

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 2019
TOGETHER WITH THE
INDEPENDENT AUDITORS' REVIEW REPORT

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 2019
TOGETHER WITH THE
INDEPENDENT AUDITORS' REVIEW REPORT**

Index	Page
Independent Auditor's review report	1- 2
Condensed Interim Statement of financial position	3
Condensed Interim Statement of Comprehensive Income	4
Condensed Interim Statement of Changes in Net Assets	5
Condensed Interim Statement of Cash Flows	6
Notes to the Condensed Interim Financial Statements	7-18

INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION

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

Introduction:

We have reviewed the accompanying interim condensed 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 2019 and the related interim condensed 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 interim condensed 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.

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL
INFORMATION (Continued)
TALEEM REIT FUND
(Managed by Saudi Fransi Capital)**

Other Matter:

The financial statements of the Fund for the year ended 31 December 2018 were audited by other auditors who issued an unqualified opinion on those financial statements in their report dated 31 March 2019.



**AlAzem & AlSudairy
Certified Public Accountants**



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

04 Dhul-Hijja 1440 H (August 05, 2019)
Riyadh, Saudi Arabia

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 (Un-audited) SR	31 December 2018 (Audited) SR
	<i>Notes</i>		
ASSETS			
Cash and cash equivalents		5,912,436	8,995,466
Investments measured at fair value through profit or loss (FVTPL)	8	10,481,732	5,865,841
Net investment in finance lease	9	172,589,363	172,581,399
Other assets		10,934,708	8,100,184
Investment properties	10	337,345,000	337,345,000
TOTAL ASSETS		<u>537,263,239</u>	<u>532,887,890</u>
LIABILITIES			
Management fee payable	11	953,630	987,226
Other liabilities		7,561,245	5,473,384
TOTAL LIABILITIES		<u>8,514,875</u>	<u>6,460,610</u>
Net assets / (Equity) attributable to unitholders		<u>528,748,364</u>	<u>526,427,280</u>
Units in issue		<u>51,000,000</u>	<u>51,000,000</u>
Net asset value per unit		<u>10.3676</u>	<u>10.3221</u>

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)

For the six months period ended 30 June 2019

	<i>Notes</i>	<i>For the period ended 30 June 2019 SR</i>	<i>For the period ended 30 June 2018 SR</i>
INCOME			
Income from investment properties	12	15,121,104	11,015,030
Finance lease income	9	5,739,106	1,208,213
Gain on investments measured at FVPL		115,891	5,519
TOTAL INCOME		20,976,101	12,228,762
EXPENSES			
Management fees	11	(1,896,780)	(1,112,964)
Custodian fees	11	(94,839)	(52,502)
Other expenses		(343,398)	(203,902)
TOTAL EXPENSES		(2,335,017)	(1,369,368)
NET INCOME FOR THE PERIOD		18,641,084	10,859,394
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		18,641,084	10,859,394
Earnings per unit			
Weighted average units in issue		51,000,000	28,500,000
Earnings per unit		0.3655	0.3810

The accompanying notes 1 to 19 form 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 / EQUITY (UN-AUDITED)

For the six months period ended 30 June 2019

	<i>30 June 2019 SR</i>	<i>30 June 2018 SR</i>
NET ASSETS / (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS AT THE BEGINNING OF THE PERIOD	526,427,280	293,339,663
CHANGES FROM OPERATIONS		
Net income for the period	18,641,084	10,859,394
Other comprehensive income	-	-
Total comprehensive income	18,641,084	10,859,394
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	--	--
Value of units redeemed	--	--
Net change from unit transactions	--	--
Income distributions during the period (note 13)	(16,320,000)	(9,120,000)
	(16,320,000)	(9,120,000)
NET ASSETS / (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS AT THE END OF THE PERIOD	528,748,364	295,079,057

UNIT TRANSACTIONS

Transactions in units during the period are summarised as follows:

	<i>30 June 2019 Units</i>	<i>30 June 2018 Units</i>
UNITS AT THE BEGINNING OF THE PERIOD	51,000,000	28,500,000
Units sold	--	--
Units redeemed	--	--
Net change in units	--	--
UNITS AT THE END OF THE PERIOD	51,000,000	28,500,000

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)

For the six months period ended 30 June 2019

	<i>Notes</i>	<i>30 June 2019 SR</i>	<i>30 June 2018 SR</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		18,641,084	10,859,394
Adjustment for:			
Gain from investments measured at FVTPL		(115,891)	(5,519)
Rent receivable		(3,092,246)	(1,804,503)
<i>Operating cash flows before working capital changes</i>		<u>15,432,947</u>	<u>9,049,372</u>
Changes in operating assets and liabilities:			
Other Assets		257,722	--
Management fee payable		(33,596)	(140,254)
Other liabilities		2,087,861	200,793
Net cash generated from operating activities		<u>17,744,934</u>	<u>9,109,911</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Recovery of net investment in finance lease, net		(7,964)	81,260
Purchase of investments held at FVPL	8	(8,000,000)	(5,800,000)
Sale of investments held at FVPL		3,500,000	--
Net cash used in investing activities		<u>(4,507,964)</u>	<u>(5,718,740)</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid	13	(16,320,000)	(9,120,000)
Cash used in financing activity		<u>(16,320,000)</u>	<u>(9,120,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(3,083,030)</u>	<u>(5,728,829)</u>
Cash and cash equivalents at the beginning of the period		<u>8,995,466</u>	<u>5,922,724</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u><u>5,912,436</u></u>	<u><u>193,895</u></u>

The accompanying notes 1 to 19 form an integral part of these condensed interim financial statements.

TALEEM REIT FUND (MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

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 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 2018.

Assets and liabilities in the 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 16.

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 (UN-AUDITED)

For the six months period ended 30 June 2019

4. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2019, the Fund has adopted IFRS 16 - Leases. Accounting policies for these new standards are disclosed in note 5 of these condensed interim financial statements.

The impact of the adoption of this standard is explained below:

IFRS 16 - "Leases"

Before January 01, 2019, the Fund follow following accounting for leases:

When assets are transferred under a finance lease, the present value of the lease payments is recognised as a receivable and disclosed as "*Net investment in finance lease*". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The Fund adopted IFRS 16 'Leases' the standard replaces the existing guidance on leases, 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 in the Legal Form of a Lease".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Fund's Financial Position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

However, Lessor accounting is substantially unchanged from today's accounting under IAS 17 and Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Fund plans to adopt IFRS 16 using the modified retrospective approach. The Fund elected to apply the standard to contracts that were previously identified as lease applying IAS 17 and IFRIC 4. The Fund therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

During the period, the Fund has performed an assessment of IFRS 16 and resolved that impact of difference as compared to leases accounted for applying IAS 17 & IFRIC 4 is not material to the Fund's condensed interim financial statements as a whole, as Fund is a lessor.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

5. 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 2018, except for the policies explained below.

Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 financial statements.

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of Use Assets

Company apply cost model, and measure right of use asset at cost;

- a) Less any accumulated depreciation and any accumulated impairment losses; and
- c) Adjusted for any re-measurement of the lease liability for lease modifications.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, Company measures the lease liability by:

- 1. Increasing the carrying amount to reflect interest on the lease liability.
- 2. Reducing the carrying amount to reflect the lease payments made and;
- 3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

6. 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 period. 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:

- (1) 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
- (2) the lease term of the assets covers the major part of the economic life of the leased asset.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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.

7. 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 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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
For the six months period ended 30 June 2019

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 2019 (Un-audited) SR</i>	<i>31 December 2018 (Audited) SR</i>
<i>Financial assets held at fair value through profit or loss</i>		
Al Badr Murabaha Fund	<u>10,481,732</u>	<u>5,865,841</u>

The following is the movement in investments during the period / year:

	<i>30 June 2019 (Un-audited) SR</i>	<i>31 December 2018 (Audited) SR</i>
<i>Carrying amount:</i>		
At beginning of the period / year	5,865,841	-
Additions during the period / year	8,000,000	5,800,000
Sold during the period / year	(3,466,105)	-
At end of the period / year	<u>10,399,736</u>	<u>5,800,000</u>
<i>Changes in fair value:</i>		
Changes in fair value during the period / year	<u>81,996</u>	<u>65,841</u>
Net investments at end of the period / year	<u>10,481,732</u>	<u>5,865,841</u>

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

9. NET INVESTMENT IN FINANCE LEASE

	<i>30 June 2019 (Un-audited) SR</i>	<i>31 December 2018 (Audited) SR</i>
<i>a) Net investment in finance lease consists of:</i>		
Gross investment in finance lease (see (b) below)	367,501,095	373,232,236
Less: Unearned finance income (see (c) below)	(194,911,732)	(200,650,837)
	<u>172,589,363</u>	<u>172,581,399</u>
<i>b) The future minimum lease payments to be received consist of:</i>		
Within one year	11,462,283	11,462,283
After one year but not more than five years	49,965,898	48,900,976
Five years onwards	306,072,914	312,868,977
	<u>367,501,095</u>	<u>373,232,236</u>
<i>c) The maturity of unearned finance income is as follows:</i>		
Within one year	(11,609,814)	(11,574,329)
After one year but not more than five years	(46,046,529)	(46,141,179)
Five years onwards	(137,255,389)	(142,935,329)
	<u>(194,911,732)</u>	<u>(200,650,837)</u>

Finance income earned on the finance lease during the period was SR 5.739 million (30 June 2018: SR 1.208 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 buildings of the two acquired properties (refer note 10).

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

10. INVESTMENT PROPERTIES

	<i>30 June 2019 (Un-audited) SR</i>	<i>31 December 2018 (Audited) SR</i>
<i>Cost:</i>		
At the beginning of the period / year	337,345,000	250,000,000
Additions	—	87,345,000
At the end of the period / year	<u>337,345,000</u>	<u>337,345,000</u>

The investment properties represent the land of the following two acquired properties:

- 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 30.88% (31 December 2018: 30.88%) of the total units in the Fund.
- 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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

11. 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), KASB Capital ("the Custodian"), 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</i>	
				<i>Receivables / (Payables)</i>	
		<i>For the period ended</i>	<i>For the period ended</i>	<i>30 June 2019</i>	<i>31 December 2018</i>
		<i>30 June 2019</i>	<i>30 June 2018</i>	<i>(Un-audited)</i>	<i>(Audited)</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Fund manager	Asset management fees (note "a" below)	(1,896,780)	(1,112,964)	(953,630)	(987,226)
Custodian	Custody fee (note "b" below)	(94,839)	(52,502)	(94,985)	(178,384)
Board of directors	Board fees to independent board members	(4,959)	(4,959)	(19,959)	(15,000)
Unitholders	Purchase of land and building	--	--	--	--
	Rental income	15,121,104	11,015,030	--	--
	Finance lease income	5,739,106	1,208,213	--	--

- 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.
- As per the Terms and Conditions of the Fund, the Custodian charges custody fees calculated at an annual rate of 0.0375% of the net asset value of the Fund. This is accrued daily and paid on semi-annual basis.

The Fund maintained cash with Saudi Fransi Capital at SR 5,912,436 (31 December 2018: SR 8,995,466). 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 10,481,732 (31 December 2018: SR 5,865,841).

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

12. INCOME FROM INVESTMENT PROPERTIES

	<i>For the period ended 30 June 2019 SR</i>	<i>For the period ended 30 June 2018 SR</i>
Lease rental income on investment properties	<u>15,121,104</u>	<u>11,015,030</u>

The operating lease relates to two pieces of land which is leased out for a remaining lease term of 25.2 years and 23.25 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 / year end, under the operating leases is as follows:

	<i>30 June 2019 (Un-audited) SR</i>	<i>31 December 2018 (Audited) SR</i>
Not later than one year	24,057,717	24,057,717
Later than one year and less than five years	102,220,952	100,685,024
Later than five years	601,929,895	615,494,682
	<u>728,208,564</u>	<u>740,237,423</u>

13. DIVIDEND / DISTRIBUTION

During the period, the Fund has paid dividends amounting to SR 16.32 million (30 June 2018: SR 9.12 million). The dividend per unit amounted to SR 0.32 per unit (30 June 2018: 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 2018: SR 4.56 million (SR 0.16 per unit)).

14. 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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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>
30 June 2019 (Un-audited) SR					
Financial assets at FVTPL	10,481,732	10,481,732	--	--	10,481,732
	<u>10,481,732</u>	<u>10,481,732</u>	<u>--</u>	<u>--</u>	<u>10,481,732</u>
31 December 2018 (Audited) SR					
Financial assets at FVTPL	5,865,841	5,865,841	-	-	5,865,841
	<u>5,865,841</u>	<u>5,865,841</u>	<u>-</u>	<u>-</u>	<u>5,865,841</u>

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 2019, 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.

Investment properties

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 (see note 6).

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

15. 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 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 2019 (Un-audited) SR	31 December 2018 (Audited) SR
Estimated fair value of investment properties	346,425,802	340,733,846
Book value of investment properties	337,345,000	337,345,000
Estimated fair value in excess of book value	9,080,802	3,388,846
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	0.1781	0.0664
<i>Net asset value</i>		
	30 June 2019 (Un-audited) SR	31 December 2018 (Audited) SR
Net asset value as per the financial statements	528,748,364	526,427,280
Estimated fair value in excess of book value of investment properties	9,080,802	3,388,846
Net asset value based on fair valuation of investment properties	537,829,166	529,816,126
<i>Net asset value per unit</i>		
Net asset value per unit as per the financial statements	10.3676	10.3221
Estimated fair value in excess of book value of investment properties	0.1781	0.0664
Net asset value per unit based on fair valuation of investment properties	10.5457	10.3885

The Fund's investment in the buildings 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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

For the six months period ended 30 June 2019

16. 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 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
30 June 2019 (Un-audited)			
ASSETS			
Cash and cash equivalents	5,912,436	--	5,912,436
Financial assets held at FVPL	10,481,732	--	10,481,732
Net investment in finance lease	(147,531)	172,736,894	172,589,363
Other assets	9,164	10,925,544	10,934,708
Investment properties, net	--	337,345,000	337,345,000
TOTAL ASSETS	16,255,801	521,007,438	537,263,239
LIABILITIES			
Management fees payable	953,630	--	953,630
Other liabilities	7,561,245	--	7,561,245
TOTAL LIABILITIES	8,514,875	--	8,514,875
	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
31 December 2018 (Audited)			
ASSETS			
Cash and cash equivalents	8,995,466	--	8,995,466
Financial assets held at FVPL	5,865,841	--	5,865,841
Net investment in finance lease	(112,046)	172,693,445	172,581,399
Other assets	266,886	7,833,298	8,100,184
Investment properties, net	--	337,345,000	337,345,000
TOTAL ASSETS	15,016,147	517,871,743	532,887,890
LIABILITIES			
Management fees payable	987,226	-	987,226
Other liabilities	5,473,384	-	5,473,384
TOTAL LIABILITIES	6,460,610	-	6,460,610

17. 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.

18. LAST VALUATION DAY

The last valuation day of the period was 30 June 2019 (31 December 2018).

19. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the Fund Board on 05 August 2019 (corresponding to 04 Dhul-Hijja 1440H).