MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
AND INDEPENDENT AUDITOR'S REPORT

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(Managed by Musharaka Capital Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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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 2020, 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 respects, the financial position of the Fund as at 31 December 2020, 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 issued by the Saudi Organization for Chartered and Professional 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 those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the 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 there on, and we do not provide a separate opinion on these matters.

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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 2020, the carrying value of the Fund's investment properties amounted to SR 1.04 billion. At the end of each reporting period, the Fund Manager assesses whether there is any indication that investment properties may be impaired. 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 assessment for impairment involves significant judgement that could have a material impact on the financial statements of the Fund. *Refer to note 6.12 to the financial statements on the accounting policy for impairment of non-financial assets and note 8 for the disclosures on investment properties.*	We performed the following as part of our audit: - Reviewed management assessment for the existence of impairment indicators on investment properties. - Assessed the appropriateness and adequacy of the accounting treatment and policies used and disclosures made in the Fund's financial statements including disclosure of key assumptions and judgments. - Met with the Fund's independent valuers to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by them to support their assumptions. - Assessed the independence, professional qualifications, competence and experience of the Fund's independent valuers engaged. - Agreed observable inputs used in the valuations, such as rental income, occupancy rates, break clauses and lease lengths back to lease agreements for a sample of properties.

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

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

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

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Fund's financial reporting process.

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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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with 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.

INDEPENDENT AUDITOR'S REPORT

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)

(Managed by Musharaka Capital Company)

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

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

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

Baker Tilly MKM & Co.
Certified Public Accountants

Majid Muneer Alnemer
License No. 381
Al-Khobar 15 Shaban II 1441H
28 March 2021

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECMBER 2020

	Note	***2020***	*2019*
		SR	*SR*
ASSETS			
Investment properties	8	**1,039,777,746**	978,986,053
Net investment in finance leases	9	**247,259,998**	207,162,087
Lease receivables	10	**10,883,656**	9,054,606
Prepayments and other assets	11	**5,830,341**	5,758,561
Short term deposits	12	**-**	60,000,000
Investment at fair value through profit or loss (FVTPL)	13	**5,219,050**	-
Cash and cash equivalents		**45,169,041**	12,925,844
TOTAL ASSETS		**1,354,139,832**	1,273,887,151
LIABILITIES			
Borrowings	14	**303,751,617**	185,743,163
Lease liabilities	15	**146,838,941**	151,615,548
Unearned rental revenue	16	**7,268,537**	17,979,074
Accrued management fees	17,22	**8,801,043**	8,720,363
Other liabilities	18	**5,778,975**	2,604,628
TOTAL LIABILITIES		**472,439,113**	366,662,776
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		**881,700,719**	907,224,375
Units in issue (Number)		**88,000,000**	88,000,000
Per unit value (SR)		**10.02**	10.31

The accompanying notes from 1 to 30 form an integral part of these financial statements

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	***2020***	*2019*
		SR	*SR*
Revenue			
Rental revenue	22	**93,454,860**	94,648,476
Expenses			
Depreciation	8	**(23,249,714)**	(23,912,643)
Fund management fee	17,22	**(15,369,375)**	(15,294,445)
Other operating expenses	19	**(6,129,573)**	(6,209,901)
Allowance for expected credit losses	10	**(7,651,575)**	(2,920,968)
		(52,400,237)	(48,337,957)
Operating profit		**41,054,623**	46,310,519
Unrealised gain on investments at fair value through profit or loss (FVTPL)	13	**219,050**	-
Gain on recognition of investment in finance lease	9	**1,551,660**	-
Gain on exchange of investment property	8	**-**	2,401,494
Finance income	20	**10,116,066**	11,624,440
Finance costs	21	**(17,685,055)**	(20,251,088)
Other income	15	**820,000**	-
Profit for the year		**36,076,344**	40,085,365
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**36,076,344**	40,085,365
Weighted average number of units outstanding		**88,000,000**	88,000,000
Basic and diluted earnings per unit	25	**0.41**	0.46

The accompanying notes from 1 to 30 form an integral part of these financial statements

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	***SR***
For the year ended 31 Dec 2020		
As at 1 January 2020		**907,224,375**
Profit for the year		**36,076,344**
Other comprehensive income		**-**
Total comprehensive income for the year		**36,076,344**
Dividends	29	**(61,600,000)**
Net assets attributable to unitholders at 31 December 2020		**881,700,719**
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	29	(30,800,000)
Net assets attributable to unitholders at 31 December 2019		907,224,375

The accompanying notes from 1 to 30 form an integral part of these financial statements

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	*2019*
	SR	*SR*
OPERATING ACTIVITIES		
Profit for the year	**36,076,344**	40,085,365
Adjustments for:		
Depreciation	**23,249,714**	23,912,643
Gain on recognition of investment in finance lease	**(1,551,660)**	-
Gain on exchange of investment property	**-**	(2,401,494)
Rent concession on lease liabilities	**(820,000)**	-
Unrealised gain on investments at fair value through profit or loss (FVTPL)	**(219,050)**	-
Allowance for expected credit losses	**7,651,575**	2,920,968
Finance costs	**17,685,055**	20,251,088
Finance income	**(10,116,066)**	(11,624,440)
Changes in operating assets and liabilities:		
Lease receivables	**(9,480,625)**	(7,914,219)
Prepayments and other assets	**(511,516)**	(426,836)
Unearned rental revenue	**(10,710,537)**	3,681,525
Accrued management fees	**80,680**	2,292,169
Other liabilities	**3,174,347**	(179,038)
Net cash from operating activities	**54,508,261**	70,597,731
INVESTING ACTIVITIES		
Proceeds from investment in finance lease	**9,944,088**	16,679,675
Acquisition of investment properties	**(122,470,430)**	(25,625,000)
Investment in short - term deposits	**60,340,000**	(35,000,000)
Investments at fair value through profit or loss (FVTPL)	**(5,000,000)**	-
Interest received on short term deposits	**-**	533,150
Net cash used in investing activities	**(57,186,342)**	(43,412,175)
FINANCING ACTIVITIES		
Net change in lease liability	**(10,600,001)**	(1,218,059)
Short term loan obtained	**-**	100,000,000
Short term loan paid	**-**	(100,000,000)
Net proceeds from long - term loan	**118,859,246**	26,015,228
Finance costs paid	**(11,737,967)**	(18,744,402)
Dividends paid	**(61,600,000)**	(55,440,000)
Net cash generated from (used in) financing activities	**34,921,278**	(49,387,233)
Net change in cash and cash equivalents	**32,243,197**	(22,201,677)
Cash and cash equivalents at the beginning of the year	**12,925,844**	35,127,521
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	**45,169,041**	12,925,844

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	*2019*
	SR	*SR*
Non-cash transaction:		
Deferred loan arrangement fee transferred to borrowing	**2,404,486**	520,305
Recognition of investment in finance lease on exchange transaction	**38,429,023**	28,239,673
Impact of IFRS 16 adoption	**-**	49,307,849
Drecognition of investment in finance lease on exchange transaction	**-**	21,983,516
Lease liabilities waived on exchange transaction	**-**	17,393,292

The accompanying notes from 1 to 30 form an integral part of these financial statements

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 Shari'a compliant. The Fund is managed by Musharaka Capital Company (the "Fund Manager") a Saudi Closed Joint Stock Company licenced by Capital Market Authority under licence no. 13169-27.

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,while its dividend policy is to distribute at least 90% of the Fund's net profit as cash dividends to the unit holders annually.

2 - BASIS OF PREPARATION

The financial statements of the Fund for the year ended 31 December 2020 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 Chartered and Professional 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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting;
- reinstating prudence as a component of neutrality;
- defining a reporting entity, which may be a legal entity, or a portion of an entity revising the definitions of an asset and a liability;
- removing the probability threshold for recognition and adding guidance on derecognition adding guidance on different measurement basis; and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (Continued)

Definition of a Business - amendments to IFRS 3

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

Interest Rate Benchmark Reform - amendments to IFRS 9, IAS 39 and IFRS 7

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.

Definition of Material - amendments to IAS 1 and IAS 8

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material.

Amendments to IFRS 16

Amendments to IFRS 16 'Leases' (effective 1 June 2020) - On 28 May 2020, the IASB issued amendments to IFRS 16, which provide relief for lessees in accounting for rent concessions granted as a direct consequence of COVID-19. This amendment provide the lessees with an exemption from the requirement to determine whether a COVID-19-related rent concession is a lease modification, in addition it requires the lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications.

The practical expedient applies only to the rent concession occurring as a direct consequence of the COVID-19 pandemic and only if all the following criteria are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- there is no substantive change to other terms and conditions of the lease.

4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new pronouncements are effective for annual periods beginning on or after 1 January 2021, and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these financial statements.

Standard/ Interpretation	***Description***	***Effective from periods beginning on or after the following date:***
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
IFRS 3	Business Combination	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023

4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

Standard/ Interpretation	*Description*	*Effective from periods beginning on or after the following date:*
IAS 1	Classification of Liabilities as Current or Non-Current (amendments to IAS 1)	1 January 2023
IFRS 4, IFRS 7, IFRS 9 and IFRS 16	Amendments regarding replacement issues in the context of the IBOR reform	1 January 2022
IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	1 January 2022 Available for optional adoption/ effective date deferred

5 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

5.1 Judgements

Classification of leases as operating or finance leases

Fund as a lessor

The Fund has entered into commercial, residential property, warehouse and showrooms leases on its investment property portfolio. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, where 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

Fund as a lessee

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.

5.2 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. The key assumptions used to determine fair values of investment properties are disclosed in note 8.

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

5.2 Estimates and assumptions (Continued)

Useful lives of investment properties

The Fund’s Manager 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 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).

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.

Impact of Covid-19

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

The Fund has evaluated the current situation to foresee the expected impact on key credit, liquidity, operational, solvency and performance indicators to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance.

Management's current assessment of the impact of the COVID-19 outbreak is as follows:

i) *Expected credit loss for lease receivables*

These current events and the prevailing economic condition require the Fund to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around revisions to the scenario probabilities currently being used by the Fund in ECL estimation. As a result to these revisions, the Fund has recognized an allowance for expected credit losses for an amount of SR 7.65 million for the year ended 31 December 2020.

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

5.2 Estimates and assumptions (Continued)

Impact of Covid-19 (Continued)

ii) Rental Revenue

As part of Fund's commitment to extend support to its tenants during COVID-19 outbreak, the Fund has offered voluntary arrangements of rent reliefs to its tenants in 2020 and in the subsequent period, which are accounted for in accordance with the requirements of IFRS 16"Leases". This will have an impact on revenue and results in the subsequent periods.

In addition, COVID-19 outbreak pandemic has increased the uncertainty over collectability of lease receivables. The management considers that it is more appropriate to only recognise lease income and the corresponding receivables to the extent that the lease income is considered to be collectible. This approach reflects the uncertainty related to collectability of lease payments and addresses the concern of recognizing income when collectability is uncertain.

As with any forecasts, the projections, and likelihoods of occurrence is underpinned by significant judgment and uncertainty and therefore, the final outcomes may be different from those projected. The impact of such uncertain economic environment is judgmental, and the Fund will continue to reassess its position and the related impact on a regular basis.

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Investment properties

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

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

	Years
Buildings	35 - 40
Furniture, fixture and equipment	10

6.2 IFRS 16 Leases

(a) Definition of a lease

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.

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 non-lease components and will instead account for the lease and non-lease components as a single lease component.

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.2 IFRS 16 Leases (Continued)

(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.

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.

The Fund depreciates right of use assets on straight-line basis over the lease term.

(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.

A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

(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.

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.3 Rental revenue

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

6.4 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.

6.5 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.

6.6 Finance income

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

6.7 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.

6.8 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.

6.9 Dividend

Unpaid dividend to the unit holders is recognized as a liability in the financial statements in the period in which the dividends are declared by the Fund's Board.

6.10 Zakat

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

6.11 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.

6.12 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when impairment testing for an asset is required, the Fund estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.12 Impairment of non-financial assets (Continued)

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.

6.13 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

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

Financial assets at amortised cost

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

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

Derecognition

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

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

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).

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.13 Financial assets (Continued)

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

6.14 Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

Loans, borrowings and payables

After initial recognition, 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.

6.15 Fair value measurement

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

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

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

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

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

7 - SEGMENT INFORMATION

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

Business segments

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

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 2020 are as following:

	Commercial properties	*Residential properties*	*Warehouse properties*	*Unallocated*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*
Revenue					
Major customers	**6,218,994**	**65,330,166**	**4,614,476**	**-**	**76,163,636**
Others	**17,291,224**	**-**	**-**	**-**	**17,291,224**
	23,510,218	**65,330,166**	**4,614,476**	**-**	**93,454,860**
Expenses					
Depreciation and amortization	**(8,411,122)**	**(13,845,694)**	**(992,898)**	**-**	**(23,249,714)**
Profit for the year	**15,099,096**	**51,484,472**	**3,621,578**	**(34,128,802)**	**36,076,344**
Total assets	**473,124,547**	**725,005,408**	**88,907,789**	**67,102,088**	**1,354,139,832**
Total liabilities	**455,548,291**	**2,948,795**	**-**	**13,942,027**	**472,439,113**

Geographical segments

The Fund's assets and operations are all located in the Kingdom of Saudi Arabia except for The Box the self storage which is located in the United Arab Emirates and recognised in the statement of financial position as an investment in finance lease.

7 - SEGMENT INFORMATION (Continued)

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

	Commercial properties	*Residential properties*	*Warehouse properties*	*Unallocated*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*
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.

8 - INVESTMENT PROPERTIES

	2020	*2019*
	SR	*SR*
Owned investment properties (a)	**940,747,040**	866,807,509
Right of use assets (b)	**99,030,706**	112,178,544
	1,039,777,746	978,986,053

(a) Owned investment properties

	Land	***Buildings***	***Furniture, fixture and equipment***	***Total***
	SR	***SR***	***SR***	***SR***
Cost:				
1 January 2020	**459,588,770**	**404,261,998**	**52,678,780**	**916,529,548**
Additions	**69,788,177**	**52,682,253**	**-**	**122,470,430**
Disposals	**-**	**(32,759,863)**	**-**	**(32,759,863)**
31 December 2020	**529,376,947**	**424,184,388**	**52,678,780**	**1,006,240,115**
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
Accumulated depreciation and impairment:				
1 January 2020	**7,082,415**	**30,168,453**	**12,471,171**	**49,722,039**
Additions	**-**	**10,491,618**	**5,279,418**	**15,771,036**
31 December 2020	**7,082,415**	**40,660,071**	**17,750,589**	**65,493,075**
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
Net book value:				
31 December 2020	**522,294,532**	**383,524,317**	**34,928,191**	**940,747,040**
31 December 2019	452,506,355	374,093,545	40,207,609	866,807,509

Owned investment properties represent the Fund's investments in various residential compounds, warehousing facilities, shoowrooms, retails and hotel apartments located within the Kingdom of Saudi Arabia except for one warehouse in UAE.

Investment properties at 31 December 2020 with a net book value of SR 813.86 million (31 December 2019: SR 836.33) million are pledged as security against bank borrowings (note 14).

8 - INVESTMENT PROPERTIES (Continued)

(a) Owned investment properties (Continued)

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 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, ValuStrat consulting and JLL Valuation (2019: Olaat Valuation Company and Remax Real Estate) all are independent valuers accredited by the Saudi Authority for Accredited Valuers (TAQEEM).

As at 31 December 2020, the average valuation of the above investment properties amounted to SR 984,014,440 (31 December 2019: 905,096,232). Key assumptions used for the valuation of investment properties include discount rate ranging from 8% to 9% (31 December 2019: 9%) and income yield rate ranging from 8% to 8.5% (31 December 2019: 7% to 9%).

(b) Right of use assets

	Land	*Buildings*	*Total*
	SR	***SR***	***SR***
Cost:			
1 January 2020	**62,754,430**	**60,630,866**	**123,385,296**
Disposals	**(4,351,164)**	**(2,199,890)**	**(6,551,054)**
31 December 2020	**58,403,266**	**58,430,976**	**116,834,242**
1 January 2019	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
Accumulated Amortization:			
1 January 2020	**5,712,530**	**5,494,222**	**11,206,752**
Charge for the year	**3,790,550**	**3,688,128**	**7,478,678**
Disposals	**(296,146)**	**(585,748)**	**(881,894)**
31 December 2020	**9,206,934**	**8,596,602**	**17,803,536**
1 January 2019	-	-	-
Impact of IFRS 16	2,108,487	2,178,802	4,287,289
1 January 2019	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 2020	**49,196,332**	**49,834,374**	**99,030,706**
31 December 2019	57,041,900	55,136,644	112,178,544

8 - INVESTMENT PROPERTIES (Continued)

(b) Right of use assets (Continued)

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.

The fair values of the ROU are based on valuations performed by Olaat Valuation Company and ValuStrat consulting (2019: Olaat Valuation Company and Remax Real Estate) all are, independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 31 December 2020, the average valuation of the buildings amounted to SR 60,515,472 (2019: SR 63,772,273) calculated by allocating the overall average valuation of the acquired right of use buildings amounted to SR 124,219,737 (2019: SR 126,659,463) 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 8.5% to 11% (31 December 2019: 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.

9 - NET INVESTMENT IN FINANCE LEASES

	2020	*2019*
	SR	*SR*
Gross lease receivables	**385,550,599**	291,926,011
Finance income	**(138,290,601)**	(84,763,924)
	247,259,998	207,162,087

During the year the Fund entered into two new finance lease agreements as a lessor against a) newly acquired warehouse in UAE with net investment in finance leases amounted to SR 32,759,863 and; b) right of use property (ROU) with net investment in finance lease amounted to SR 7,220,820. The Fund has recognised gain of SR 1,551,660 on recognistion of investment in finance lease on ROU properties.

The maturity analysis of lease liabilities as at 31 December 2020 is as follows:

	Less than one year	***One to five years***	***More than five years***	***Total***
	SR	***SR***	***SR***	***SR***
Gross lease receivables	**30,493,864**	**85,193,671**	**269,863,064**	**385,550,599**
Finance income	**(9,952,774)**	**(43,907,912)**	**(84,429,915)**	**(138,290,601)**
	20,541,090	**41,285,759**	**185,433,149**	**247,259,998**

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

	Less than one year	*One to five years*	*More than five years*	*Total*
	SR	*SR*	*SR*	*SR*
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

10 - LEASE RECEIVABLES

	2020	*2019*
	SR	*SR*
Lease receivables - Billed	**18,462,879**	11,500,108
Lease receivables - Unbilled	**1,308,985**	475,466
	19,771,864	11,975,574
Expected credit losses	**(8,888,208)**	(2,920,968)
	10,883,656	9,054,606

An aged analysis of rent receivables as at 31 December 2020 and 2019 is as follows:

	Neither past due nor impaired	***Days past due***				
		< 180 days	***181-270 days***	***270-365 days***	***> 365 days***	***Total***
	SR	***SR***	***SR***	***SR***	***SR***	***SR***
2020	**1,308,985**	**5,386,072**	**3,876,199**	**781,352**	**8,419,256**	**19,771,864**
2019	475,466	6,470,705	964,982	1,057,073	3,007,348	11,975,574

The movement in the expected credit losses is as follows:

	2020	*2019*
	SR	*SR*
1 January	**2,920,968**	-
Additions	**7,651,575**	2,920,968
Written - off	**(1,684,335)**	-
31 December	**8,888,208**	2,920,968

11 - PREPAYMENTS AND OTHER ASSETS

	Note	***2020***	*2019*
		SR	*SR*
Deferred loan arrangement fee	11.1	**4,022,209**	4,176,695
Advance paid for capital expenditure		**1,452,307**	-
Prepaid expenses		**68,751**	339,754
Accrued interest income		**-**	285,250
VAT receivable		**287,074**	956,862
		5,830,341	5,758,561

11.1 Defered loan arragmenet fee constitutes administartive and consultancy fee on the unavailed loan facility amounting to SR 688.61 million (2019: SR 208.88 million) (note 14).

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 Sharia compliant, 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 2.5% to 2.7% (2019: 2.35% to 2.76%).

13 - INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

During the year the Fund made an investment in Musharaka Murabahat and Sukuk Fund which is an open-ended investment fund, managed by Musharaka Capital Company. The Fund recognised this investment at fair value through profit of loss (FVTPL).

14 - BORROWINGS

	2020	*2019*
	SR	*SR*
Long term loan		
Long term loan	**311,389,561**	191,165,228
Less: transaction costs	**(7,637,944)**	(5,422,065)
	303,751,617	185,743,163

During the period ended 31 December 2018 the Fund entered into a Sharia compliant bank facility agreement, 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. During the period , the Fund has increased its credit facility limit from SR 400 million to SR 1 billion. These facilities carry interest at SIBOR (6 months) plus a margin of 1.65% to 1.85% (31 December 2019: 1.85%). 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 Fund has withdrawn SR 311.39 million till reporting date for the purpose of acquiring investment properties. The loan is secured by a mortgage of the Fund's investment properties, promissory note and assignment of rental income (note 8).

15 - LEASE LIABILITIES

	2020	*2019*
	SR	*SR*
Gross lease liabilities	**202,706,280**	214,126,280
Finance charges	**(55,867,339)**	(62,510,732)
	146,838,941	151,615,548

The maturity analysis of lease liabilities as at 31 December 2020 is as follows:

	Less than one year	***One to five years***	***More than five years***	***Total***
	SR	***SR***	***SR***	***SR***
Gross lease liabilities	**18,710,000**	**49,249,000**	**134,747,280**	**202,706,280**
Finance charges	**(5,013,642)**	**(23,088,019)**	**(27,765,678)**	**(55,867,339)**
	13,696,358	**26,160,981**	**106,981,602**	**146,838,941**

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

	Less than one year	*One to five years*	*More than five years*	*Total*
	SR	*SR*	*SR*	*SR*
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

Lease liability represents present value of minimum lease payments for lease of land. During the year, the Fund received a concession on it's land lease of SR 820,000 recognized as other income.

16 - UNEARNED RENTAL REVENUE

Unearned rental revenue represents advance rent received, against operating lease of investment properties (note 8).

17 - 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.

18 - OTHER LIABILITIES

	2020	*2019*
	SR	*SR*
Accrued expenses	**1,624,487**	876,991
Accrued finance charges	**1,503,719**	268,779
Payable against purchase of an investment property	**1,474,000**	-
Security deposits	**978,000**	978,000
Other	**198,769**	480,858
	5,778,975	2,604,628

19 - OTHER OPERATING EXPENSES

	2020	*2019*
	SR	*SR*
Right of use property manager fee	**1,570,006**	2,178,541
Utilities	**1,141,010**	1,006,320
Fees and subscriptions	**832,459**	855,704
Valuation fee	**416,805**	475,500
Board of Director's fee	**50,000**	60,000
Others	**2,119,293**	1,633,836
	6,129,573	6,209,901

20 - FINANCE INCOME

	2020	*2019*
	SR	*SR*
Interest income on short - term deposits	**54,750**	691,025
Interest income from investment in finance lease	**10,061,316**	10,933,415
	10,116,066	11,624,440

21 - FINANCE COSTS

	2020	*2019*
	SR	*SR*
Interest expense on borrowings	**9,487,967**	8,458,999
Amortization of loan arrangement fee	**1,553,694**	846,159
Interset expense on lease liabilities	**6,643,394**	10,945,930
	17,685,055	20,251,088

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:

Related party	Nature of transaction	*2020*	*2019*
		SR	*SR*
Fund Manager	Management fees	**15,369,375**	15,294,445
	Commission on purchase of investment property and right of use	**1,178,803**	312,500
	Loan arrangement fee	**2,250,000**	-
Fund Board	Board of Directors remunerations	**50,000**	60,000
Sharia Committee	Sharia Committee remunerations	**33,000**	33,000
Custodian	Custody fee	**100,000**	100,000
Units holder	Rental revenue	**14,094,715**	32,045,000
Affiliate Fund	Investment in units of the Fund (managemend by same Fund Manager.)	**5,000,000**	-

The Fund Manager's investment in the Fund at 31 December 2020 is 4.64 million units (31 December 2019 is 4.64 million units).

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

	2020	*2019*
	SR	*SR*
Fund Manager (a)	**8,801,043**	8,720,363
Custodian (b)	**91,667**	241,667
	8,892,710	8,962,030

(a) Presented under accrued management fee
(b) 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
Commission on purchase of investment property and right of use	Up to 1% of the value of real estate's assets purchased or sold	Upon completion of the transaction
Loan arrangement fees	Up to 2% of the value of financing.	After obtaining financing
Board of directors remunerations	SR 5,000 per meeting only payable to the independent members, maximum up to SR 80,000 per annum 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

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 risk.

Credit Risk:

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

	2020	*2019*
	SR	*SR*
Net investment in finance leases	**247,259,998**	207,162,087
Short term deposits	**-**	60,000,000
Cash and cash equivalents	**45,169,041**	12,925,844
Lease receivables	**10,883,656**	9,054,606
Other assets	**-**	285,250
	303,312,695	289,427,787

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 2020, the Fund's lease receivables of SR 10.88 million are presented net of allowance for Expected Credit Loss ("ECL") of SR 8.89 million.

Net investment in finance lease represents net balance due to the Fund 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 2020			
	Carrying amount	**Less than 1 year**	**1 year to 5 years**	**More than 5 years**
	SR	**SR**	**SR**	**SR**
Financial Liabilities				
Borrowings	**303,751,617**	**-**	**-**	**303,751,617**
Lease liabilities	**146,838,941**	**13,696,358**	**26,160,981**	**106,981,602**
Unearned rental revenue	**7,268,537**	**7,268,537**	**-**	**-**
Accrued management fees	**8,801,043**	**8,801,043**	**-**	**-**
Other liabilities	**5,778,975**	**5,778,975**	**-**	**-**
	472,439,113	**35,544,913**	**26,160,981**	**410,733,219**

23 - FAIR VALUES AND RISK MANAGEMENT (Continued)
Liquidity Risk: (Continued)

	31 December 2019			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR	SR	SR	SR
Financial Liabilities				
Borrowings	185,743,163	-	-	185,743,163
Lease liabilities	151,615,548	13,362,228	23,202,503	115,050,817
Unearned rental revenue	17,979,074	17,979,074	-	-
Accrued management fees	8,720,363	8,720,363	-	-
Other liabilities	2,604,628	2,604,628	-	-
	366,662,776	42,666,293	23,202,503	300,793,980

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.

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 2020 amounted to SR 303,751,617 (2019: SR 185,743,163).

An increase of 100 basis points in the interest rate would have increased finance costs for the year ended 31 December 2020 by SR 3,113,896 (2019: SR 1,911,652).

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

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:

	2020	*2019*
	SR	*SR*
Within one year	**85,976,736**	91,276,621
After one year but not more than five years	**84,705,721**	139,414,896
More than five years	**118,188,831**	2,745,746
	288,871,289	233,437,263

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.

	2020	*2019*
	SR	*SR*
Profit for the year attributable to the unit holders	**36,076,344**	40,085,365
Weighted average number of units	**88,000,000**	88,000,000
Basic and diluted earnings per unit	**0.41**	0.46

26 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Non-current portion of net investment in finance leases (note 8), long term loan and non-current portion of lease liabilities (note 14) are expected to be realized after twelve (12) months from the reporting date. All other financial 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 26.4 million for the second half of the year ended 31 December 2020.

28 - CONTIGENCIES AND COMMITMENTS

(a) During the year the Fund has received an assessment from GAZT claiming additional VAT liabilities of SR 5.7 million and penalties of SR 9.2 million. The Fund Manager appointed a consultant and filed an objection subsequent to the year end. The Fund Manager is confident about its Fund's position and that the result of the objection will not result on any liability on the Fund.

(b) Fund entered into an agreement for improvement of one of its investment property (Al Barka warehouse). As at 31 December 2020 the Fund had capital commitment against this agreement amounting to SR 3.9 million.

29 - DIVIDENDS

During the year, the Fund Board declared and paid dividends of SR 61.6 million (2019: SR 30.8 million declared). 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.

30 - APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board of Directors on March 28, 2021.