

**ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND**  
**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX-MONTH PERIOD ENDED**  
**30 JUNE 2019**

## **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 2019, 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

4 August 2019  
3 Dhul-Hijjah 1440H

Jeddah

20/09/MNA



# ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

## INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019

	<i>For the six-month period ended 30 June 2019 SR' 000 (Unaudited)</i>	<i>For the six-month period ended 30 June 2018 SR' 000 (Unaudited)</i>
	<i>Note</i>	
<b>INVESTMENT REVENUES</b>		
Realised gains on investment carried at fair value through profit or loss and investment in a real estate project	<b>1,042</b>	208
Unrealised gains/(losses) on investment carried at fair value through profit or loss	<b>122</b>	12
Other income	<b>73</b>	159
	<b>1,237</b>	379
<b>EXPENSES</b>		
	6	
Management fee	<b>1,162</b>	1,892
Maintenance and utilities	<b>780</b>	-
Administration fee	<b>71</b>	76
Professional fee	<b>23</b>	21
Other expenses	<b>87</b>	59
	<b>2,123</b>	2,048
<b>Loss for the period</b>	<b>(886)</b>	(1,669)
Other comprehensive income	-	-
<b>Total comprehensive loss for the period</b>	<b>(886)</b>	(1,669)

The attached notes 1 to 13 form part of these interim condensed financial statements.

**ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND**  
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2019

		<b>30 June 2019 SR' 000 (Unaudited)</b>	<b>31 December 2018 SR' 000 (Audited)</b>
	<i>Note</i>		
<b>ASSETS</b>			
Cash at bank		<b>9,836</b>	9,774
Investment carried at fair value through profit or loss	7	<b>23,779</b>	21,368
Investment in real estate project	8	<b>333,031</b>	346,408
Other receivables		<b>1,217</b>	995
<b>Total assets</b>		<b>367,863</b>	378,545
<b>LIABILITIES</b>			
Payable to the Fund Manager	9	<b>1,149</b>	4,107
Advance received from customers		<b>25,525</b>	31,405
Value added tax and other payable		<b>195</b>	1,153
<b>Total liabilities</b>		<b>26,869</b>	36,665
<b>Net assets attributable to unitholders</b>		<b>340,994</b>	341,880
Units at issue in thousands		<b>352,800</b>	352,800
Per unit value in Saudi Riyals (considering investment in real estate project at cost)	8 (iii)	<b>0.967</b>	0.969
Per unit value in Saudi Riyals (considering investment in real estate project at fair value)	8 (iii)	<b>0.970</b>	1.002

The attached notes 1 to 13 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 2019

	<i>For the six-month period ended 30 June 2019 SR' 000 (Unaudited)</i>	<i>For the six-month period ended 30 June 2018 SR' 000 (Unaudited)</i>
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(886)	(1,669)
Changes in operating assets/ liabilities:		
Investment carried at fair value through profit or loss	(2,411)	7,912
Investment in real estate project	13,377	(6,603)
Other receivables	(222)	(1,388)
Payable to the Fund Manager	(2,958)	(4,962)
Advance received from customers	(5,880)	951
Other payables	(958)	-
Net cash from / (used in) operating activities	62	(5,759)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	62	(5,759)
<b>Cash and cash equivalents at the beginning of the period</b>	9,774	5,787
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	9,836	28

The attached notes 1 to 13 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 2019

	<i>For the six-month period ended 30 June 2019 SR' 000 (Unaudited)</i>	<i>For the six-month period ended 30 June 2018 SR' 000 (Unaudited)</i>
<b>NET ASSETS AT THE BEGINNING OF THE PERIOD</b>	<b>341,880</b>	343,805
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(886)</b>	(1,669)
<b>NET ASSETS AT THE END OF THE PERIOD</b>	<b>340,994</b>	342,136

The attached notes 1 to 13 form part of these interim condensed financial statements.

# ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2019 (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. During the period ended 30 June 2019, the unit holders of the Fund provided their approval to extend the term up to 28 April 2020, with a choice with the Fund Manager to extend the term for a further period up to 28 April 2021. Accordingly, these interim financial statements have been prepared on a going concern basis.

Moreover, 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 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 2018.

The results for the six-month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the year ending 31 December 2019.

#### 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 2019 (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 2018 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 2019	(2015-2017 annual improvements cycle) IFRS 3, IAS 12 and IAS 23	The standards affected under the 2015-2017 annual improvements cycle, and the subjects of the amendments are: - IFRS 3 business combinations and IFRS 11 Joint arrangements - previously held interest in a joint operation. - IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity. - IAS 23 Borrowing Costs - borrowing costs eligible for capitalisation.
1 January 2019	Amendments to IAS 28	The amendments clarify that the Fund applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.
1 January 2019	Amendments to IFRS 9	Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.
1 January 2019	IFRS 16	IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

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



# ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2019 (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 28 April 2019 to 30 June 2019.

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 2019 (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>2019</i> <i>SR' 000</i>	<i>Fair value</i> <i>30 June 2019</i> <i>SR' 000</i>	<i>Cost</i> <i>31 December</i> <i>2018</i> <i>SR' 000</i>	<i>Fair value</i> <i>31 December</i> <i>2018</i> <i>SR' 000</i>
AlAhli Saudi Riyal Trade Fund (note 9)	<b>22,951</b>	<b>23,779</b>	20,662	21,368

### 8. INVESTMENT IN REAL ESTATE PROJECT

	<i>30 June</i> <i>2019</i> <i>SR' 000</i>	<i>31 December</i> <i>2018</i> <i>SR' 000</i>
Land in Jeddah, Kingdom of Saudi Arabia (see notes 'a' and 'b' below)	<b>124,950</b>	129,969
Development in progress (see note 'c' below)	<b>208,081</b>	216,439
	<b>333,031</b>	346,408

- a) 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.
- b) 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.
- c) Development in progress represents the directly attributable costs incurred for the construction of real estate project.

#### Fair value of investment in real estate project

The fair value of the investment in real estate project as at 30 June 2019 is SR 334.29 million (31 December 2018: SR 358.09 million) based on the average evaluation of two independent evaluators. The valuation of the investment properties as at 30 June 2019 is carried out by Colliers International and ValuStrat Consulting, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM). The valuers have used the Direct Comparison 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 2019 (unaudited)

### 8. INVESTMENT IN REAL ESTATE PROJECT (continued)

i) The fair value of the investment in real estate project is as follows:

	<b>30 June 2019 SR' 000</b>	<b>31 December 2018 SR' 000</b>
Investment in real estate project at cost	<b>333,031</b>	346,408
Unrealised gain based on fair value	<b>1,263</b>	11,682
Fair value of the real estate project	<b>334,294</b>	358,090

ii) The net asset value of the Fund using the fair value for the investment in real estate project is as follows:

	<b>30 June 2019 SR' 000</b>	<b>31 December 2018 SR' 000</b>
Net asset value (considering investment in real estate project at cost)	<b>340,994</b>	341,880
Unrealised gain based on fair value of the real estate project	<b>1,263</b>	11,682
Net asset value at fair value	<b>342,257</b>	353,562

iii) The net asset value per unit of the Fund using the fair value of the investment in real estate project is as follows:

	<b>30 June 2019 SR</b>	<b>31 December 2018 SR</b>
Net asset value (considering investment in real estate project at cost)	<b>0.967</b>	0.969
Impact on net asset value per unit using the fair value of the real estate project	<b>0.003</b>	0.033
Net asset value per unit at fair value	<b>0.970</b>	1.002

### 9. RELATED PARTY DISCLOSURES

At 30 June 2019, the Fund has an investment in Al-Ahli Saudi Riyal Trade Fund ("SRTF") of 12.64 million units valued at SR 23.8 million (31 December 2018: 11.5 million units valued at SR 21.4 million). SRTF is also managed and administered by the Fund Manager.

At 30 June 2019, the Fund has an amount of SR 1.1 million (31 December 2018: SR 4.1 million) payable to the Fund Manager, in respect of management fee, administration fee and other expenses (note 6).

The National Commercial Bank acts as the Fund's banker.

### 10. UNIT TRANSACTIONS

The total number of units outstanding as at 30 June 2019: 352,800 (31 December 2018: 352,800), and there were no transactions of units during current period and prior period.

### 11. LAST VALUATION DAY

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

# ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 30 June 2019 (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 2019

#### Financial assets

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment carried at fair value through profit or loss	-	23,779	-	23,779
<b>Total</b>	<u>-</u>	<u>23,779</u>	<u>-</u>	<u>23,779</u>

*(SR'000)*

31 December 2018

#### Financial assets

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment carried at fair value through profit or loss	-	21,368	-	21,368
<b>Total</b>	<u>-</u>	<u>21,368</u>	<u>-</u>	<u>21,368</u>

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

### 13. APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were authorized for issue by the Fund Board on 4 August 2019 (corresponding to 3 Dhul-Hijjah 1440H).