

TALEEM REIT FUND
A Real Estate Investment Traded Fund
(Managed by Saudi Fransi Capital)

CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
TOGETHER WITH THE INDEPENDENT AUDITOR'S REVIEW REPORT



Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants - Member Crowe Global

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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

**TO: THE UNITHOLDERS OF
TALEEM REIT FUND
(Managed by Saudi Fransi Capital)**

Introduction:

We have reviewed the accompanying condensed interim statement of financial position of **TALEEM REIT FUND** ("the fund") managed by Saudi Fransi Capital (the "Fund Manager"), which comprises the statement of financial position as at 30 June 2020 and the related condensed interim statements of comprehensive income, changes in net assets and cash flows for the six months period then ended and other explanatory notes (the "interim condensed financial information"). Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 - "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia.



**Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants**



**Abdullah M. AlAzem
License No. 335**

29 Dhu'l Hijjah 1441 H (August 19, 2020)
Riyadh, Saudi Arabia

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	30 June 2020 (Un-Audited) SR	<i>31 December 2019 (Audited) SR</i>
ASSETS			
Cash and cash equivalents	7	1,852,017	14,622
Investments measured at fair value through profit or loss (FVTPL)	8	5,392,553	9,536,997
Net investment in finance lease	9	34,753,415	34,838,278
Other assets	10	42,913,254	19,242,894
Investment properties	11	561,832,070	471,871,480
TOTAL ASSETS		646,743,309	535,504,271
LIABILITIES			
Management fee payable	13	1,902,046	2,881,849
Other liabilities	12	13,886,622	245,526
Provision of zakat	16	2,294,806	1,529,806
Borrowing from Bank	17	98,900,000	-
TOTAL LIABILITIES		116,983,474	4,657,181
Net assets attributable to unitholders		529,759,835	530,847,090
Units in issue		51,000,000	51,000,000
Net asset value per unit – Book value		10.3874	10.4088
Net asset value per unit – Fair value	19	10.5749	10.5654

The accompanying notes from 1 to 24 an integral part of these condensed interim financial statements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)

For the six-months period ended 30 June 2020

	<i>Notes</i>	<i>For the six- months period ended 30 June 2020 SR</i>	<i>For the six- months period ended 30 June 2019 (Restated) SR</i>
INCOME			
Income from investment properties	14	21,537,134	21,537,132
Finance lease income	9	1,204,611	1,203,185
Gain on investments measured at FVPL		55,556	115,891
TOTAL INCOME		22,797,301	22,856,208
EXPENSES			
Management fees	13	(1,902,046)	(1,896,780)
Custodian fees		(102,112)	(94,839)
Other expenses		(402,018)	(343,398)
Finance cost		(13,494)	-
TOTAL EXPENSES		(2,419,670)	(2,335,017)
Depreciation expense on investment properties	11	(1,258,960)	(1,251,408)
Impairment in investment properties	11	(3,120,926)	-
NET INCOME BEFORE ZAKAT FOR THE PERIOD		15,997,745	19,269,783
Provision for zakat	16	(765,000)	-
NET INCOME AFTER ZAKAT FOR THE PERIOD		15,232,745	19,269,783
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		15,232,745	19,269,783
Earnings per unit			
Weighted average units in issue		51,000,000	51,000,000
Earnings per unit		0.2987	0.3778

The accompanying notes form 1 to 24 an integral part of these condensed interim financial statements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

CONDENSED INTERIM STATEMENT OF CHANGES IN NET ASSETS (UN-AUDITED)

For the six-months period ended 30 June 2020

	<i>For the six- months period ended 30 June 2020 SR</i>	<i>For the six- months period ended 30 June 2019 (Restated) SR</i>
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT THE BEGINNING OF THE PERIOD	530,847,090	526,614,464
CHANGES FROM OPERATIONS		
Net income for the period	15,232,745	19,269,783
Other comprehensive income	-	-
Total comprehensive income	15,232,745	19,269,783
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	-	-
Value of units redeemed	-	-
Net change from unit transactions	-	-
Income distributions during the period (note 15)	(16,320,000)	(16,320,000)
	(16,320,000)	(16,320,000)
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT THE END OF THE PERIOD	529,759,835	529,564,247

UNIT TRANSACTIONS

Transactions in units during the periods are summarised as follows:

	<i>For the six- months period ended 30 June 2020 Units</i>	<i>For the six- months period ended 30 June 2019 Units</i>
UNITS AT THE BEGINNING OF THE PERIOD	51,000,000	51,000,000
Units sold	-	-
Units redeemed	-	-
Net change in units	-	-
UNITS AT THE END OF THE PERIOD	51,000,000	51,000,000

The accompanying notes form 1 to 24 an integral part of these condensed interim financial statements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)

For the six-months period ended 30 June 2020

	<i>Notes</i>	<i>For the six- months period ended 30 June 2020 SR</i>	<i>For the six- months period ended 30 June 2019 (Restated) SR</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		15,232,745	19,269,783
Adjustment for:			
Unrealised loss / (gain) from investments measured at FVTPL		64,856	(115,891)
Provision for zakat	16	765,000	-
Depreciation expense on investment properties	11	1,258,960	1,251,408
Impairment in investment properties	11	3,120,926	-
Finance cost		13,494	-
Operating cash flows before working capital changes		20,455,981	20,405,300
Changes in operating assets and liabilities:			
Other Assets		(23,670,360)	(4,808,884)
Management fee payable		(979,803)	(33,596)
Other liabilities		13,627,602	2,087,862
Net cash generated from operating activities		9,433,420	17,650,682
CASH FLOWS FROM INVESTING ACTIVITIES			
Recovery of net investment in finance lease, net		84,863	86,288
Purchase of investments held at FVPL		-	(8,000,000)
Sale of investments held at FVPL, net	8	4,079,588	3,500,000
Purchase of Investment Property	11	(94,340,476)	-
Net cash used in investing activities		(90,176,025)	(4,413,712)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid	15	(16,320,000)	(16,320,000)
Borrowings from Bank	17	98,900,000	-
Net Cash generated from / (used in) financing activity		82,580,000	(16,320,000)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		1,837,395	(3,083,030)
Cash and cash equivalents at the beginning of the period		14,622	8,995,466
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1,852,017	5,912,436

The accompanying notes from 1 to 24 an integral part of these condensed interim financial statements.

TALEEM REIT FUND (MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-months period ended 30 June 2020

1. THE FUND AND ITS ACTIVITIES

Taleem REIT Fund (the “REIT” or the “Fund”) is a closed-ended Shariah compliant real estate investment traded fund denominated in Saudi Riyals based on an agreement between Saudi Fransi Capital (the “Fund Manager”) and investors (the “Unitholders”). The Fund commenced its operations on 30 May 2017 (“Commencement Date”), which is the first day of the listing of Taleem REIT Fund on the Saudi Stock Exchange (“Tadawul”). The address of the Fund Manager is as follows:

Saudi Fransi Capital
P.O. Box 23454
Riyadh 11426
Kingdom of Saudi Arabia

The duration of the Fund is ninety-nine years from the date of commencement of operations and can be extended at the sole discretion of the Fund Manager after the approval of the Fund’s Board and the Capital Market Authority (“CMA”).

The Fund’s primary investment objective is to invest in constructionally developed real estate which is qualified to generate periodic return and rental income and to distribute ninety percent of the Fund’s net profit as dividends to the unitholders at least annually. The Fund can borrow Shariah compliant funds up to 50% of the value of its total assets.

The terms and conditions of the Fund have been approved by the CMA on 12 Sha’aban 1438H (corresponding to 8 May 2017). The Subscription days of the Fund commenced on 14 Sha’aban 1438H (corresponding to 10 May 2017) and ended on 20 Sha’aban 1438H (corresponding to 16 May 2017). The Fund commenced its operations on 4 Ramadan 1438H (corresponding to 30 May 2017). The terms and conditions has been updated on 24 Dhul-Qidah 1439H (corresponding to 6 August 2018) upon CMA approval of the issuance of new units. The terms and conditions has further been updated on 10 Rabi ul Awal 1441H (corresponding to 07 November 2019) and 09 Dhual Qadah 1441H (corresponding to 30 June 2020).

The Fund Manager of the Fund is Saudi Fransi Capital and KASB Capital is the Custodian for the Fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (REIFR) and the Real Estate Investment Traded Funds Instructions (REITF) (the “Regulations”) published by the Capital Market Authority (CMA), detailing the requirements for all type of real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 *Statement of Compliance*

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (“SOCPA”).

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, therefore, these should be read in conjunction with the Fund’s annual audited financial statements as at and for the year ended 31 December 2019.

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

An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note (20).

3.2 *Basis of measurement*

The condensed interim financial statements have been prepared on a historical cost basis, using the accruals basis of accounting except for investments measured at fair value through profit or loss that are measured at fair value.

3.3 *Functional and presentation currency*

These condensed interim financial statements have been presented in Saudi Arabian Riyal (“SR”), which is also the functional currency of the Fund. All financial information presented has been rounded to the nearest Saudi Riyal (“SR”).

TALEEM REIT FUND (MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-months period ended 30 June 2020

4. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES

The significant accounting and risk management policies used in the preparation of these condensed interim financial statements are consistent with those used and disclosed in the financial statements for the year ended 31 December 2019.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Fund's condensed interim financial statements in conformity with the IFRS endorsed in the Kingdom of Saudi Arabia, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Going concern

The Fund Manager has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Fund Manager is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the condensed interim financial statements continue to be prepared on the going concern basis.

Net investment in finance lease

The following are the critical assumptions that have been made in the process of applying the Fund's accounting policies for the net investment in finance lease that have a significant effect on the amounts recognised in the condensed interim financial statements:

- the present value of the finance lease receivable amounts to substantially all of the fair value of the leased asset at the inception of the lease; and
- the lease term of the assets covers the major part of the economic life of the leased asset.

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 costs 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 asset's 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.

The valuation of the investment properties (the "properties") is carried out by Olat Properties Management and ValuStrat Consulting. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM").

The valuation models have been applied in accordance with the recommendations of the International Valuation Standards Committee. The Fund manager has concluded that the valuation models used by the Fund are consistent with the principles in IFRS 13. These models comprise land plus cost method, residual value method and the discounted cash flow ("DCF") method.

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including estimated rental income and an exit or terminal value. This involves the projection of a series of cash flows to which an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six-months period ended 30 June 2020

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

New IFRS, amendments and interpretations issued not yet effective and not early adopted

There are several standards and interpretations that are issued, but not yet effective, up to the date of authorization of the Fund's condensed interim financial statements. In the opinion of the Board, these standards will have no significant impact on the condensed interim financial statements of the Fund. The Fund intends to adopt these standards, if applicable, when they become effective.

7. CASH AND CASH EQUIVALENTS

	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Bank balances	<u>1,852,017</u>	<u>14,622</u>

The bank balances represents the cash maintained with the Fund Manager (Saudi Fransi Capital). The Fund Manager has deposited the cash in a current account maintained with Banque Saudi Fransi under the name of the Fund manager (Saudi Fransi Capital). No special commission is receivable on this balance.

The management has conducted a review as required under IFRS 9 and based on such an assessment, the management believes that there is no need for any significant impairment loss against the carrying value of bank balances.

8. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Investments as at the reporting date comprise of investments in mutual funds.

	<i>30 June 2020 (Un-audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
<i>Financial assets held at fair value through profit or loss</i>		
Al Badr Murabaha Fund	<u>5,392,553</u>	<u>9,536,997</u>

The following is the movement in investments during the period:

	<i>30 June 2020 (Un-audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
<i>Carrying amount:</i>		
At beginning of the period	<u>9,370,687</u>	5,865,841
Additions during the period	-	8,000,000
Sold during the period	<u>(4,079,588)</u>	<u>(4,495,154)</u>
At end of the period	<u>5,291,099</u>	<u>9,370,687</u>
<i>Changes in fair value:</i>		
Changes in fair value during the period	<u>101,454</u>	<u>166,310</u>
Net investments at end of the period	<u>5,392,553</u>	<u>9,536,997</u>

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-months period ended 30 June 2020

9. NET INVESTMENT IN FINANCE LEASE

	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
<i>a) Net investment in finance lease consists of:</i>		
Gross investment in finance lease (see (b) below)	73,480,642	74,770,116
Less: Unearned finance income (see (c) below)	(38,727,227)	(39,931,838)
	34,753,415	34,838,278
<i>b) The future minimum lease payments to be received consist of:</i>		
Within one year	2,643,421	2,578,947
After one year but not more than five years	11,034,671	10,966,974
Five years onwards	59,802,550	61,224,195
	73,480,642	74,770,116
<i>c) The maturity of unearned finance income is as follows:</i>		
Within one year	(2,406,834)	(2,419,729)
After one year but not more than five years	(9,403,052)	(9,456,068)
Five years onwards	(26,917,341)	(28,056,041)
	(38,727,227)	(39,931,838)

Finance income earned on the finance lease during the period was SR 1.2 million (30 June 2019 (Restated): SR 1.2 million). The total finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Fund's net investment outstanding with respect to the lease.

The management has conducted a review as required under IFRS 9, which included taking into account numerous variables. Based on the assessment, the management believes that there is no need for any significant impairment loss against the carrying value of net investment in finance lease at the reporting date.

The finance lease represents the building of the Tarbiah Islamiah School (refer note 11).

10. OTHER ASSETS

	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Rent receivable*	23,778,903	18,712,295
Rental income receivable	13,135,500	-
Receivable from lessee	525,000	525,000
VAT receivable – input tax	4,778,639	5,599
Prepaid expenses and other assets	695,212	-
	42,913,254	19,242,894

*This represents the difference between the accumulated rental income at the reporting date (after taking into account contractually agreed future rent escalations) and the accumulated amount of rent due under the contract as at the reporting date.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-months period ended 30 June 2020

11. INVESTMENT PROPERTIES

	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Cost:		
At the beginning of the period	475,000,000	475,000,000
Additions	94,340,476	-
At the end of the period	569,340,476	475,000,000
Accumulated depreciation:		
At the beginning of the period	3,128,520	625,704
Charged during the period	1,258,960	2,502,816
At the end of the period	4,387,480	3,128,520
Impairment during the period:	3,120,926	-
Net book value	561,832,070	471,871,480

The investment properties represent following two acquired properties:

- During the current period, the Fund acquired the land and building leased out to “Al Ghad National School” for a consideration of SR 92 million (Excluding transaction cost) on 29 June 2020 corresponding to 08 Dhu’l-Qi’dah 1441. The said property is held in the name of “Raboo Al Taleem” which is owned by the KASB Capital (“Custodian of the Fund”). Raboo Al Taleem is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Al Ghad National School is located in King Abdullah District in Riyadh City on Al-Uruba Street on a total land size spanning 11,282.58 square meters, with a total built-up area of 17,908.28 square meters. The Fund has classified land and building as an Investment Property. The acquisition is funded by financing facility from Banque Saudi Fransi (Related Party).
- During 2018, the Fund acquired the land and building leased out to “Al Rwad International School” for a consideration of SR 225 million worth of Fund units at SR 10 per unit on 26 September 2018 corresponding to 16 Muharram 1440. The said property is held in the name of “Raj Three Company Limited” which is owned by the KASB Capital (“Custodian of the Fund”). Raj Three Company Limited is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Al Rwad International School is located in the Alnuzha district in Riyadh City and covers an area of 30,000 square meters. The previous owner (Raj Three Company Limited) holds 28.46% (31 December 2018: 30.88%) of the total units in the Fund. The Fund has classified land and building as an Investment Property.
- During 2017, the Fund acquired the land and building leased out to “Tarbiah Islamiah School” for a consideration of SR 285 million worth of Fund units at SR 10 per unit on 29 Shabaan 1438 corresponding to 25 May 2017. The said property is held in the name of “Rabwa Taleem Real Estate Company” which is owned by the KASB Capital (“Custodian of the Fund”). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Tarbiah Islamiah School is located in the Umm-al-Hamam district in Riyadh City and covers an area of 45,666.94 square meters on Al-Takhassusi Street. The previous owner (Ahmed Al Rasheed and Sons Holding Company) holds 39.11% (31 December 2018: 39.11%) of the total units in the Fund. The Fund has classified land as an Investment Property.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six-months period ended 30 June 2020

12. OTHER LIABILITIES

	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Unearned / deferred rentals	12,510,000	-
Accrued expenses and others	751,122	245,526
VAT payable	625,500	-
	<u>13,886,622</u>	<u>245,526</u>

13. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include Saudi Fransi Capital (“the Fund Manager”), Banque Saudi Fransi (the Bank and the shareholder of the Fund Manager), the Funds’ Board of Directors (BOD), affiliates of the Fund Manager, the Funds managed by the Fund Manager and the Unit holders of the Fund.

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

Transactions with related parties during the periods and balances are as follows:

<i>Related Party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>Balances Receivables / (Payables)</i>	
		<i>For the period ended 30 June 2020 SR</i>	<i>For the period ended 30 June 2019 (Restated) SR</i>	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Fund manager	Asset management fees (note “a” below)	(1,902,046)	(1,896,780)	(1,902,046)	(2,881,849)
	Reimbursement of expenses paid by the Fund manager on behalf of the Fund	69,250	-	-	(69,250)
Board of directors	Board fees to independent board members	(4,967)	(4,959)	(7,468)	(15,000)
Unitholders	Rental income	21,537,134	21,537,132	23,778,903	18,712,295
	Rental income receivable	-	-	13,135,500	-
	Finance lease income	1,204,611	1,203,185	-	-
	Receivable from lessee	-	-	525,000	525,000
Banque Saudi Fransi	Borrowing from Bank	-	-	(98,900,000)	-
	Management fee on loan facility	(387)	-	(494,500)	-
	Dividend distribution charges	(5,922)	-	(8,290)	(2,368)

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six-months period ended 30 June 2020

13. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

- a. As per the Terms and Conditions of the Fund, the Fund Manager charges a management fee calculated at an annual rate of 0.75% of the net asset value of the Fund. This is accrued daily and paid on a semi-annual basis.

During the year 2018, the Fund Board resolved to charge the Management fee based on the Capital base (SAR 510 million) of the Fund instead of net assets of the Fund as long as the NAV is above the Capital base.

The Fund maintained cash with Saudi Fransi Capital at SR 1,852,017 (31 December 2019: SR 14,622). This cash is deposited in a current account maintained with Banque Saudi Fransi under the name of the Fund manager (Saudi Fransi Capital).

The Fund holds investments in Al Badr Murabaha Fund which is managed by the Fund Manager. As at period-end, the fair value of the investments is SR 5,392,553 (31 December 2019: SR 9,536,997).

The Fund has entered into lease agreements with two of its unit holders and currently all the revenues recognised in the condensed interim financial statements are from the said lease agreements.

14. INCOME FROM INVESTMENT PROPERTIES

	<i>For the period ended 30 June 2020 SR</i>	<i>For the period ended 30 June 2019 (Restated) SR</i>
Lease rental income on investment properties	<u>21,537,134</u>	<u>21,537,132</u>

The operating lease relates to land of Tarbiah Islamiah School, land and building of Al Rwad International School, and land and building of Al Ghad National School which is leased out for a remaining lease term of 23.7 years (31 December 2019: 24.2 years), 21.75 years (31 December 2019: 22.25 years) and 10 years (31 December 2019: Nil years) respectively. The leases provide for tenants to pay the base rent, with provisions for contractual increases in base rent over the term of the leases.

Future rental commitments (to be received) at period end, under the operating leases is as follows:

	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Not later than one year	<u>40,077,579</u>	<u>32,941,053</u>
Later than one year and less than five years	<u>169,497,879</u>	<u>143,820,726</u>
Later than five years	<u>840,858,059</u>	<u>826,417,764</u>
	<u>1,050,433,517</u>	<u>1,003,179,543</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six-months period ended 30 June 2020

15. DIVIDEND / DISTRIBUTION

During the period, the Fund has paid dividends amounting to SR 16.32 million (30 June 2019: SR 16.32 million). The dividend per unit amounted to SR 0.32 per unit (30 June 2019: SR 0.32 per unit).

Subsequent to the period-end, the Funds' Board has approved, declared and paid dividends amounting to SR 8.16 million (SR 0.16 per unit) (30 June 2019: SR 8.16 million (SR 0.16 per unit)).

16. PROVISION OF ZAKAT

a) Basis for Zakat:

Zakat is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to the Saudi Unitholders.

The Fund has computed the provision for zakat based on the zakat base.

b) Movement of provision for zakat:

	<i>30 June 2020 (Un-Audited) SR</i>	<i>31 December 2019 (Audited) SR</i>
Balance at the opening of the period / year	1,529,806	-
Provision for the period / year	765,000	1,529,806
Payments during the period / year	-	-
Balance at the end of the period / year	2,294,806	1,529,806

c) Status of annual return and assessments:

The Fund have filed the annual return for the year ended 31 December 2019 within the stipulated timelines as specified under the Zakat regulations issued by General Authority of Zakat and Tax ("GAZT").

17. BORROWING FROM BANK

This represents Islamic mode of financing obtained from a local bank (Banque Saudi Fransi) utilized to finance the acquisition of the property "Al Ghad National School". The Islamic financing involves the sale and purchase of commodities with the Bank as per mutually agreed terms. The Fund obtained financing at an average rate of return of Saudi Interbank Offer Rate (SIBOR) plus the bank's commission. The Fund is to repay the principal in one bullet payment on 30 June 2027.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six-months period ended 30 June 2020

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Fund's financial assets consist of bank balances, financial assets held at FVTPL, and net investment in finance lease and its financial liabilities consist of management fees payable and other liabilities.

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments are measured at fair value. It does not include fair value information for financial assets and financial liabilities that are not measured at fair value and then carrying amount is a reasonable approximation of fair value.

	<i>Carrying value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>30 June 2020 SR(Un-Audited)</i>					
Financial assets at FVTPL	5,392,553	5,392,553	-	-	5,392,553
	5,392,553	5,392,553	-	-	5,392,553
<i>31 December 2019 SR(Audited)</i>					
Financial assets at FVTPL	9,536,997	9,536,997	-	-	9,536,997
	9,536,997	9,536,997	-	-	9,536,997

The Fund believes that the fair value of net investment in finance lease is approximately equal to its carrying value. The Fund also believes that the fair value of all other financial assets and liabilities approximately equal their carrying value.

During the six-month period ended 30 June 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

The Fund will monitor the fair value on a regular basis in line with the relevant legislation.

Valuation techniques

When the fair values of items recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of items in the statement of financial position and the level where the items are disclosed in the fair value hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same item (without modification or repackaging) when available. To assess the significance of a particular input to the entire measurement, the fund performs sensitivity analysis or stress testing techniques.

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For the six-months period ended 30 June 2020

19. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED

In accordance with Article 22 of the Real Estate Investment 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 valuers. As set out in the terms and conditions of the Fund, the net asset values declared are based on the market value obtained. However, in accordance with International Accounting Standards 40 ("IAS 40") the Fund opted to use the cost method wherein investment properties are carried at cost less accumulated depreciation and impairment, if any, in these condensed interim financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The valuation of the investment properties (the "properties") is carried out by Olat Properties Management and ValuStrat Consulting. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager has used the average of the two valuations for the purposes of disclosing the fair value of the properties. The properties were valued taking into consideration of a number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost method, residual value method and the discounted cash flow method.

Below is an analysis of the properties fair value versus cost:

	30 June 2020 (Un-Audited) SR	31 December 2019 (Audited) SR
Estimated fair value of investment properties	571,394,209	479,858,209
Book value of investment properties	(561,832,070)	(471,871,480)
Estimated fair value in excess of book value	9,562,139	7,986,729
Units in issue (numbers)	51,000,000	51,000,000
Value per unit relating to excess of estimated fair value over book value of investment properties	0.1875	0.1566
<i>Net asset value</i>		
	30 June 2020 (Un-Audited) SR	31 December 2019 (Audited) SR
Net asset value as per the financial statements	529,759,835	530,847,090
Estimated fair value in excess of book value of investment properties	9,562,139	7,986,729
Net asset value based on fair valuation of investment properties	539,321,974	538,833,819
<i>Net asset value per unit</i>		
Net asset value per unit as per the financial statements	10.3874	10.4088
Estimated fair value in excess of book value of investment properties	0.1875	0.1566
Net asset value per unit based on fair valuation of investment properties	10.5749	10.5654

The Fund's investment in the building of Tarbiah Islamiah School has been classified as a finance lease in accordance with IFRS as endorsed in KSA. The fair value of the net investment in finance lease has been determined based on the market special commission rates. As of the reporting date, the carrying value of the net investment in finance lease approximates its fair value.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-months period ended 30 June 2020

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

	<i>Within</i> <i>12 months</i> <i>SR</i>	<i>After</i> <i>12 months</i> <i>SR</i>	<i>Total</i> <i>SR</i>
30 June 2020 (Un-Audited)			
ASSETS			
Cash and cash equivalents	1,852,017	-	1,852,017
Financial assets held at FVPL	5,392,553	-	5,392,553
Net investment in finance lease	236,587	34,516,828	34,753,415
Other assets	19,134,351	23,778,903	42,913,254
Investment properties, net	-	561,832,070	561,832,070
TOTAL ASSETS	26,615,508	620,127,801	646,743,309
LIABILITIES			
Management fees payable	1,902,046	-	1,902,046
Other liabilities	13,886,622	-	13,886,622
Provision of zakat	2,294,806	-	2,294,806
Borrowing from Bank	-	98,900,000	98,900,000
TOTAL LIABILITIES	18,083,474	98,900,000	116,983,474
31 December 2019 (Audited)			
ASSETS			
Cash and cash equivalents	14,622	-	14,622
Financial assets held at FVPL	9,536,997	-	9,536,997
Net investment in finance lease	159,218	34,679,060	34,838,278
Other assets	530,599	18,712,295	19,242,894
Investment properties, net	-	471,871,480	471,871,480
TOTAL ASSETS	10,241,436	525,262,835	535,504,271
LIABILITIES			
Management fees payable	2,881,849	-	2,881,849
Other liabilities	245,526	-	245,526
Provision of zakat	1,529,806	-	1,529,806
TOTAL LIABILITIES	4,657,181	-	4,657,181

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-months period ended 30 June 2020

21. SEGMENT INFORMATION

The Fund is invested into two real estate investments in the Kingdom of Saudi Arabia. As it is invested in a single industry sector and in a single country, no segment information has been presented.

22. RESTATEMENTS

During the year ended 31 December 2019, the Fund Manager identified that real estate property, (Al Rwad International School), acquired during the year 2018 was not assessed appropriately at the time of initial recognition and accordingly had been wrongly classified the building portion of the property as a finance lease. The Fund Manager have now taken into consideration all the factors related to acquisition and lease arrangement that existed at the date of initial recognition. Accordingly, the Fund Manager rectified the error of classification as at 31 December 2019 and accordingly restated the financial statements in accordance with IAS 8.

Following is the reconciliation for impact of restatements on the statement of comprehensive income for the six months period ended 30 June 2019.

	<i>For the six months period ended 30 June 2019</i>		
	<i>(Previously disclosed)</i>	<i>Adjustments</i>	<i>(As restated)</i>
	SR	SR	SR
INCOME			
Income from investment properties	15,121,104	6,416,028	21,537,132
Finance lease income	5,739,106	(4,535,921)	1,203,185
Net impact on total income	20,860,210	1,880,107	22,740,317
Depreciation expense on investment properties	-	(1,251,408)	(1,251,408)
Net impact on comprehensive income	20,860,210	628,699	21,488,909

23. LAST VALUATION DAY

The last valuation day of the period was 30 June 2020 (2019: 31 December 2019).

24. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the Fund Board on 29 Dhu'l Hijjah 1441H (corresponding to 19 August 2020).