

**RIYAD REIT FUND**  
**A Real Estate Investment Traded Fund**  
**(Managed by Riyadh Capital)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**  
together with the  
**Independent Auditor's Report**

**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

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## INDEPENDENT AUDITOR'S REPORT

**TO THE UNITHOLDERS**  
**RIYAD REIT FUND**  
**MANAGED BY RIYAD CAPITAL**  
**RIYADH, KINGDOM OF SAUDI ARABIA**

### Opinion

We have audited the accompanying consolidated financial statements of Riyadh REIT Fund ("the Fund"), being managed by Riyadh Capital (the "Fund Manager"), which comprises the consolidated statement of financial position as at 31 December 2019 and the related consolidated statements of comprehensive income, changes in net assets and cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements taken as a whole, present fairly, in all material respects, the consolidated financial position of the Fund as at 31 December 2019 and its consolidated financial performance and its consolidated 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 of Certified Public accountants ("SOCPA").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") 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 Consolidated 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 consolidated financial statements, and we have fulfilled our other 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the key matter was addressed in our audit
Riyad REIT Fund owns a portfolio of investment properties comprising of commercial buildings located in the Kingdom of Saudi Arabia.  Investment properties, held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any accumulated impairment losses.	For impairment of investment properties, we have carried out the following audit procedures:  - We Obtained two valuation reports from different/ independent real estate evaluators for each investment properties as at 31 December 2019 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date;



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**TO THE UNITHOLDERS**  
**RIYAD REIT FUND**  
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### Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
<p>Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.</p> <p>For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the Fund's investment properties on semiannual basis.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment by the Fund manager and the potential impact of impairment if any, could be material to the financial statements.</p>	<ul style="list-style-type: none"><li>- We assessed the independence and competence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;</li><li>- Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above-mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be higher than the carrying amount of the same except for certain properties, which had an immaterial impairment impact and thus not recorded by the Fund's management; and</li><li>- We reconciled the average fair value of the investment properties as per note 20 to the external valuers' reports.</li></ul>

### Other information

Other information consists of the information included in the Fund's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in the Fund's annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**TO THE UNITHOLDERS**  
**RIYAD REIT FUND**  
**MANAGED BY RIYAD CAPITAL**  
**RIYADH, KINGDOM OF SAUDI ARABIA**

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Fund's Management is responsible for the preparation and fair presentation of the consolidated financial statements 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 SOCPA and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Fund's management 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 the management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 "ISA" 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**TO THE UNITHOLDERS**  
**RIYAD REIT FUND**  
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**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

- Conclude on the appropriateness of management'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 audit report to the related disclosures in the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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 the consolidated financial statements of the current year 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 communications.

For and on behalf of  
Al-Bassam & Co.

**Ibrahim A. Al-Bassam**  
Certified Public Accountant  
Registration No. 337



**6 Sha'ban 1441**  
**30 March 2020**

**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2019

(Amounts in SAR)

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	7	44,591,183	31,497,648
Account receivables, net	8	59,490,382	34,144,087
Inventory		1,187,914	1,236,128
Prepayment and other receivables	9	29,276,109	17,332,170
Due from related parties	12	1,292,656	12,316,277
Properties under development	10	177,404,991	133,927,572
Investments carried at fair value through profit or loss (FVTPL)	16	453,042,060	-
Investment properties	11	1,619,484,881	1,568,236,450
<b>TOTAL ASSETS</b>		<b>2,385,770,176</b>	<b>1,798,690,332</b>
<b><u>LIABILITIES</u></b>			
Islamic Financing	13	685,076,029	88,339,892
Accounts payable		10,615,100	5,970,841
Unearned rental income	14	18,971,558	8,915,303
Accrued expenses	15	44,644,082	48,610,699
Due to related parties	12	1,165,927	2,989,755
Employees' post-employment benefits		1,732,608	1,901,047
<b>TOTAL LIABILITIES</b>		<b>762,205,304</b>	<b>156,727,537</b>
Commitments and contingencies	22		
<b>Net assets attributable to the Unitholders</b>		<b>1,623,564,872</b>	<b>1,641,962,795</b>
Units in issue ( <i>numbers</i> )		171,697,101	171,697,101
<b>Book value attributable to each unit</b>		<b>9.46</b>	<b>9.56</b>
<b>Fair value attributable to each unit</b>	20	<b>9.66</b>	<b>9.94</b>





The accompanying notes 1 to 31 form an integral part of these consolidated financial statements



**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

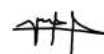
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2019

(Amounts in SAR)

	<u>Note</u>	<u>For the year ended</u> <u>31 December 2019</u>	<u>For the year ended</u> <u>31 December 2018</u>
Income from rental and operation	17	173,207,979	149,113,651
Income from investments carried at FVTPL			-
- Unrealised gain on investments carried at FVTPL		45,551	-
- Dividend Income		7,947,713	-
<b>Total Income</b>		<b>181,201,243</b>	<b>149,113,651</b>
Cost of Revenue		<b>(35,167,566)</b>	<b>(29,117,667)</b>
<b>Gross Profit</b>		<b>146,033,677</b>	<b>119,995,984</b>
<b>OPERATING EXPENSES</b>			
Property management expenses		<b>(7,152,282)</b>	<b>(1,860,395)</b>
Fund management fee	12	<b>(18,604,840)</b>	<b>(11,934,459)</b>
Custodial expenses		<b>(126,000)</b>	<b>(100,000)</b>
General and administrative expenses	18	<b>(20,552,278)</b>	<b>(29,529,738)</b>
Finance cost expense	10,12,13	<b>(7,144,318)</b>	<b>(144,661)</b>
<b>TOTAL OPERATING EXPENSES</b>		<b>(53,579,718)</b>	<b>(43,569,253)</b>
Other income		<b>410,610</b>	<b>782,706</b>
<b>Funds from Operations</b>		<b>92,864,569</b>	<b>77,209,437</b>
- Investment properties depreciation	11	<b>(21,979,998)</b>	<b>(13,028,710)</b>
<b>Net income for the year</b>		<b>70,884,571</b>	<b>64,180,727</b>
<b>Total comprehensive income for the year</b>		<b>70,884,571</b>	<b>64,180,727</b>





The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.



**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 31 December  
(Amounts in SAR)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
<b>Net assets value attributable to the Unitholders at the beginning of the year</b>		<b>1,641,962,795</b>	<b>488,970,565</b>
<b>Changes from unit transaction during the year:</b>			
- Subscription of units – Cash		-	264,127,586
- Subscription of units – In kind contribution		-	868,872,424
<b>Total comprehensive income for the year</b>		<b>70,884,571</b>	<b>64,180,727</b>
<b>Dividends paid during the year</b>	<b>21</b>	<b>(89,282,494)</b>	<b>(44,188,507)</b>
<b>Net assets value attributable to the Unitholders at the end of the year</b>		<b>1,623,564,872</b>	<b>1,641,962,795</b>

Transactions in units for the year are summarized as follows:

	<u>2019</u>	<u>2018</u>
<b>Number of units at the beginning of the year</b>	<b>171,697,101</b>	<b>50,000,000</b>
Subscription of units – Cash	-	28,370,310
Subscription of units – In kind contribution	-	93,326,791
<b>Number of units at the end of the year</b>	<b>171,697,101</b>	<b>171,697,101</b>





The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

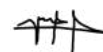
**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December  
(Amounts in SAR)

	Note	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year		70,884,571	64,180,727
<i>Adjustments to reconcile net income to net cash used in operating activities:</i>			
Provision for doubtful debt	8	1,831,904	489,714
Investment properties depreciation	11	21,979,998	13,028,710
Unrealized gain or loss on Investments carried at FVTPL	16	(45,551)	-
		<u>94,650,922</u>	<u>77,699,151</u>
<b>Changes in operating assets and liabilities</b>			
Account receivables, net		(27,178,199)	(25,280,907)
Inventory		48,214	(1,236,128)
Prepayment and other receivables		(11,943,939)	(11,715,426)
Due from Related Parties		11,023,621	-
Properties under development		(43,477,419)	(137,439,542)
Accounts payable		4,644,259	5,970,841
Accrued expenses		(4,135,056)	8,758,477
Unearned rental income		10,056,255	2,990,576
Due to Related Parties		(1,823,828)	(9,326,522)
Purchase of investment properties		(73,228,429)	(14,219,312)
<b>Net cash generated from / (used in) operating activities</b>		<u>(41,363,599)</u>	<u>(103,798,792)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments measured at FVPL	16	(452,996,509)	-
<b>Net cash used in investing activities</b>		<u>(452,996,509)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		-	(106,583,479)
Proceeds from borrowing	13	596,736,137	-
Dividends paid	21	(89,282,494)	(44,188,507)
Subscription of units		-	264,127,586
<b>Net cash from financing activities</b>		<u>507,453,643</u>	<u>113,355,600</u>
<b>Net increase in cash and cash equivalents</b>		<u>13,093,535</u>	<u>9,556,808</u>
<b>Cash and cash equivalents at the beginning of the year</b>		<u>31,497,648</u>	<u>21,940,840</u>
<b>Cash and cash equivalents at the end of the year</b>		<u><u>44,591,183</u></u>	<u><u>31,497,648</u></u>
<b>Supplemental non-cash transactions</b>			
Purchase of investment through subscription of units in REIT		-	868,872,424





The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2019  
(Amounts in SAR)

**1. THE FUND AND ITS ACTIVITIES**

Riyad REIT (the "REIT" or the "Fund") is a closed-ended Shari'ah-compliant real estate investment traded fund. The REIT operates in accordance with Real Estate Investment Funds Regulations and REIT Regulations issued by the CMA. The REIT is listed on the Tadawul and units of the REIT shall be traded on the Tadawul in accordance with its rules and regulations. The subscribed units of the REIT amount to SAR 1,663,000,010 (31 December 2018: SAR 1,663,000,010). The REIT has a term of 99 years, which is extendable on the discretion of the Fund Manager with the prior approval of the CMA. These consolidated financial statements include the accounts of the REIT and its subsidiaries (together the "REIT" or the "Fund")

The REIT is managed by Riyadh Capital (the "Fund Manager"), a Saudi Arabian One Person Closed Joint Stock Company with Saudi Arabian commercial registration no. 1010239234, and an Authorized Person licensed by the CMA under license no. 07070-37. Also, a 100% owned subsidiary of Riyadh Bank.

The primary investment objective of the REIT is to provide its investors with current income by investing in construction developed income-producing real estate assets in Saudi Arabia. While the REIT will primarily invest in such assets, the REIT may opportunistically invest in real estate development projects; provided that (i) at least 75% of the REIT's total assets are invested in developed real estate assets which generate periodic income and (ii) the REIT may not invest in vacant land.

The REIT may, a secondary basis, invest in development opportunities with profitable growth potentials that cater for specific real-estate needs, previously unavailable in certain areas. An added value is expected, in the medium term, to be created to Unitholders in such development projects. In the long term, the REIT's investment portfolio will continue to focus on attractive investment opportunities in different real-estate sectors, including, but not limited to, offices, trade exhibitions, houses, hospitality facilities, warehouses, etc. in order to build a real-estate base with diverse and stable income for Unitholders as well as achieve reasonable increase in the portfolio value.

The REIT shall be governed by the laws of Saudi Arabia and the regulations implemented by the CMA. The investments of the REIT shall comply with the Regulation of Ownership and Investment in Real Estate by Non-Saudis. The offering of units in the REIT has been approved by the CMA on 8/2/1438H (corresponding to 8/11/2016).

As of 31 December 2019, the Fund's current liability exceeds its current assets by SAR 107.78 million, mainly on account of Tawaruq facility due during 2020 by an amount SAR 169 million. The Fund has undrawn facility limit with the Riyadh Bank which the management intends to utilise to correct the assets liabilities mismatch as of 31 December 2019.

**2. REGULATING AUTHORITY**

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by Capital Market Authority (CMA) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and 19 Jumada II 1427H (corresponding to 15 July 2006) respectively, detailing requirements for all types of funds within the Kingdom of Saudi Arabia.

**3. BASIS OF PRESENTATION**

**3.1 *Statement of compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards "IFRS" that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organisation of Certified Public Accountants ("SOCPA").

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2019  
(Amounts in SAR)

**3. BASIS OF PRESENTATION (Continued)**

**3.2 *Basis of measurement and functional and presentation currency***

These consolidated financial statements have been prepared under the historical cost convention except for investments measured at FVTPL, and the amounts are expressed in Saudi Arabian Riyals (SAR), which is REIT's functional and operational currency.

**3.3 *Critical accounting judgments, estimates and assumption***

The preparation of the consolidated financial statements requires management 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period, are described below. REIT based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of REIT. Such changes are reflected in the assumptions when they occur.

**Going Concern**

REIT's management has made an assessment of REIT's ability to continue as a going concern and is satisfied that the REIT has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on REIT's ability to continue as a going concern. (Refer to note 1).

**Valuation of investment properties**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the assets' useful lives and do not include restructuring activities that the fund is not yet committed to or significant future investments that will enhance each assets performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

**Impairment of non-financial assets**

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-tax discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2019  
(Amounts in SAR)

**3. BASIS OF PRESENTATION (Continued)**

**3.3 Critical accounting judgments, estimates and assumption (continued)**

**Residual and useful lives of investment properties**

The REIT's management determines the estimated residual value and useful lives of its investment properties for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management will review the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**3.4 Expected credit loss**

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

***Basis of consolidation***

The consolidated financial statements include the financial statements of the REIT and all of its subsidiaries. The REIT controls a subsidiary if it has power over it, is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have the same reporting date of the REIT. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the REIT obtains control, and continue to be consolidated until the date when such control ceases.

Details of the REIT's operating subsidiaries as of 31 December 2019 are as follows:

Name of subsidiary	Acquisition date	Principal Activity	Country	Proportion of Ownership Interest and Voting Power Held
Durrat Aldahia Company – Burj Rafal Hotel	1 April 2018	Hotel	Saudi Arabia	100%
Durrat Hittin company - Braira Hattin Hotel	9 June 2018	Hotel	Saudi Arabia	100%

**RIYAD REIT FUND**  
**(MANAGED BY RIYAD CAPITAL)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2019  
(Amounts in SAR)

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Cash and cash equivalents***

Cash and cash equivalents for the purpose of cash flows represent cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Fund without any restrictions. Cash and cash equivalents are carried at amortized cost within the consolidated statements of financial position.

***Rent receivable***

Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using effective commission method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

***Inventory***

Inventory is stated at the lower of cost and net realisable value. Cost, which is determined on the weighted average basis, comprises expenditure incurred in the normal course of business in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Where necessary, an impairment provision is made for obsolete, slow moving and defective items.

***Properties under development***

Properties acquired, constructed or are in the course of construction and development are classified as development properties. The cost of development properties includes the cost of land and other related expenditure. The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed and handed over for its intended use. The Fund's management reviews the carrying values of the development properties at each reporting date. Commission on tawaruq facility with regards to properties under development is being capitalized till the related property is ready for use.

***Foreign currency transactions***

Transactions in foreign currencies are translated into the Saudi Arabian Riyals, which is also the functional currency of the Fund, at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transactions. Foreign currency differences are generally recognized in profit or loss.

***Investment properties***

Real estate that are held for capital appreciation and/or rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund i.e. 50 years.

Residual values and useful lives of investment property are subject to review and adjustment, as necessary, when an asset carrying exceeds its recoverable amount; it has to be written down immediately to its recoverable amount.

Capital gains result from disposal, arises when selling value of an asset exceeds the carrying value, recorded in net basis in the statement of income.

***Impairment of non-current assets***

Properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the property is increased to the

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Impairment of non-current assets (Continued)***

revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of comprehensive income.

***Accrued expenses and other liabilities***

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method. A provision is 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 can be made. Provision is not recognised for future operating loss.

***Revenue Recognition***

***Rental Revenue***

Rental revenue on investment property is recognized on accrual basis.

***Income from hotel operations***

Revenue is generated from hotel operation, which includes room rental, sales of food and drinks/beverages. Revenue is recognized when room is occupied, services are incurred, and when the food and drinks are sold. Following criteria must be fulfilled before revenue is recognized:

Service incurred:

Revenue for the service (food and drink) is recognized when the hotel fulfils the performance obligation. The hotel recognizes the revenue once the service has been provided.

***Dividend income***

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the underlying classification of the equity instrument

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

***General and administrative expenses***

These have management expenses which are not part of cost of sales or advertising expenses. The allocation of expenses in cost of sales and General and admin is done properly.

***Expenses***

Expenses including Property management expenses, Fund management fees, custodial fees and other fees are recorded on accrual basis.

***Zakat***

Zakat is the obligation of the Unitholders and is not provided for in these consolidated financial statements.



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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Dividend distribution*

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

**Financial instruments**

*Classification and measurement of financial instruments*

The measurement category and the carrying amount of financial assets and liabilities in accordance with IFRS 9 are as follows:

	IFRS 9	
	Measurement category	Carrying amount
<b>Financial assets</b>		
Cash and cash equivalents	Amortised cost	44,591,183
Account receivables, net	Amortised cost	59,490,382
Prepayment and other receivables	Amortised cost	3,381,216
Due from related parties	Amortised cost	1,292,656
Investments carried at FVTPL	FVTPL	452,996,509
<b>Total financial assets</b>		<b>561,751,946</b>
<b>Financial Liabilities</b>		
Borrowings	Amortised cost	685,076,029
Accounts payable	Amortised cost	10,615,100
Due to related parties	Amortised cost	1,165,927
Accrued Expenses	Amortised cost	30,566,387
<b>Total financial liabilities</b>		<b>727,423,443</b>

*Impairment of financial assets*

The Fund applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of account receivables.

The Fund uses a provision matrix in the calculation of the expected credit losses on receivables to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering the probability of default and loss given default which was derived from historical data of the Company and is adjusted to reflect the expected future outcome which includes macro-economic factors.

Other instruments are considered as low risk and the Fund use a provisional matrix in calculating the expected credit losses.

A financial asset is written off only when:

- (i) that is past due, and
- (ii) there is no reasonable expectation of recovery

Where financial assets are written off, the Fund continues to engage in enforcement activities to attempt to recover the receivables due. Where recoveries are made, after write-off, are recognized in the statement of comprehensive income.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Derecognition***

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Fund transfers substantially all the risks and rewards of ownership, or (ii) the Fund neither transfers nor retains substantially all the risks and rewards of ownership and the Fund has not retained control.

***Financial liabilities***

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVPL. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

***Offsetting***

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

**5. New standards effective from 1 January 2019**

***IFRS 16 Leases***

The Fund has adopted IFRS 16 - Leases effective from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exceptions for short-term leases and low-value items. Lessor accounting remains similar to the current standard – i.e. lessor continues to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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 Lease.

The Fund has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the Fund's financial statements as of the reporting date.

**6. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE**

**MANAGEMENT FEE, OTHER EXPENSES**

On semiannual basis the Fund Manager charges the Fund, management fee at the rate of 1.2 % per annum of the Fund's total assets value. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund such as audit and legal fees, board compensation and other similar charges.

**TRANSACTION FEE**

Further, the Fund Manager charges the Fund, one-time acquisition fee at the rate of 1 % on the acquisition or sale price of the real estate assets.

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**7. CASH AND CASH EQUIVALENTS**

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash on hand		191,000	118,500
Cash at Bank	12	44,400,183	31,379,148
		<u>44,591,183</u>	<u>31,497,648</u>

**8. ACCOUNT RECEIVABLES, NET**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Account Receivable	63,036,883	35,858,684
Provision for doubtful debts	(3,546,501)	(1,714,597)
	<u>59,490,382</u>	<u>34,144,087</u>

**9. PREPAYMENT AND OTHER RECEIVABLES**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Prepaid expenses	3,042,630	2,624,682
Cash margin for Letter of Credit	3,381,216	10,092,738
VAT	5,495,350	1,489,806
Advances to sub-contractors	10,508,620	1,251,243
Accrued income	3,861,113	-
Other	2,987,180	1,873,701
	<u>29,276,109</u>	<u>17,332,170</u>

**10. PROPERTIES UNDER DEVELOPMENT**

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Balance at the beginning of the year		133,927,572	92,614,163
Development Cost incurred during the year		42,247,494	39,786,357
Islamic financing cost capitalized	12, 13	1,229,925	1,527,052
<b>Balance at the end of the year</b>		<u>177,404,991</u>	<u>133,927,572</u>

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**11. INVESTMENT PROPERTIES**

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
<b>Cost</b>					
Balance as of 31 December 2018		720,838,051	809,345,136	65,075,988	1,595,259,175
Additions		23,342,352	20,672,808	29,213,269	73,228,429
<b>Balance as of 31 December 2019</b>		<b>744,180,403</b>	<b>830,017,944</b>	<b>94,289,257</b>	<b>1,668,487,604</b>
<b>Accumulated Depreciation</b>					
Balance as of 31 December 2018		-	21,634,930	5,387,795	27,022,725
Charge for the year	11.1	-	15,895,578	6,084,420	21,979,998
<b>Balance as of 31 December 2019</b>		<b>-</b>	<b>37,530,508</b>	<b>11,472,215</b>	<b>49,002,723</b>
<b>Net Book Value:</b>					
<b>as of 31 December 2019</b>		<b>744,180,403</b>	<b>792,487,436</b>	<b>82,817,042</b>	<b>1,619,484,881</b>
as of 31 December 2018		720,838,051	787,710,206	59,688,193	1,568,236,450

This represents twelve properties; namely:

- Izdhar Center: represents a newly built commercial property located on Othman Bin Afan Road in the Izdihar District (within close proximity to Arabian Centre's Al Nakheel Mall). The property is located in Riyadh.
- Altamiz Center: represents a commercial property located on the intersection of Imam Road and Khalid Bin Waleed Street in the Qurtoba neighborhood. The property is located in Riyadh.
- Shati: represents a newly built commercial property located on Prince Mohammed Bin Fahad Road in the Al Shatea neighborhood. The property is located in Dammam.
- Forsan Plaza: represents a commercial property located on King Fahad Road between the Kingdom Center and the Faisaliah Tower. The property is located in Riyadh.
- Ascott Tahlia: represents a commercial property located on Tahlia street close to Bin Hamran, one of Jeddah's most prominent business and shopping centers. The property is located in Jeddah.
- Residence: represents commercial building and hospitality villas consisting of showrooms and office suites located within Hittin district. The property is located in Riyadh.
- Vivienda: represents a newly built hotel villas located on Musa Ibn Nussair Street in Mather Ash Shamali district, between Takhasusi road Prince Turki Ibn Abdulaziz Al Awwal road. The property is located in Riyadh.
- Saudi Electronic University: represents a university located Alrabi district. The property is located in Riyadh
- Aumniah Center: represents a commercial property located on Saud Al Faisal Road. The property is located in Jeddah.
- Burj Rafal: Mixed-use property located in King Fahad Road. The property is located in Riyadh
- Olaya Tower: Commercial property located in Olaya street. The property is located in Riyadh

11.1 The Fund charge depreciation on building and equipment over 50 years and 15 years respectively. The depreciation is charged on depreciable amount i.e. cost less residual value. During the year, the useful of building was changed form 30 years to 50 years. For change in estimate refer Note 25.

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**12. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Related parties of the Fund include Riyadh Capital (being the Fund Manager), Riyadh Bank (being the shareholder of Riyadh Capital), KASB Capital (being the Custodian of the Fund) and the Hotels operator.

In the ordinary course of its activities, the Fund transacts business with related parties. The related parties' transactions are governed by limits set by the regulations issued by the CMA. All related party transactions are approved by the Fund Board.

The significant related party transactions entered into by the Fund during the year and the balances resulting from such transactions are as follows:

Related Party	Nature of transactions	Amount of transactions		Closing balances	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
<b>Due from Related parties</b>					
Riyadh Bank	Cash margin against letter of credit *	-	10,092,738	3,381,216	10,092,738
	Current Account	-	-	44,066,009	-
Rafal real estate development company	Operating expenses	-	9,810,074	-	9,725,751
Riyadh Capital	Services provided	-	101,015	-	105,015
	Investments account	-	-	215,046	-
Hotel operator	Operating expenses	608,545	1,100,426	1,292,656	1,100,426
				<b>48,954,927</b>	<b>21,023,930</b>
<b>Due to Related parties</b>					
Riyadh Capital	Fund management fee**	18,604,840	11,934,459	21,262,090	21,797,231
	Transaction fee**	6,769,460	9,825,960	9,304,297	4,422,707
Riyadh Bank	Islamic financing	-	88,339,892	685,076,029	88,339,892
	Finance cost expense	8,382,207	-	-	-
	Bank Commissions	1,165,231	1,097,176	-	-
Hotel operator	Hotel management expenses	3,945,799	200,276	1,119,978	-
	Operating expenses	1,676,095	-	45,949	1,604,670
				<b>716,808,343</b>	<b>116,164,500</b>

\* Cash margin against letter of credit is included in the consolidated statement of financial position under Prepayment and other receivables.

\*\*Fund management fee and Transaction fee payable is included in the consolidated statement of financial position under accrued expenses.

**13. ISLAMIC FINANCING**

The Fund has obtained a Tawaruq (Short term) and Islamic Murabaha (Long term) facility (Shari'ah compliant), whereby the outstanding balance as of 31 December 2019 is SR 169,000,556 (31 December 2018: SR 88,339,892) and SR 516,075,473 (31 December 2018: nil) respectively, from Riyadh Bank through Riyadh Capital. The Tawaruq facility carries a floating special commission rate of SIBOR+ 1% with maturity due during 2020. The Islamic Murabaha facility carries a floating special commission rate of SIBOR+ 1.6% with a maturity due during 2024.

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**14. UNEARNED RENTAL INCOME**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Balance at the beginning of the year	8,915,303	5,924,727
Rental income received during the year	118,028,523	87,483,109
Rental income earned during the year	<u>(107,972,268)</u>	<u>(84,492,533)</u>
<b>Balance at the end of the year</b>	<b><u>18,971,558</u></b>	<b><u>8,915,303</u></b>

**15. ACCRUED EXPENSES**

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Fund management fee		21,262,090	21,797,231
Accrued expenses	15.1	7,158,534	11,985,360
Transaction fee		9,304,297	4,422,707
Rooms deposits in advance		1,965,442	3,591,626
Other		<u>4,953,719</u>	<u>6,813,775</u>
		<b><u>44,644,082</u></b>	<b><u>48,610,699</u></b>

15.1 The reserve for replacement had been created during the period from 2014 till 2018 as per the agreement with the operator, during the year the operator of the hotel was changed, hence, the previous agreement has been nullified, resulting in reversal of reserve for replacement in the current year. For reversal of replacement reserve refer Note 18.

**16. INVESTMENTS CARRIED AT FVTPL**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Investments carried at FVTPL	<u>453,042,060</u>	<u>-</u>

**16.1 Movement in investments carried at FVTPL**

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Cost</b>		
At the beginning of the year	-	-
Addition during the year	<u>452,996,509</u>	<u>-</u>
At the end of the year	452,996,509	-
<b>Change in fair value:</b>		
Change in fair value during the year	<u>45,551</u>	<u>-</u>
At the end of the year	45,551	-
Net Investments at the end of the year	<b><u>453,042,060</u></b>	<b><u>-</u></b>

16.2 This represents investments in equity instruments of the entities outside the Kingdom of Saudi Arabia.

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**17. INCOME FROM RENTAL AND OPERATION**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Rental income from investment properties	65,235,711	61,620,002
Income from Hotel operation	107,972,268	87,493,649
	<u>173,207,979</u>	<u>149,113,651</u>

**18. GENERAL AND ADMINISTRATIVE EXPENSES**

General, marketing and administrative expenses represents the following.

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Hotel employee Costs		12,603,797	12,159,105
Repairs and maintenance		4,061,448	3,321,974
Utilities		5,304,501	5,245,396
Marketing expenses		3,805,772	2,464,366
Provision for doubtful debts		1,831,904	416,074
Bank Commissions		1,165,231	941,590
Legal and professional fees		1,027,322	175,992
Software and hardware maintenance		953,293	809,157
Telephone and internet		871,374	663,360
Training		302,541	556,125
Contract services		-	1,560,560
Recovered doubtful accounts		-	(523,122)
Reversal of capital replacement reserve	15.1	(11,765,109)	104,674
Other		390,204	1,634,487
		<u>20,552,278</u>	<u>29,529,738</u>

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

Financial instruments carried in these financial statements principally include cash and cash equivalents, other receivables, accrued liabilities and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

**Market risk**

The REIT will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth in the kingdom, interest rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The REIT management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes is not significant to the REIT.



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**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

***Credit risk***

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to due from related parties an obligation. The Fund is exposed to credit risk for its rental receivables, due from related parties and bank balances.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Cash is placed with a reputable financial institution.

The following table shows maximum exposure to credit risk for the components of the statement of financial position

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash and cash equivalents	7	44,400,183	31,379,148
Accounts receivable	8	63,036,883	35,858,684
Due from related parties		1,292,656	12,316,277

The management has conducted a review as required under IFRS 9 and based on an assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash and cash equivalents and due from related parties.

***Liquidity risk***

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

All financial liabilities have a maturity of less than 1 year except for the Islamic Murabaha facility which will be due in 2024.

***Operational risk***

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

***Geographical Concentration***

All the assets and liabilities are distributed within the Kingdom of Saudi Arabia, apart from investments carried at FVTPL which is invested in North America.

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**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

***Fair value estimation***

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

As of December 31, 2019, the Fund's financial instruments comprise cash and cash equivalent, Investment carried at fair value through profit and loss, account receivables, due from related parties, Islamic financing, due to related parties accrued management fee and accrued expenses. Except for Investments carried at fair value through profit or loss, all the financial instruments are measured at amortised cost and their carrying value is a reasonable approximate of fair value. Investments carried at fair value through profit or loss are held in level 2 hierarchy of fair value. To determine the fair value of such investments, management used NAV of the funds which is based on observable market data. There were no transfers among the level 1, 2 and 3 during the year ended December 31, 2019

**20. EFFECT OF NET ASSET VALUE IF DEVELOPMENT AND INVESTMENT PROPERTIES ARE FAIR VALUED**

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 an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared are based on the market value obtained. However, in accordance with International accounting standards 40 ("IAS 40"), development and investment properties are carried at cost less accumulated depreciation and impairment if any in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The fair value of the investment and development properties are determined by two selected appraisers each of the 12 properties i.e. **Barcode Company** and **ValuStrat Company**. As of 31 December, the valuation of the investment and development properties are as follows:

<u>31 December 2019</u>	<u>First Appraiser</u>	<u>Second Appraisers</u>	<u>Average</u>
Investment properties and property under development	1,846,900,000	1,815,800,000	1,831,350,000
<b>Total</b>	<b>1,846,900,000</b>	<b>1,815,800,000</b>	<b>1,831,350,000</b>
<u>31 December 2018</u>	<u>First Appraiser</u>	<u>Second Appraisers</u>	<u>Average</u>
Investment properties and property under development	1,777,249,452	1,756,600,000	1,766,924,726
<b>Total</b>	<b>1,777,249,452</b>	<b>1,756,600,000</b>	<b>1,766,924,726</b>

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment and development properties.

The investment and development properties were valued taking into consideration number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the

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**20. EFFECT OF NET ASSET VALUE IF DEVELOPMENT AND INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)**

financial & fragmentation plot analysis, the cost method, the direct comparison method, and residual value method. Below is an analysis of the development and investment properties fair value versus cost:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Estimated fair value of investment and development properties based on the average of the two valuers used	1,831,350,000	1,766,924,726
Less: the carrying value of		
· investment property	(1,619,484,881)	(1,568,236,450)
· Properties under development	(177,404,991)	(133,927,572)
Estimated fair value in excess of book value	<u>34,460,128</u>	<u>64,760,704</u>
Units in issue (numbers)	<u>171,697,101</u>	<u>171,697,101</u>
Additional value per unit based on fair value	<u>0.20</u>	<u>0.38</u>

*Net asset attributable to unitholders:*

	<u>31 December 2019</u>	<u>31 December 2018</u>
· Net assets attributable to unitholders as per the financial statements before fair value adjustment	1,623,564,872	1,641,962,795
· Estimated fair value in excess of book value	<u>34,460,128</u>	<u>64,760,704</u>
· Net assets attributable to unitholders based on fair valuation of investment and properties under development	<u>1,658,025,000</u>	<u>1,706,723,499</u>

*Net asset attributable to each unit:*

	<u>31 December 2019</u>	<u>31 December 2018</u>
· Book value per unit as per the financial statements before fair value adjustment	9.46	9.56
· Additional value per unit based on fair value	<u>0.20</u>	<u>0.38</u>
· Net assets attributable to each unit based on fair valuation	<u>9.66</u>	<u>9.94</u>

All properties are held in the name of Riyadh Real Estate Income Company (the "Trustee"). The Trustee is holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

**21. DIVIDENDS DISTRIBUTION**

06 March 2019 and 20 August 2019, the Fund's Board approved to distribute dividends with regards to the period ended 31 December 2018 and 30 June 2019 amounting to SAR 0.28 per unit and SAR 0.24 per unit totaling SAR 48.075 million and SAR 41.207 million to its unitholders. The same was paid on 25 March 2019 and 3 September 2019 respectively.

**22. CAPITAL COMMITMENTS AND CONTINGENCIES**

As at 31 December 2019, the Fund has outstanding letters of credit of SR 3.381 million (31 December 2018: SR 10 million), being issued by Riyadh Bank, against which a cash margin, being included in the consolidated statement of financial position under prepayment and other assets of the same amount is blocked thereby.

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**23. FINANCIAL INSTRUMENTS BY CATEGORY**

All financial assets and financial liabilities are classified under amortised cost as of 31 December 2019 and 31 December 2018 except for the investments carried at FVTPL.

**24. OPERATING SEGMENTS**

The Fund's primary business is conducted in Saudi Arabia. Transactions between the operating segments are on normal commercial terms and conditions. The Fund's total assets and liabilities as at 31 December 2019 and 2018, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

Comprehensive income	For the year ended 31 December 2019		
	Rent	Hotel managed by third party	Total
Income from rentals	65,235,711	-	65,235,711
Dividend income	7,947,713	-	7,947,713
Unrealized gain on investments carried at FVTPL	45,551	-	45,551
Rooms revenue	-	67,866,673	67,866,673
Food and Beverages	-	36,774,682	36,774,682
Other operating departments	-	3,330,913	3,330,913
<b>Total Income</b>	<b>73,288,975</b>	<b>107,972,268</b>	<b>181,201,243</b>
Rooms cost	-	(12,855,150)	(12,855,150)
Food and Beverages cost	-	(19,568,643)	(19,568,643)
Other operating departments cost	-	(2,743,773)	(2,743,773)
<b>Gross Profit</b>	<b>73,288,975</b>	<b>72,804,702</b>	<b>146,033,677</b>
<b>OPERATING EXPENSES</b>			
Property management expenses	(3,024,712)	(4,127,570)	(7,152,282)
Fund management fee	(9,791,865)	(8,812,975)	(18,604,840)
Custodial expenses	(126,000)	-	(126,000)
General and administrative expenses	(7,081,856)	(20,614,740)	(27,696,596)
<b>TOTAL OPERATING EXPENSES</b>	<b>(20,024,433)</b>	<b>(33,555,285)</b>	<b>(53,579,718)</b>
Other income	-	410,610	410,610
<b>Funds from Operations</b>	<b>53,264,542</b>	<b>39,660,027</b>	<b>92,864,569</b>
Investment properties depreciation	(9,203,385)	(12,776,613)	(21,979,998)
<b>Net income for the year</b>	<b>44,001,157</b>	<b>26,883,414</b>	<b>70,884,571</b>

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**24. OPERATING SEGMENTS (CONTINUED)**

Comprehensive income	For the year ended 31 December 2018		
	Rent	Hotel managed by third party	Total
Income from rentals	61,602,004	-	61,602,004
Dividend income	-	-	-
Unrealized gain on investments carried at FVTPL	-	-	-
Rooms revenue	-	47,766,576	47,766,576
Food and Beverages	-	36,558,848	36,558,848
Other operating departments	-	3,186,223	3,186,223
<b>Total Income</b>	<b>61,602,004</b>	<b>87,511,647</b>	<b>149,113,651</b>
Rooms cost	-	(9,357,944)	(9,357,944)
Food and Beverages cost	-	(19,547,215)	(19,547,215)
Other operating departments cost	-	(212,508)	(212,508)
<b>Gross Profit</b>	<b>61,602,004</b>	<b>58,393,980</b>	<b>119,995,984</b>
<b>OPERATING EXPENSES</b>			
Property management expenses	(1,860,395)	-	(1,860,395)
Fund management fee	(11,934,459)	-	(11,934,459)
Custodial expenses	(100,000)	-	(100,000)
General and administrative expenses	(3,572,827)	(26,101,572)	(29,674,399)
<b>TOTAL OPERATING EXPENSES</b>	<b>(17,467,681)</b>	<b>(26,101,572)</b>	<b>(43,569,253)</b>
Other income	230,988	551,719	782,707
<b>Funds from Operations</b>	<b>44,365,311</b>	<b>32,844,127</b>	<b>77,209,438</b>
Investment properties depreciation	(13,028,710)	-	(13,028,710)
<b>Net income for the year</b>	<b>31,336,601</b>	<b>32,844,127</b>	<b>64,180,728</b>

Financial position	As at 31 December 2019		
	Rent	Hotel managed by third party	Total
<b>ASSETS</b>			
Cash and cash equivalents	24,624,549	19,966,634	44,591,183
Account receivables, net	36,532,037	22,958,345	59,490,382
Inventory	-	1,187,914	1,187,914
Prepayment and other receivables	26,227,701	3,048,408	29,276,109
Due from related parties	385,795	906,861	1,292,656
Properties under development	177,404,991	-	177,404,991
Investments carried at fair value profit or loss (FVTPL) through	453,042,060	-	453,042,060
Investment properties	852,346,920	767,137,961	1,619,484,881
<b>TOTAL ASSETS</b>	<b>1,570,564,053</b>	<b>815,206,123</b>	<b>2,385,770,176</b>

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**24. OPERATING SEGMENTS (CONTINUED)**

**LIABILITIES**

Islamic financing	685,076,029	-	685,076,029
Accounts payable	3,271,061	7,344,039	10,615,100
Unearned rental income	18,971,558	-	18,971,558
Accrued expenses	34,662,347	9,981,735	44,644,082
Due to related parties	-	1,165,927	1,165,927
Employees' post-employment benefits	-	1,732,608	1,732,608
<b>TOTAL LIABILITIES</b>	<b>741,980,995</b>	<b>20,224,309</b>	<b>762,205,304</b>

Financial position	As at 31 December 2018		
	Rent	Hotel managed by third party	Total
<b>ASSETS</b>			
Cash and cash equivalents	9,842,532	21,655,116	31,497,648
Account receivables, net	20,001,571	14,142,516	34,144,087
Inventory	-	1,236,128	1,236,128
Prepayment and other receivables	14,662,914	2,669,256	17,332,170
Due from related parties	10,053,219	2,263,058	12,316,277
Properties under development	133,927,572	-	133,927,572
Investments carried at fair value through profit or loss (FVTPL)	-	-	-
Investment properties	1,568,236,450	-	1,568,236,450
<b>TOTAL ASSETS</b>	<b>1,756,724,258</b>	<b>41,966,074</b>	<b>1,798,690,332</b>

**LIABILITIES**

Islamic financing	88,339,892	-	88,339,892
Accounts payable	-	5,970,841	5,970,841
Unearned rental income	8,915,303	-	8,915,303
Accrued expenses	26,220,485	22,390,214	48,610,699
Due to related parties	-	2,989,755	2,989,755
Employees' post-employment benefits	-	1,901,047	1,901,047
<b>TOTAL LIABILITIES</b>	<b>123,475,680</b>	<b>33,251,857</b>	<b>156,727,537</b>

**25. CHANGE IN ACCOUNTING ESTIMATE**

During 2019, the Fund conducted a review of the useful life of building. Based on useful life of 50 years, the net effect of these changes on actual and expected depreciation expense, was as follows:

Impact of change in estimate	For the year ended 31 December 2019	For the year ended 31 December				Until the end of useful life
		2020	2021	2022	2023	
Decrease / (increase) in depreciation expense	10,915,260	11,027,573	11,027,573	11,027,573	11,027,573	265,020,833



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**26. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards and interpretations have been issued but are not yet effective. The Fund intends to adopt all the applicable standards and interpretations when these become effective. The Fund manager has assessed the impact of these new standards and interpretations and believes that none of these would have any effect on the future financial statements of the Fund.

**27. CHANGES IN FUNDS TERMS AND CONDITIONS**

There has been no significant change in the terms and conditions of the Fund as at year ended 31 December 2019.

**28. EVENTS AFTER THE REPORTING DATE**

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Fund considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the fund.

**29. COMPARATIVE FIGURES**

Certain prior year figures have been reclassified to conform to the current year presentation, however the impact of such reclassifications was not material to the overall presentation of the consolidated financial statements.

**30. LAST VALUATION DAY**

The last valuation day of the year was 31 December 2019.

**31. APPROVAL OF FINANCIAL STATEMENTS**

These consolidated financial statements were approved by the Fund's Board of Directors on 30 March 2020 (Corresponding to 6 Sha'ban 1441H).