

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED
30 JUNE 2020

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE UNITHOLDERS OF AL-AHLI SEDCO RESIDENTIAL DEVELOPEMENT FUND

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Al-Ahli SEDCO Residential Development Fund (the "Fund") as at 30 June 2020, and the related interim condensed statements of comprehensive income, cash flows and changes in net assets for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements 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" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements 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 financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

11 August 2020 G
21 Dhul-Hijjah 1441H

Jeddah



ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the six-month period ended 30 June 2020

	<i>For the six-month period ended 30 June 2020 SR' 000 (Unaudited)</i>	<i>For the six-month period ended 30 June 2019 SR' 000 (Unaudited)</i>
<i>Note</i>		
INVESTMENT REVENUES		
Realised gains on investment carried at fair value through profit or loss and investment in a real estate project	2,737	1,042
Unrealised (losses) / gains on investment carried at fair value through profit or loss	(1,123)	122
Impairment loss	(8,946)	-
Other income	217	73
	(7,115)	1,237
EXPENSES		
	6	
Management fee	-	1,162
Maintenance and utilities	1,476	780
Administration fee	-	71
Professional fee	26	23
Other expenses	107	87
	1,609	2,123
Loss for the period	(8,724)	(886)
Other comprehensive income	-	-
Total comprehensive loss for the period	(8,724)	(886)

The attached notes 1 to 14 form part of these interim condensed financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

		30 June 2020 SR' 000 (Unaudited)	31 December 2019 SR' 000 (Audited)
	<i>Note</i>		
ASSETS			
Cash at bank		17,838	3,676
Investment carried at fair value through profit or loss	7	2,081	40,612
Investment in real estate project	8	271,319	315,209
Other receivables		1,989	1,744
Total assets		293,227	361,241
LIABILITIES			
Payable to the Fund Manager	9	-	78
Advance received from customers		11,358	22,040
Value added tax and other payable		2,197	394
Total liabilities		13,555	22,512
Net assets attributable to unitholders		279,672	338,729
Units at issue in thousands		300,376	352,800
Per unit value in Saudi Riyals (considering investment in real estate project at fair value/cost less impairment)		0.931	0.960

The attached notes 1 to 14 form part of these interim condensed financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2020

	<i>Note</i>	<i>For the six-month period ended 30 June 2020 SR' 000 (Unaudited)</i>	<i>For the six-month period ended 30 June 2019 SR' 000 (Unaudited)</i>
OPERATING ACTIVITIES			
Loss for the period		(8,724)	(886)
Adjustment for:			
Unrealised loss on financial assets measured at fair value through profit or loss		1,123	-
Impairment loss		8,946	-
		<u>1,345</u>	<u>(886)</u>
Changes in operating assets/ liabilities:			
Investment carried at fair value through profit or loss		37,408	(2,411)
Investment in real estate project		19,891	13,377
Other receivables		(245)	(222)
Payable to the Fund Manager		(78)	(2,958)
Advance received from customers		(10,682)	(5,880)
Other payables		1,803	(958)
		<u>49,442</u>	<u>62</u>
FINANCING ACTIVITY			
Redemption of units – in cash	10	(35,280)	-
		<u>14,162</u>	<u>62</u>
INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the period		3,676	9,774
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>17,838</u>	<u>9,836</u>
NON – CASH SUPPLEMENTARY INFORMATION			
Redemption of units - in kind	10	<u>15,053</u>	<u>-</u>

The attached notes 1 to 14 form part of these interim condensed financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND**INTERIM CONDENSED STATEMENT OF CHANGES IN NET ASSETS**

For the six-month period ended 30 June 2020

	<i>For the six-month period ended 30 June 2020 SR' 000 (Unaudited)</i>	<i>For the six-month period ended 30 June 2019 SR' 000 (Unaudited)</i>
NET ASSETS AT THE BEGINNING OF THE PERIOD	338,729	341,880
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(8,724)	(886)
VALUE OF UNITS REDEEMED BY THE UNITHOLDERS – IN KIND (see note 10)	(15,053)	-
VALUE OF UNITS REDEEMED BY THE UNITHOLDERS – IN CASH (see note 10)	(35,280)	-
NET ASSETS AT THE END OF THE PERIOD	279,672	340,994

The attached notes 1 to 14 form part of these interim condensed financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2020 (unaudited)

1. NATURE OF THE FUND

AlAhli SEDCO Residential Development Fund (the "Fund") is a closed-ended Shariah compliant real estate investment fund, established and managed by NCB Capital Company (the "Fund Manager"), a subsidiary of The National Commercial Bank (the "Bank"), for the benefit of the Fund's unitholders. The Fund is ultimately supervised by the Fund Board.

NCB Capital Company acts as the custodian, administrator and registrar of the Fund.

The Fund's investment objective is to provide unitholders with capital gains through the acquisition of land and development, construction and sale of residential units. The un-invested cash balances may be invested in short term investments including, but not limited to, Shariah compliant Murabaha transactions or Murabaha funds.

The terms and conditions of the Fund were approved by the Capital Market Authority ("CMA") on 6 Rabi Awal 1435 H (corresponding to 7 January 2014). The Fund commenced its activities on 28 April 2014 ("inception date").

The Fund entered into an agreement with an independent developer, SEDCO Development Company (the "Developer"). The duties of the Developer include, identification of the land and development, construction and sale or arrangement for the sale of the residential units. The Developer is entitled to certain fees, which include fees for development fees, sales commission and a share of performance fees earned by the Fund Manager, if any, towards the end of the Fund's term (see note 6).

The Fund's term is three years, commencing from the date of inception (i.e. 28 April 2014), with an option to extend the term for two additional years, subject to the approval of the Fund Board and notification to the CMA and the Fund Board had elected to extend the Fund's term up to 28 April 2019. Furthermore, the unitholders approved to extend the Fund's term up to 28 April 2020, with an option to extend for an additional year up to 28 April 2021. On 14 April 2020 the Fund Board approved the extension of the Fund Term for an additional year ending on 28 April 2021, the CMA and the unitholders were duly notified in this regard. Moreover, the Fund Manager, after obtaining due approvals from the unitholders and the CMA, intends to extend the Fund's term further for one year from 28 April 2021. Accordingly, these interim condensed financial statements have been prepared on a going concern basis.

The Fund Manager may terminate the Fund prior to the end of the Fund's term, after giving 30 days' notice to the unitholders, subject to the CMA's approval. In the event of termination, the Fund's assets will be liquidated, its liabilities will be discharged and the remaining proceeds of such liquidation will be distributed to the unitholders on pro-rata basis.

The Fund's terms and conditions were revised on 13 March 2019 and were further revised on 15 April 2020. The main changes in the terms and condition related to the extension in the Fund's term, fees, services charges, expenses, commissions, management fees and investment risks in the Fund and redemption of Fund's units, allowing unitholders to redeem in the units in-kind.

The books and records of the Fund are maintained in Saudi Riyals (SR), which represents the functional and presentational currency of the Fund. All financial information presented in Saudi Riyals has been rounded to the nearest thousand.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These interim condensed financial statements of the Fund have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in Kingdom of Saudi Arabia ("KSA").

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund's annual financial statements as at 31 December 2019.

The results for the six-month period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the year ending 31 December 2020.

2.2 Basis of measurement

The interim condensed financial statements are prepared under the historical cost convention modified to include the fair value measurement of investment carried at fair value through profit or loss.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020 (unaudited)

3. REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations issued by the Capital Market Authority (“CMA”) pursuant to its resolution number 1-193-2006 dated 19 Jumad Thani 1427H (corresponding to 15 July 2006) (the Regulations), detailing requirements for all the Real Estate Investment Funds within the Kingdom of Saudi Arabia.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of Fund’s annual financial statements for the year ended 31 December 2019 except for the adoption of new standards and amendments to existing standards mentioned below:

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2020	Amendments to IFRS 3: Definition of a Business	The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs.
1 January 2020	Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform	The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.
1 January 2020	Amendments to IAS 1 and IAS 8: Definition of Material	The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These new standards and amendments to existing standards have no impact on the interim condensed financial statements of the Fund.

ALAH LI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020 (unaudited)

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the interim condensed statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying Net Asset Value ("NAV") which is reflective of the fair value of these securities.

Valuation of investment in real estate project

The investment in real estate project is carried at low of the their cost and net realizable value. Net realizable value (NRV) is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Fund hires the services of third party valuers to obtain estimates for the market value of investment in real estate project for the purpose of its NRV and disclosure in the financial statements.

Amongst a list of factors, the fair value of investment in real estate project is mainly influenced by:

- a) Any change in the demand for residential or commercial property;
- b) Any change in the real estate market in general; and
- c) Pricing or competition policies of any competing development.

Going concern

The Fund's management 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 management is not aware of any material uncertainties that may cast significant doubt on the Fund's ability to continue as a going concern. Therefore, these interim condensed financial statements have been prepared on a going concern basis.

Classification of financial assets

Assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

6. MANAGEMENT FEE AND OTHER EXPENSES

As set out in the Fund's terms and conditions, the Fund is managed and administered by the Fund Manager. For these services, the Fund accrues, on every valuation day, a management fee and an administration fee at the rate of 1% and 0.04% per annum, respectively, based on the Fund's net asset value, adjusted to reflect the market value of the investment in real estate project, to be paid semi-annually in arrears. With effect from 28 April 2019, the Fund Manager has waived the requirement for payment of management fee, therefore, no accrual has been made for the period from 1 Jan 2020 to 30 June 2020.

The Fund Manager is also entitled to recover operational expenses incurred on behalf of the Fund relating to professional fees (i.e. audit, advisory, legal fees), investment valuation expenses, project monitoring expenses and other similar charges. The maximum amount of such expenses that can be recovered from the Fund by the Fund Manager is restricted to 1% per annum of the Fund's net assets.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020 (unaudited)

6. MANAGEMENT FEE AND OTHER EXPENSES (continued)

Furthermore, the Fund Manager charged to the unitholders, on the inception date, a subscription fee of SR 9.11 million, by deducting the same from the subscribed amount, which is within the maximum allowed limit of 3% of the gross subscriptions.

Upon completion of the Fund's term, the Fund Manager will be entitled to a performance fee of an amount equivalent to 25% of the excess return, if any, after unitholders have received cumulative distribution proceeds equal to their investment plus the hurdle rate (i.e. annual internal rate of return of 10% of the subscribed amount).

7. INVESTMENT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

The detail of investment in a mutual fund, carried at fair value through profit or loss is summarized below:

	<i>Cost</i> <i>30 June</i> <i>2020</i> <i>SR' 000</i>	<i>Fair value</i> <i>30 June</i> <i>2020</i> <i>SR' 000</i>	<i>Cost</i> <i>31 December</i> <i>2019</i> <i>SR' 000</i>	<i>Fair value</i> <i>31 December</i> <i>2019</i> <i>SR' 000</i>
AlAhli Saudi Riyal Trade Fund (note 9)	2,011	2,081	39,419	40,612

8. INVESTMENT IN REAL ESTATE PROJECT

	<i>30 June</i> <i>2020</i> <i>SR' 000</i>	<i>31 December</i> <i>2019</i> <i>SR' 000</i>
Land in Jeddah, Kingdom of Saudi Arabia (see notes 'a' and 'b' below)	101,799	118,266
Developed project (see note 'c' below)	169,520	196,943
	271,319	315,209

- NCB Capital, the Fund Manager, has formed a Special Purpose Vehicle ("SPV"), NCB Capital Real Estate Investment Company (the "SPV"), registered under Commercial Registration No. 1010387593 dated 2 Dul Qadah 1434H (corresponding to 8 September 2013). The primary objective of the SPV is to retain and register real estate assets related to real estate funds in its name.
- The title deeds of the land are registered in the name of the SPV. The manager of the SPV has confirmed that it is holding this land for and on behalf of the Fund. Since the Fund is the beneficial owner of this land, the land has been recorded in these interim condensed financial statements.
- Developed project represents the directly attributable costs incurred for the construction of real estate project. However, since the development has already been completed no further costs are expected to be incurred in relation to this project, except for some improvements amounting to SR 1.37 million.
- The fair value of the investment in real estate project as at 30 June 2020 is SR 271.2 million (31 December 2019: SR 315.2 million) based on the average evaluation of two independent evaluators. The valuation of the investment properties as at 30 June 2020 is carried out by ESNAD Real Estate Valuation and ValuStrat, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM). The valuers have used the Comparable Approach to evaluate the value of the real estate project.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020 (unaudited)

8. INVESTMENT IN REAL ESTATE PROJECT (continued)

e) The carrying value of the investment in real estate project is analyzed as follows:

	30 June 2020 SR' 000	31 December 2019 SR' 000
Investment in real estate project at cost	281,723	316,667
Impairment loss on fair value of investment in real estate project	(10,404)	(1,458)
Fair value and carrying value of investment in real estate project	271,319	315,209

f) The movement in the carrying value of the investment in real estate project was as follows:

	For the six- month period ended 30 June 2020 SR' 000	For the six- month period ended 30 June 2019 SR' 000
Balance at the beginning of the period	315,209	346,408
Cost incurred		
Less: cost of residential units sold	(34,944)	(13,377)
Impairment loss	(8,946)	-
Balance at the end of the period	271,319	333,031

9. RELATED PARTY DISCLOSURES

At 30 June 2020, the Fund has an investment in Al-Ahli Saudi Riyal Trade Fund ("SRTF") of 1.084 million units valued at SR 2 million (31 December 2019: 21.33 million units valued at SR 40.61 million). SRTF is also managed and administered by the Fund Manager.

At 30 June 2020, the Fund does not have any amount payable to the Fund Manager (31 December 2019: SR 0.78 million) (note 6).

The National Commercial Bank acts as the Fund's banker. Fund's assets are being held by the SPV, for the beneficial interest of the Fund.

10. UNIT TRANSACTIONS

The total number of units outstanding as at 30 June 2020 are 300,376 (31 December 2019: 352,800), and during the period the unitholders redeemed 52,424 units at various dates.

On 24 February 2020, the Fund's Board approved the first capital distribution of SR 35.28 million to the Fund's Unitholders. Furthermore, in line with the requirements of the Fund's terms and conditions (see note 1), on 19 May 2020, the Fund's Board approved in-kind redemption to SEDCO Development Company (an investor in the Fund and the developer of the real estate project) in exchange for all of its units in the Fund, amounting to SR 15.05 million, based on the NAV of 31 December 2019 audited financial statements.

11. LAST VALUATION DAY

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

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2020 (unaudited)

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows the fair values of financial asset carried at fair value, including the hierarchy levels;

(SR'000)

30 June 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Investment carried at fair value through profit or loss	-	2,081	-	2,081
Total	<u>-</u>	<u>2,081</u>	<u>-</u>	<u>2,081</u>

(SR'000)

31 December 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Investment carried at fair value through profit or loss	-	40,612	-	40,612
Total	<u>-</u>	<u>40,612</u>	<u>-</u>	<u>40,612</u>

The fair value of other financial assets and financial liabilities of the Fund are not materially different from their carrying values.

13. IMPACT OF COVID – 19

The outbreak of novel coronavirus (“COVID-19”) since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization necessitated the Fund Manager to revisit its significant judgments in applying the Fund's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2019.

Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Fund Manager carried out an assessment on the overall Fund's operations and business aspects and concluded that, as of the issuance date of these interim condensed financial statements, no significant changes are required to the judgements and key estimates. However, in the view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities in the future periods. As the situation is rapidly evolving with future uncertainties, Fund Manager will continue to assess the impact based on prospective developments.

14. APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were authorized for issue by the Fund Board on 10 August 2020 corresponding to 20 Dhul-Hijjah 1441H.