
as per the acquisition value**



Location

Al-Khobar

Land Area

3,798.08 sqm

Sector

Hospitality

Property Age

3 years

Lease Percentage

100 %

Number of leases

One

Contract Term

Five years bounded by promissory notes

Net Annual Income

7,225,000 SAR

Property Manager

Tanami Arabia

Tenant

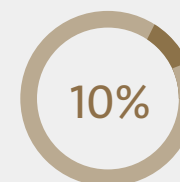
Tanami Arabia

Appraisal Average

85,328,423 SAR

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, owner of FLOW Carrier, IKEA's logistic arm and exclusive carrier.

**Annual Return on Investment
as per the acquisition value**



Location

Riyadh

Land Area

29,955.20 sqm

Sector

Industrial

Property Age

4 years

Lease Percentage

100%

Number of leases

One

Contract Term

Five binding years ending in July 2020

Net Annual Income

9,000,000 SAR

Property Manager

Flow Progressive Logistics

Tenant

Flow Progressive Logistics

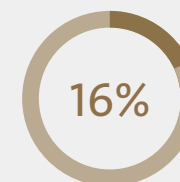
Appraisal Average

89,436, 368.50 SAR

Al Barakah Warehouses

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.

Annual Return on Investment as per the acquisition value



Location

Riyadh

Number of leases

12 Contracts

Land Area

19,212.22 sqm

Net Annual Income

11,761,090 SAR

Commercial Area

11,082 sqm

Property Manager

Osool

Sector

Commercial

Main Tenant/expiry dates of contracts

- Hyper Panda (May 11, 2036)
- Hakeem Oyuon Optics (June 30, 2028)
- Starbucks (July 11, 2022)

Property Age

2 years

Lease Percentage based on the leasable area

95 %

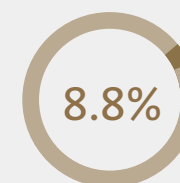
Acquisition Value

45,408,858.50 SAR

Al Oroubah Plaza Complex

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.

Annual Return on Investment as per the acquisition value



Location

Al Kharj

Number of leases

10 contracts

Land Area

16,095.97 sqm

Net Annual Income

4,683,422 SAR

Commercial Area

9,404 sqm

Property Manager

Osool

Sector

Commercial

Main Tenant/expiry dates of contracts

- Danube (January 14, 2034)
- McDonald's (May 8, 2033)
- REDTAG (December 29, 2023)

Property Age

5 years

Lease Percentage based on the leasable area

93 %

Acquisition Value

55,084,250 SAR

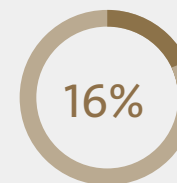
Al Kharj Plaza



Al Jubail Plaza

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.

**Annual Return on Investment
as per the acquisition value**



Location

Al Jubail

Land Area

39,750 sqm

Commercial Area

15,537 sqm

Sector

Commercial

Property Age

4 years

**Lease Percentage based
on the leasable area**

98 %

Number of leases

21 contracts

Net Annual Income

11,475,923 SAR

Property Manager

Osool

Main Tenant/expiry dates of contracts

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

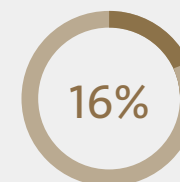
Acquisition Value

56,422,503 SAR

Al Faisaliah Plaza Complex

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 29 fairs, including restaurants, stores, and a supermarket.

**Annual Return on Investment
as per the acquisition value**



Location

Al Dammam

Land Area

10,769.50 sqm

Commercial Area

5,596 sqm

Sector

Commercial

Property Age

7 years

Lease Percentage based on the leasable area

97 %

Number of leases

20 contracts

Net Annual Income

6,223,743 SAR

Property Manager

Osool

Acquisition Value

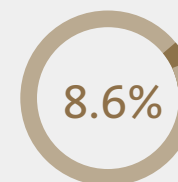
24,828,101 SAR

Main Tenant/expiry dates of contracts

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

Al-Bazai Car Showrooms are located on one of the most vital roads at the eastern side of Riyadh, in the western district of Naseem, on Khurais Road directly. The showrooms are established and equipped with the most efficient specifications and standards for the new car showrooms. It has been full released for more than 15 years to Saleh Abdullah Al-Bazai & Sons Company, the authorized agent for Toyota, Lexus cars in the central region and also the exclusive agent for Skoda cars in KSA.

Annual Return on Investment as per the acquisition value



Location

Riyadh

Contract Term

15 years, 10 of which are
bounded by promissory notes

Number of leases

1 contracts

Land Area

10,000 sqm

Net Annual Income

6,000,000 SAR

Sector

Commercial

Property Manager

Saleh Abdullah Al-Bazai &
Sons Company

Property Age

3 years

Tenant

Saleh Abdullah Al-Bazai &
Sons Company

Lease Percentage based on the leasable area

100 %

Acquisition Value

72,125,000 SAR

AlBazai Car Showrooms

Annual Report of the Fund's Risks Assessment



Risks	Possibility of Occur	Affect on				Risks Assessment		
		Work Area	Time	Cost	Quality	Affect Average	Affect Ratio	Risk Level
Market risks	30%	90%	50%	50%	80%	68%	20%	Medium
Liquidity risks	50%	70%	30%	30%	70%	50%	25%	Medium
Fluctuation of distributions risks	40%	30%	20%	20%	80%	38%	15%	Low
Non- payment financing risks	50%	50%	50%	60%	60%	55%	28%	Medium
Employees risks	25%	30%	40%	50%	25%	36%	9%	Low
Systematic risks	10%	100%	30%	20%	20%	43%	4%	Low
Few or insufficient investment opportunities risks	40%	75%	95%	50%	60%	70%	28%	Medium
Credit capacity of tenants risks	50%	100%	50%	70%	70%	73%	36%	Medium
Renewing lease contracts risks	85%	100%	55%	45%	85%	71%	61%	High
Real estate appraisal risks	10%	100%	20%	60%	100%	70%	7%	Low

	Low affects are between 0 – 20%
	Medium affects are between 21%- 59%
	High affects are between 59% - 100%

Risks	Possibility of Occur	Affect on				Risks Assessment		
		Work Area	Time	Cost	Quality	Affect Average	Affect Ratio	Risk Level
Non-compliance with relevant regulations risks	20%	30%	30%	30%	100%	48%	10%	Low
Investing in the real estate sector risks	50%	100%	20%	30%	40%	48%	24%	Medium
Real estate development risks	10%	100%	20%	30%	30%	45%	5%	Low
Uninsured losses risks	10%	100%	30%	80%	100%	78%	8%	Low
Drop of the fund's assets risks	15%	100%	30%	50%	30%	53%	8%	Low
Geographic focus risks	50%	100%	20%	20%	70%	53%	26%	Medium
Inability to exit the fund's investment on good terms risks	30%	100%	40%	50%	100%	73%	22%	Medium
Political and economic fluctuations risks	25%	100%	100%	100%	100%	100%	25%	Medium
Investment outside the Kingdom of Saudi Arabia risks	10%	100%	30%	40%	60%	58%	6%	Low
Conflict of interest risks	10%	100%	30%	30%	100%	65%	7%	Low

	Low affects are between 0 – 20%
	Medium affects are between 21%- 59%
	High affects are between 59% - 100%

The Financial Statements

For January,1 2019 to December,31 2019



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Independent auditor's report



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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 2019, 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 year then ended, 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 aspects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS") 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. Our responsibilities under these 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 Fund's 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 year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Member companies/partnership (Head Office - Riyadh) (Kingdom of Saudi Arabia) (License 22371475) (S.G. 1434) (Q) (2004/04/01)
Email: info@bakertilly.com | Website: www.bakertilly.com
Baker Tilly MKM & Co. Certified Public Accountants trading as Baker Tilly is an independent member of the global network of Baker Tilly member firms.



INDEPENDENT AUDITOR'S REPORT

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)

(Managed by Musharaka Capital Company)

Key Audit Matters (Continued)

Impairment of investment properties	
Key audit matter	How our audit addressed the key audit matter
As at 31 December 2019, the carrying value of the Fund's investment properties amounted to SR 838.89 million.	We performed the following as part of our audit: - 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.
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.	
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.	
Refer to note 3.1 to the financial statements on the accounting policy for depreciation of non-financial assets and note 7 for the disclosures on investment properties.	

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Independent auditor's report



INDEPENDENT AUDITOR'S REPORT

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)

(Managed by Musharaka Capital Company)

Key Audit Matters (Continued)

Implementation of IFRS 16 "Leases"	
Key audit matter	How our audit addressed the key audit matter
<p>The Fund has adopted IFRS 16 "Leases" with effect from 1 January 2019 and this new standard supersedes the requirements of IAS 17 "Leases".</p> <p>IFRS 16 introduces a new lease accounting model, where lessees are required to recognise a Right of Use (ROU) asset and a lease liability arising from a lease in the statement of financial position.</p> <p>The Fund has applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore, the cumulative impact of adopting IFRS 16 has been recognised as an adjustment to the opening retained earnings at 1 January 2019 without restating the comparative amounts. As a result, the Fund has recognised ROU assets of SR 217.4 million, lease liability of SR 168.1 million and a decrease in retained earnings of SR 49.3 as of that date.</p> <p>We considered this as a key audit matter because of the significant judgements required in the assumptions and estimates made in order to determine the ROU assets and lease liabilities. The assumptions and estimates include assessment of lease term and the determination of appropriate discount rates.</p> <p>Refer to note 3 to the financial statements on the accounting policy for lease liabilities and note 7, 9 and 13 for the disclosures on leases.</p>	<p>We performed the following as part of our audit:</p> <ul style="list-style-type: none"> Reviewed management's assessment of the impact of IFRS 16 in terms of the classification and measurement of its ROU assets and lease liabilities, and understood the approach taken towards implementation. Assessed the accuracy of the lease data by testing, on a sample basis, the lease data provided by management through the inspection of lease contracts. Tested lease schedules, on a sample basis, by recalculating the amounts underlying the ROU assets and lease liabilities, based on the terms of the lease contracts. Assessed the appropriateness of the discount rates applied by management in determining lease liabilities. Reviewed the adequacy of the Fund's disclosures included in the accompanying financial statements in relation to the implementation of the new standard.



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)

- 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.

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

Najib Munir Almutair
License No. 381
Al-Khobar 2, Sha'ban 1441H
28 March 2020



STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		Saudi Riyals	
	Notes	2019	2018
ASSETS			
Investment properties	7	978,986,053	843,727,725
Prepaid right of use	8	-	145,422,566
Net investment in finance leases	9	207,162,087	-
Lease receivables	10	9,054,606	2,671,655
Prepayments and other assets	11	5,758,561	5,715,843
Short term deposits	12	60,000,000	25,000,000
Cash and cash equivalents		12,925,844	35,127,521
TOTAL ASSETS		1,273,887,151	1,057,665,310
LIABILITIES			
Borrowings	13	185,743,163	159,792,309
Lease liabilities	14	151,615,548	-
Unearned rental revenue	15	17,979,074	14,297,549
Accrued management fees	22,16	8,720,363	6,428,194
Other liabilities	17	2,604,628	3,876,097
Dividend payable	18	-	24,640,000
TOTAL LIABILITIES		366,662,776	209,034,149
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		907,224,375	848,631,161
Units in issue		88,000,000	88,000,000
Per unit value		10,31	9,64

The accompanying notes from 1 to 29 form an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

		Saudi Riyals	
ايضاح		2019	For the period from 17 July 2017 to 31 December 2018
Revenue			
Rental revenue	22	94,648,476	123,103,621
Expenses			
Depreciation	7	(23,912,643)	(20,515,942)
Fund management fee	22,16	(15,294,445)	(15,827,316)
Other operating expenses	19	(6,209,901)	(2,846,014)
Allowance for expected credit losses	10	(2,920,968)	-
Impairment loss on investment properties	7	-	(14,181,333)
Amortization of prepaid right of use	8	-	(4,323,225)
Rent expense		-	(7,227,797)
		(48,337,957)	(64,921,627)
Operating profit		46,310,519	58,181,994
Gain on exchange of investment property	7	2,401,494	-
Finance income	20	11,624,440	1,012,784
Finance costs	21	(20,251,088)	(4,323,617)
Profit for the year / period		40,085,365	54,871,161
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR / PERIOD		40,085,365	54,871,161
Weighted average number of units outstanding		88,000,000	88,000,000
Basic and diluted earnings per unit	25	0,46	0,62

The accompanying notes from 1 to 29 form an integral part of these financial statements

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Saudi Riyals
For the year ended 31 Dec 2019	
As at 1 January 2019	848,631,161
Impact of applying IFRS 16	49,307,849
As at 1 January 2019 (adjusted)	897,939,010
Profit for the year	40,085,365
Other comprehensive income	-
Total comprehensive income for the year	40,085,365
Dividends	(30,800,000)
As at 31 December 2019	907,224,375
For the period from 17 July 2017 to 31 Dec 2018	
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	(86,240,000)
As at 31 December 2018	848,631,161

The accompanying notes from 1 to 29 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Saudi Riyals	
	2019	For the period from 17 July 2017 to 31 December 2018
OPERATING ACTIVITIES		
Profit for the year / period	40,085,365	54,871,161
Adjustments for:		
Depreciation	23,912,643	20,515,942
Amortization of prepaid right of use	-	4,323,225
Impairment loss on investment properties	-	14,181,333
Gain on exchange of investment property	(2,401,494)	-
Allowance for expected credit losses	2,920,968	-
Finance costs	20,251,088	4,323,617
Finance income	(11,624,440)	(1,012,784)
Changes in operating assets and liabilities:		
Lease receivables	(7,914,219)	(2,671,655)
Prepayments and other assets	(426,836)	(869,780)
Unearned rental revenue	3,681,525	14,297,549
Accrued management fees	2,292,169	6,428,194
Other liabilities	(179,038)	3,830,390
Net cash from operating activities	70,597,731	118,217,192

The accompanying notes from 1 to 29 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Saudi Riyals	
	2019	For the period from 17 July 2017 to 31 December 2018
INVESTING ACTIVITIES		
Proceeds from investment in finance lease	5,724,572	-
Finance income received	10,955,103	-
Acquisition of right of use	-	(149,745,791)
Acquisition of investment properties	(25,625,000)	(375,525,000)
Investment in short - term deposits	(35,000,000)	(25,000,000)
Interest received on short term deposits	533,150	863,721
Net cash used in investing activities	(43,412,175)	(549,407,070)

The accompanying notes from 1 to 29 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Saudi Riyals	
	2019	For the period from 17 July 2017 to 31 December 2018
FINANCING ACTIVITIES		
Proceeds from units issue	-	377,100,000
Net change in lease liability	(1,218,059)	-
Short term loan obtained	100,000,000	-
Short term loan paid	(100,000,000)	-
Net proceeds from long - term loan	26,015,228	160,672,750
Finance costs paid	(18,744,402)	(9,855,351)
Dividends paid	(55,440,000)	(61,600,000)
Net cash (used in) generated from financing activities	(49,387,233)	466,317,399
Net change in cash and cash equivalents	(22,201,677)	35,127,521
Cash and cash equivalents at the beginning of the year / period	35,127,521	-
نقد وما في حكمه، في نهاية السنة / الفترة	12,925,844	35,127,521
Non-cash transaction:		
Impact of IFRS 16 adoption (note 3)	49,307,849	-
Deferred loan arrangement fee transferred to borrowing	520,305	-
Recognition of investment in finance lease on exchange transaction	28,239,673	-
Derecognition of investment in finance lease on exchange transaction	21,983,516	-
Lease liabilities waived on exchange transaction	17,393,292	-
Acquisition of investment properties against units issued	-	502,900,000

The accompanying notes from 1 to 29 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 registered address of the Fund manager is: Musharaka Capital Company P.O.Box 712, Al Khobar 31952, Kingdom of Saudi Arabia.

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.

The comparative figures presented in the statement of profit or loss and other comprehensive income covers the period since inception (17 July 2017) to 31 December 2018 which may effect the comparability of the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2- BASIS OF PREPARATION

The financial statements of the Fund for the year ended 31 December 2019 have been prepared 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”) and Fund’s terms and conditions.

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- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

3.1 New standards, interpretations and amendments adopted by the fund

The Fund has applied IFRS 16 effective from 1 January 2019. The nature and effect of changes as a result of adoption of this new accounting standard are described below.

IFRS 16 Leases

The International Accounting Standard Board (IASB) published the new standard on leases, IFRS 16 ‘Leases’ on 13 January 2016. The rules and definitions of IFRS 16 supersede IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.1 New standards, interpretations and amendments adopted by the fund (Continued)

IFRS 16 Leases (Continued)

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 Fund has adopted IFRS 16 Leases from 1 January 2019. The Fund has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in net assets attributable to unitholders at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported in the last annual audited financial statements for the period ended 31 December 2018, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Fund determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement contains a Lease'. The Fund now assesses whether a contract is, or contains, a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.1 New standards, interpretations and amendments adopted by the fund (Continued)

IFRS 16 Leases (Continued)

(a) Definition of a lease (Continued)

On transition to IFRS 16, the Fund elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Fund allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Fund has elected not to separate nonlease components and will instead account for the lease and non-lease components as a single lease component.

(b) Fund as a lessee

The Fund leases properties. As a lessee, the Fund previously classified leases as operating or finance leases based on its assessments of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Fund. Under IFRS 16, the Fund recognises right-of-use assets and lease liabilities for most leases i.e. these leases are on the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.1 New standards, interpretations and amendments adopted by the fund (Continued)

IFRS 16 Leases (Continued)

(b) Fund as a lessee (Continued)

Significant accounting policies

The Fund recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is included under investment property.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in assessments of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.1 New standards, interpretations and amendments adopted by the fund (Continued)

IFRS 16 Leases (Continued)

(b) Fund as a lessee (Continued)

Transition

Previously, the Fund classified property leases as operating leases under IAS 17. These include land and commercial shops and malls. At transition, for leases classified as operating leases under IAS 17, lease liabilities have been measured at the present value of the remaining lease payments discounted at the Fund's incremental borrowing rate as at 1 January 2019. Right-of-use assets have been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

At transition, the Fund used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) Fund as a lessor

Except where Fund acts as an intermediate lessor, the Fund is not required to make any adjustments on transition for leases in which it is a lessor. The Fund has classified these leases as operating leases. The accounting policies applicable to the Fund as a lessor are not different from those under IAS 17. The Fund shall account for those leases applying this standard from the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.1 New standards, interpretations and amendments adopted by the fund (Continued)

IFRS 16 Leases (Continued)

(d) Fund as an intermediate lessor

The Fund is also acting as an intermediate lessor for right of use assets obtained which were already leased to the tenants.

Significant accounting policies

At the commencement date of the lease, the Fund has recognised assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

The Fund uses the interest rate implicit in the lease to measure the net investment in the lease. If the interest rate implicit in the sublease cannot be readily determined, Fund may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease. If both rates cannot be readily determined, the Fund's incremental borrowing rate is used. Generally, the Fund uses its incremental borrowing rate as the discount rate.

Transition

The Fund has reassessed subleases that were classified as operating leases under IAS 17 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or as a finance lease under IFRS 16. On the basis of the remaining contractual terms and conditions of the head lease and sublease. At that date the Fund has classified some subleases as finance leases.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.1 New standards, interpretations and amendments adopted by the fund (Continued)

IFRS 16 Leases (Continued)

(e) The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

		Saudi Riyals		
	Notes	As at 31 December 2018	Effect of adoption	As at 1 January 2019
Effect on total assets				
Investment properties (a)	7	843,727,725	142,281,612	986,009,337
Prepaid right of use (a)	8	145,422,566	(145,422,566)	-
Net investment in finance leases (b)	9	-	219,142,816	219,142,816
Lease receivables	10	2,671,655	1,389,700	4,061,355
		1,057,665,310	217,391,562	1,275,056,872
Effect on total liabilities				
Lease liabilities (b)	14	-	170,226,899	170,226,899
Other liabilities	17	3,876,097	(2,143,186)	1,732,911
Net effect of adjustment on net assets				
attributable to unit holders		848,631,161	49,307,849	897,939,010

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.1 New standards, interpretations and amendments adopted by the fund (Continued)

IFRS 16 Leases (Continued)

(e) The effect of adoption of IFRS 16 as at 1 January 2019 is as follows (Continued)

a- Under IAS 17, land rent and prepaid right of use asset were accounted for as operating leases, Under IFRS 16, land lease is accounted for as a right of use asset using the present value of minimum lease payments payable over the term of land lease agreement. As for prepaid right of use asset, such amount was reclassified to investment properties without discounting due to the fact that they were prepaid.

b- The Fund accounted for the sublease contracts under IAS 17 as operating lease, upon adoption of IFRS 16, the Fund has assessed the sublease contracts to determine whether they are finance leases or not and has identified seven contracts over which the sublease period form substantial term of the head lease agreements and thus accounted for these agreements as finance leases and accordingly, de-recognised these properties and presented the present value of the minimum lease payments receivable as net investment in finance lease in accordance with IFRS 16. The Fund has also recognised lease liability at the present value of minimum lease payments for land. The difference between the cost of the derecognised properties and the net investment in finance lease recognised was accounted for as an adjustment to the opening net assets attributable to unitholders.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

3.2 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 Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective are not expected to have a significant impact on the Company's financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Business Combinations.
- Amendments to IAS 1 and IAS 8.
- IFRS 17 Insurance Contracts.

4- 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4- SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

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

4.1 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.

Determining the lease term for lease contracts

The Fund has applied judgement to determine the lease term for those lease contracts in which it is a lessee that include renewal options. The assessment of whether the Fund is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

4.2 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

4- SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

4.2 Estimates and assumptions Valuation of investment properties (Continued)

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.

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.

Impairment of financial assets held at amortised cost

The Fund uses a provision matrix to calculate Expected Credit Losses "ECLs" for lease receivables and investment in finance lease. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type, and coverage by guarantees and other forms of credit insurance).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

4- SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

4.2 Estimates and assumptions Valuation of investment properties (Continued)

Impairment of financial assets held at amortised cost (Continued)

The provision matrix is initially based on the Fund's historical observed default rates. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. At every reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the trade receivables is disclosed in Notes 10.

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.1 Investment properties (Continued)

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

	Years
Buildings	40-35
Furniture, fixture and equipment	10

5.2 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 noncancellable period of lease.

5.3 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.

5.4 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.

5.5 Finance income

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.6 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.

5.7 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.

5.8 Dividend

Unpaid dividend 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.

5.9 Zakat

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

5.10 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.

5.11 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.11 Impairment of non-financial assets (Continued)

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.

5.12 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.12 Financial assets (Continued)

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 lease receivables, short term deposits and cash and cash equivalents.

Derecognition

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.12 Financial assets (Continued)

Derecognition (Continued)

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.

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 forwardlooking factors specific to the tenants and the economic environment.

5.13 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.13 Financial liabilities (Continued)

Subsequent measurement

Loans, borrowings and payables

After initial recognition, 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.

5.14 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.14 Fair value measurement (Continued)

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 1** - Fair value measurements are those derived from quoted prices in an active market (that are unadjusted) for identical assets or liabilities.
- **Level 2** - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

6 - SEGMENT INFORMATION (Continued)

Business segments

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

i) Commercial properties:

Includes commercial complexes that offer leasable space.

ii) Residential properties:

Includes residential compounds and hotel apartments.

iii) Warehouse properties:

Includes closed warehouse facilities.

Allocation of the segment revenues ,profit or loss, assets and liabilities as at 31 December 2019 are as following:

		Saudi Riyals				
		Commercial properties	Residential properties	Warehouse properties	Unallocated	Total
Revenue						
Major customers		-	59,495,000	9,279,661	-	68,774,661
Others		18,648,815	7,225,000	-	-	25,873,815
		18,648,815	66,720,000	9,279,661	-	94,648,476
Expenses						
Depreciation, amortization and impairment loss		(8,887,879)	(14,034,580)	(990,184)	-	(23,912,643)
Profit for the year		9,760,936	52,685,420	8,289,477	(30,650,468)	40,085,365
Total assets		327,395,238	776,884,909	90,900,686	78,706,318	1,273,887,151
Total liabilities		342,319,898	13,017,888	-	11,324,990	366,662,776

Geographical segments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

6 - SEGMENT INFORMATION (Continued)

Allocation of the segment revenues and profit or loss for the period from 17 July 2017 to 31 December 2018 and assets and liabilities as at 31 December 2018 are as follows:

	Saudi Riyals				
	Commercial properties	Residential properties	Warehouse properties	Unallocated	Total
Revenue					
Major customers	-	80,780,712	13,144,068	-	93,924,780
Others	19,321,170	9,857,671	-	-	29,178,841
	19,321,170	90,638,383	13,144,068	-	123,103,621
Expenses					
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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

7 - INVESTMENT PROPERTIES

	Saudi Riyals	
	2019	2018
Owned investment properties (a)		
	866,807,509	843,727,725
Right of use assets (b)		
	112,178,544	-
	978,986,053	843,727,725

(a) Owned investment properties

	Saudi Riyals			
	Land	Buildings	Furniture, fixture and equipment	Total
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
1 January 2019	437,037,270	388,708,950	52,678,780	878,425,000
Additions	22,551,500	31,987,000	-	54,538,500
Disposals	-	(16,433,952)	-	(16,433,952)
31 December 2019	459,588,770	404,261,998	52,678,780	916,529,548
Depreciation and impairment losses				
Charge for the period	-	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
1 January 2019	7,082,415	20,408,682	7,206,178	34,697,275
Charge for the year	-	9,759,771	5,264,993	15,024,764
31 December 2019	7,082,415	30,168,453	12,471,171	49,722,039

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

7 - INVESTMENT PROPERTIES (Continued)

(a) Owned investment properties (Continued)

		Saudi Riyals			
		Land	Buildings	Furniture, fixture and equipment	Total
Net book value					
31 December 2019		452,506,355	374,093,545	40,207,609	866,807,509
31 December 2018		429,954,855	368,300,268	45,472,602	843,727,725

Owned 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 2019 with a net book value of SR 836.33 million (31 December 2018: SR 843.73) million are pledged as security against bank borrowings (note 13).

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

7 - INVESTMENT PROPERTIES

(a) Owned investment properties (Continued)

As at 31 December 2019, the average valuation of the above investment properties amounted to SR 905,096,232 (31 December 2018: 847,418,209). Key assumptions used for the valuation of investment properties include discount rate at 9% (31 December 2018: 9%) and income yield rate ranging from 7% to 9% (31 December 2018: 7.4% to 9%).

For the period ended 31 December 2018 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

7 - INVESTMENT PROPERTIES

(b) Right of use assets

		Saudi Riyals		
		Land	Buildings	Total
Cost:				
January 2019		-	-	-
Impact of IFRS 16		71,956,338	74,612,563	146,568,901
January 2019 (adjusted)		71,956,338	74,612,563	146,568,901
Disposals		(9,201,908)	(13,981,697)	(23,183,605)
31 December 2019		62,754,430	60,630,866	123,385,296
Depreciation:				
1 January 2019		-	-	-
Impact of IFRS 16		2,108,487	2,178,802	4,287,289
1 January 2019 (adjusted)		2,108,487	2,178,802	4,287,289
Disposals		(782,394)	(1,186,022)	(1,968,416)
Charge for the year		4,386,437	4,501,442	8,887,879
31 December 2019		5,712,530	5,494,222	11,206,752
Net book value				
31 December 2019		57,041,900	55,136,644	112,178,544
31 December 2018		-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

7 - INVESTMENT PROPERTIES**(b) Right of use assets (continued)**

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

As at 31 December 2019, the average valuation of the buildings amounted to SR 63,772,273 (2018: SR 79,159,619) calculated by allocating the overall average valuation of the acquired right of use buildings amounted to SR 126,659,463 (2018: SR 158,716,210) to the remaining area after the derecognition of the portion of buildings that was derecognised on finance lease arrangements. The valuation is determined as an average value of the valuation reports made by two independent valuers. Key assumptions used for the valuation of the ROU include discount rate ranging between 10.5% to 11%.

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 Olat Valuation Company and Remax Real Estate both are, independent valuers accredited by the Saudi Authority for Accredited Valuers.

The Fund has acquired right of use assets ("ROU") of certain commercial properties, i.e. land and building for term ranging from 15.5 to 16.5 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

8 - PREPAID RIGHT OF USE (Continued)

ROU at 31 December 2018 with a net book value of SR 145.42 million are pledged as security against bank borrowings (note 11).

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%.

As at 1 January 2019, the balances of the prepaid right of use derecognised on adoption of IFRS 16 (note 3).

9 - NET INVESTMENT IN FINANCE LEASES

	Saudi Riyals	
	2019	2018
Gross lease receivables	291,926,011	-
Finance income	(84,763,924)	-
	207,162,087	-

The maturity analysis of lease liabilities as at 31 December 2019 is as follows:

	Saudi Riyals			
	Less than one year	One to five years	More than five years	Total
Gross lease receivables	18,617,700	70,850,595	202,457,716	291,926,011
Finance income	(8,095,070)	(33,244,275)	(43,424,579)	(84,763,924)
	10,522,630	37,606,320	159,033,137	207,162,087

Fund has investment in sublease against right of use assets (note 7).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

10 - LEASE RECEIVABLES

		Saudi Riyals	
		2019	2018
Lease receivables - Billed		11,500,108	435,391
Lease receivables - Unbilled		475,466	2,236,264
		11,975,574	2,671,655
Allowance for expected credit losses		(2,920,968)	-
		9,054,606	2,671,655

An aged analysis of rent receivables as at 31 December 2019 and 2018 is as follows:

		Days past due					
		Saudi Riyals					
		Neither past due nor impaired	< 180 days	181-270 days	270-365 days	> 365 days	Total
2019		475,466	6,470,705	964,982	1,057,073	3,007,348	11,975,574
2018		2,236,264	435,391	-	-	-	2,671,655

The movement in the allowance for expected credit losses is as follows:

		Saudi Riyals	
		2019	2018
1 January		-	-
Additions		2,920,968	-
31 December		2,920,968	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

11 - PREPAYMENTS AND OTHER ASSETS

	Saudi Riyals	
	2019	2018
Deferred loan arrangement fee	4,176,695	4,697,000
Prepaid expenses	339,754	258,268
Accrued interest income	285,250	149,063
VAT receivable	956,862	611,512
	5,758,561	5,715,843

Deferred loan arrangement fee constitutes administrative and consultancy fee on the unavailed loan facility amounting to SR 208.85 million (2018: SR 234.85 million) (note 13).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

12 - SHORT TERM DEPOSITS

Short term deposits represent the amount invested by the Fund in a Murahaba deposit with a local commercial bank, which is in compliance with Sharia Committee standards, 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 2.35% to 2.76% (2018: 2% to 2.65%).

13 - BORROWINGS

(a) Long term loan

	Saudi Riyals	
	2019	2018
Long term loan	191,165,228	165,150,000
Less: transaction costs	(5,422,065)	(5,357,691)
	185,743,163	159,792,309

The Fund entered into a bank facility agreement, which is in compliance with Sharia Committee standards, with Al Rajhi 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 26 million (2018: SR 165.15 million) for the purpose of acquiring investment properties (2018: certain rights of use). The loan is repayable on a single lumpsum 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).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

13 - BORROWINGS (Continued)

(b) Short term loan

During the year, the Fund has withdrawn its short term borrowing limit. These facilities carry interest at SIBOR (1 months) plus a margin of 1.85%. This facility was settled within two weeks of withdrawal .

14 - LEASE LIABILITIES

	Saudi Riyals	
	2019	2018
Gross lease liabilities	214,126,280	-
Finance charges	(62,510,732)	-
	151,615,548	-

The maturity analysis of lease liabilities as at 31 December 2019 is as follows:

	Saudi Riyals			
	Less than one year	Two to five years	More than five years	Total
Gross lease liabilities	18,640,000	47,392,000	148,094,280	214,126,280
Finance charges	(5,277,772)	(24,189,497)	(33,043,463)	(62,510,732)
	13,362,228	23,202,503	115,050,817	151,615,548

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

14 - LEASE LIABILITIES (Continued)

Lease liability represents present value of minimum lease payments for lease of land.

When measuring lease liabilities, the Fund discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rate applied is 4.58%. The reconciliation of the operating lease commitment as at 31 December 2018 previously disclosed under IAS 17 and lease liabilities initially recognised under IFRS 16 is as follows:

	Saudi Riyals
Lease commitments as per 2018	242,167,300
Discounted at incremental borrowing rate	170,226,899
Lease liability recognised as at 1 January 2019	170,226,899

15 - UNEARNED RENTAL REVENUE

Unearned rental revenue represents advance rent received, against operating lease of owned investment properties (note 7), for future period and rental period is yet to expire.

16 - FUND MANAGEMENT FEE

The Fund is managed and administered by the Fund Manager. For these services, the Fund calculates the management fee, as set out in the Fund's terms and conditions, at an annual rate of 1.2% of the Funds total assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

17 - OTHER LIABILITIES

		Saudi Riyals	
		2019	2018
Security deposits		978,000	992,235
Accrued expenses		876,991	1,499,052
Advance rent		480,858	-
Accrued finance charges		268,779	45,707
Deferred rent payable		-	1,315,503
- 23,600		-	23,600
		2,604,628	3,876,097

18 - DIVIDEND PAYABLE

During the year, the Fund declared and paid dividends of SR 30.8 million (for the period from 17 July 2017 to 31 December 2018: SR 86.24 million declared, of which SR 61.60 million were paid during the period and the balance was paid on 2019). 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

19 - OTHER OPERATING EXPENSES

	Saudi Riyals	
	2019	For the period from 17 July 2017 to 31 December 2018
Right of use property manager fee	2,178,541	-
Utilities	1,006,320	255,919
Fees and subscriptions	855,704	1,337,172
Valuation fee	475,500	271,000
Advertising and branding	184,593	123,816
Board of director's fee	60,000	60,000
Others	1,449,243	798,107
	6,209,901	2,846,014

20 - FINANCE INCOME

	Saudi Riyals	
	2019	For the period from 17 July 2017 to 31 December 2018
Interest income on short - term deposits	691,025	1,012,784
Interest income from investment in finance lease	10,933,415	-
	11,624,440	1,012,784

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

21 - FINANCE COSTS

	Saudi Riyals	
	2019	For the period from 17 July 2017 to 31 December 2018
Interest expense on borrowings	8,458,999	3,901,058
Amortization of loan arrangement fee	846,159	422,559
Inter-set expense on lease liabilities	10,945,930	-
	20,251,088	4,323,617

22 - 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:

		Saudi Riyals	
Related party	Nature of transaction	2019	For the period from 17 July 2017 to 31 December 2018
Fund Manager	Management fees	15,294,445	15,827,316
	Commission on purchase of investment property and right of use	312,500	9,130,935
	Loan arrangement fee	-	6,000,000
Fund Board	Board of Directors remunerations	60,000	60,000
Sharia Committee	Sharia Committee remunerations	33,000	16,500
Custodian	Custody fee	100,000	141,667
Unit holder	Rental revenue	32,045,000	43,721,671

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

22 - RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

The Fund Manager's investment in the Fund at 31 December 2019 is 4.64 million units (31 December 2018 is 4 million units). Balances with related parties as at 31 December are as follows:

	Saudi Riyals	
	2019	2018
Fund Manager *	8,720,363	6,428,194
Custodian **	241,667	141,667
	8,962,030	6,569,861

* Presented under accrued management fee ** Presented under accrued expenses

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
Board of directors remunerations	SR 5,000 per meeting only payable to the independent members, maximum up to SR 80,000 per annum for all members.	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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

23 - FAIR VALUES AND RISK MANAGEMENT

23.1 Fair value measurements of financial instruments

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

23.2 Risk Management

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

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:

	Saudi Riyals	
	2019	2018
Net investment in finance leases	207,162,087	-
Short term deposits	60,000,000	25,000,000
Cash and cash equivalents	12,925,844	35,127,521
Lease receivables	9,054,606	2,671,655
Other assets	285,250	149,063
	289,427,787	62,948,239

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

23 - FAIR VALUES AND RISK MANAGEMENT (Continued)

23.2 Risk Management (Continued)

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. As at 31 December 2019, the Fund's lease receivables of SR 9 million are presented net of allowance for Expected Credit Loss ("ECL") of SR 2.9 million.

Net investment in finance lease represents net balance due to as per contracts with lessee. Future cash flows are expected as per contracts. Bank balances and short term deposits are held with banks with sound credit ratings.

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 2019				
Saudi Riyals				
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
Financial Liabilities				
Borrowings	185,743,163	-	-	185,743,163
Lease liabilities	151,615,548	13,362,228	23,202,503	115,050,817
Accrued management fees	8,720,363	8,720,363	-	-
Other liabilities	2,604,628	2,604,628	-	-
	348,683,702	24,687,219	23,202,503	300,793,980

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

23 - FAIR VALUES AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

31 December 2018

	Saudi Riyals			
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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

23 - FAIR VALUES AND RISK MANAGEMENT (Continued)

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 2019 amounted to SR 185,743,163 (2018: 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 2019 by SR 1,911,652 (2018: SR 825,750).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

24 - OPERATING LEASE ARRANGEMENTS

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 are as follows:

	Saudi Riyals	
	2019	2018
Within one year	15,556,621	97,344,807
After one year but not more than five years	215,134,896	278,787,603
More than five years	2,745,746	190,482,342
	233,437,262	566,614,752

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

25 - 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.

	Saudi Riyals	
	2019	For the period from 17 July 2017 to 31 December 2018
Profit for the year / period attributable to the unit holders	40,085,365	54,871,161
Weighted average number of units	88,000,000	88,000,000
Basic and diluted earnings per unit	0,46	0,62

26 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Investment properties, net investment in finance leases, long term loan and lease liabilities are expected to be realised after twelve (12) months from the reporting date. All other assets and liabilities are of a current nature.

27 - EVENTS AFTER THE REPORTING DATE

After the reporting date the Fund Manager has declared cash dividend amounting SR 30.8 million for the year ended 31 December 2019.

28 - COMMITMENTS

Fund entered into an agreement for the acquisition of automotive showrooms and a dedicated car maintenance center in Riyadh. As at 31 December 2019 the Fund had capital commitment against this agreement amounting to SR 70 million.

29 - APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board of Directors on March 26, 2019.