

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FOR THE YEAR ENDED
31 DECEMBER 2019

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
FINANCIAL STATEMENTS
31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF AL-AHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

Opinion

We have audited the financial statements of Al-Ahli SEDCO Residential Development Fund (the "Fund") managed by National Commercial Bank Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of cash flows and statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of The Fund Manager for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the SOCPA and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions, and for such internal control as Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Fund Manager is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF AL-AHLI SEDCO RESIDENTIAL DEVELOPEMENT FUND (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.
- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

24 February 2020 G
30 Jumada II 1441 H

Jeddah
20/44/MNA



ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Note</i>	2019 SR' 000	2018 SR' 000
INVESTMENT REVENUES			
Realised gains on sale of residential unit		1,424	1,467
Realised gains on investment carried at fair value through profit or loss		182	491
Unrealised gain/(losses) on investment carried at fair value through profit or loss		487	(4)
Special commission income		174	238
Loss on fair value of investment in real estate project		(1,458)	-
		809	2,192
EXPENSES			
Management fee	7	1,162	3,795
Administration fee		143	152
Valuation expenses		74	74
Professional fee		63	59
Facility management and maintenance Expenses		2,512	17
Shariah audit fee		-	12
Fund Board remuneration		6	8
		3,960	4,117
Loss for the year		(3,151)	(1,925)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(3,151)	(1,925)

The attached notes 1 to 15 form part of these financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Note</i>	<i>2019 SR' 000</i>	<i>2018 SR' 000</i>
ASSETS			
Cash at Bank		3,676	9,774
Investment carried at fair value through profit or loss	8	40,612	21,368
Investment in real estate project	9	315,209	346,408
Other receivables		1,744	995
TOTAL ASSETS		361,241	378,545
LIABILITIES			
Payable to the Fund Manager	10	78	4,107
Other payable		73	-
Advance received from customers		22,040	31,405
Value added tax payable		321	1,153
TOTAL LIABILITIES		22,512	36,665
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		338,729	341,880
Units at issue in thousands		352,800	352,800
Per unit value in Saudi Riyals (considering investment in real estate project at cost)	9(iii)	0.960	0.969
Per unit value in Saudi Riyals (considering investment in real estate project at fair value)	9(iii)	0.960	1.002

The attached notes 1 to 15 form part of these financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2019

	<i>2019</i> <i>SR' 000</i>	<i>2018</i> <i>SR' 000</i>
NET ASSETS AT THE BEGINNING OF THE YEAR	341,880	343,805
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(3,151)	(1,925)
NET ASSETS AT THE END OF THE YEAR	<u>338,729</u>	<u>341,880</u>

The attached notes 1 to 15 form part of these financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2019

	2019 SR' 000	2018 SR' 000
OPERATING ACTIVITIES		
Loss for the year	(3,151)	(1,925)
Adjustment for:		
Unrealised gain / (losses) on investment carried at fair value through profit or loss	(487)	4
Loss on fair value of investment in real estate project	1,458	-
	<u>(2,180)</u>	<u>(1,921)</u>
Changes in operating assets:		
Investment carried at fair value through profit or loss	(18,757)	12,301
Investment in real estate project	29,741	646
Other receivables	(749)	(970)
Payable to the Fund Manager	(4,029)	(2,962)
Advance received from customers	(9,365)	(4,260)
Other payables	(759)	1,153
	<u>(6,098)</u>	<u>3,987</u>
Net cash (used in)/ from operating activities	(6,098)	3,987
CHANGE IN CASH AND CASH EQUIVALENTS	(6,098)	3,987
Cash and cash equivalents at the beginning of the year	9,774	5,787
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3,676	9,774

The attached notes 1 to 15 form part of these financial statements.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

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 7).

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. 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 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 19 December 2019 the Fund Board approved the extension of the Fund Term for an additional year ending on 28 April 2021 and the Fund is in the process of notifying the CMA in this regard. Accordingly, these financial statements have been prepared on a going concern 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 financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards "IFRS" that are endorsed in Kingdom of Saudi Arabia ("KSA"), and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants ("SOCPA") (referred here in as "IFRSs as endorsed in KSA").

2.2 Basis of measurement

The 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.

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 significant accounting policies adopted are as follows:

Foreign currencies

Foreign currency transactions are translated into SAR using the exchange rates prevailing at the date of transactions. Foreign currency assets and liabilities are translated into SAR using the exchange rates prevailing at the statement of financial position date. Foreign exchange gains and losses arising from translation are included in the profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Management determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Management has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of the business on the balance sheet date.

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.

The fair value of investment in real estate project (for the purpose of disclosure in the financial statements) is measured using valuation techniques including the replacement cost basis and comparable market prices.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Fund performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Classification of financial assets and financial liabilities

• Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Fund classifies its financial assets under IFRS 9, see respective section of significant accounting policies.

The following table shows the measurement categories for the Fund's financial assets:

<i>Financial assets</i>	<i>Classification</i>
Cash at Bank	Amortized cost
Investment carried at fair value through profit or loss	financial assets carried at fair value through profit or loss
Other receivables	Amortized cost

• Financial liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVPL. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. There were no changes to the classification and measurement of financial liabilities.

Fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income OCI; and
- The remaining amount of change in the fair value is presented in statement of income.

Classification and measurement of financial assets carried at fair value through profit or loss (FVPL)

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Management believes that the Fund's investment in the units of a mutual fund meet the definition of an equity instrument.

At initial recognition, the Fund measures investments in equity instruments at their fair value. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Fund subsequently measures all equity investments at fair value through profit or loss. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, are recognised in profit or loss when the Fund's right to receive payments is established. Realised gains and losses on investment sold are determined on an average cost basis.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents of the Fund include bank balances and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its debt instrument assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Derecognition

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

Accrued expenses and other payables

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

A provision is recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognised for future operating loss.

Investment in real estate project

Land and buildings under construction, including buildings held for sale in the ordinary course of business, are initially recognised at cost. If the payment for the land is deferred, the consideration payable is recognised initially at the present value of the amount payable. Development in progress comprises construction costs and other related direct costs.

Investment in real estate project is subsequently measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

Offsetting

Financial assets and liabilities are offset and reported net in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Fund intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by IFRS as endorsed in the KSA.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Redeemable units

Redeemable units of the Fund are issued and redeemed on Fund's termination. The initial unit price is SAR 1 per unit. The net asset value (NAV) of the units will be calculated as the total assets of the Fund less the total liabilities divided by the total number of units of the Fund as of the valuation date. As the Fund will be investing substantially all of its assets in the projects, its valuation will be predominantly based on the valuation of the projects. The Fund Manager shall evaluate the Fund's land and projects at least once every six months based on the two valuations done by independent valuers.

The NAV of the units will be calculated within 10 business days of receipt of the valuation of the projects done by independent valuers.

The Fund classifies its redeemable units as an equity instrument if the redeemable units have all of the following features:

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation.
- The instrument is in the class of instruments that is subordinate to all other classes of instruments.
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata shares of the Fund's net assets.
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognized net assets of the Fund over the life of the instrument.

Taxation and zakat

Taxation and zakat (except for value added taxation) is the obligation of the unitholders and therefore, no provision for such liability is made in these financial statements.

Revenue recognition

The Fund adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Fund in relation to its contracts with customers. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previous revenue guidance, which was found currently across several Standards and Interpretations within IFRSs. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Revenue from investment in real estate project

The Fund develops and sells residential properties. Revenue is recognised when control over the property has been transferred to the customer. The properties have generally no alternative use for the Fund. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at a point in time when the legal title has passed to the customer and control transferred.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred. While deferred payment terms may be agreed in some circumstances, the deferral does not exceed twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Corporation

<u>Standard/ Amendments</u>	<u>Description</u>
IAS 28 - Long-term interests in associates and joint ventures	The amendments clarify that an entity applies IFRS 9 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.
IFRS 16 - Leases	<p>It supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.</p> <p>Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.</p>
IAS 12 and IAS 23 - Annual Improvements to IFRS 2015-2017 cycle	<p><u>IAS 12 – Income taxes</u> The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.</p> <p><u>IAS 23 – Borrowing cost</u> The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.</p>
IFRIC 23 - Uncertainty over income tax treatment	The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.
IAS 19 - Amendments to plan amendment, curtailment or settlement	The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

The above standards are not applicable to the Fund and therefore do not request any change in the accounting policy.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Management intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed. The Company is not expecting any change due to adoption of these amendments.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Company.

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Fund's 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 value of financial assets and financial liabilities recorded in the 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 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.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

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

Valuation of investment in real estate project (continued)

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

- Any change in the demand for residential or commercial property;
- Any change in the real estate market in general; and
- 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 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.

7. 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. On 28 April 2019, the Fund Manager has waived the requirement for payment of management fee, therefore, no accrual has been made for the management fees for the period from 28 April 2019 to 31 December 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.

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).

8. 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>Fair value</i>	<i>Cost</i>	<i>Fair value</i>
	<i>2019</i>	<i>2019</i>	<i>2018</i>	<i>2018</i>
	<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>
AlAhli Saudi Riyal Trade Fund (note 10)	39,419	40,612	20,662	21,368

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

9. INVESTMENT IN REAL ESTATE PROJECT

	2019 SR' 000	2018 SR' 000
Land in Jeddah, Kingdom of Saudi Arabia (see notes 'a' and 'b' below)	118,266	129,969
Development in progress (see note 'c' below)	196,943	216,439
	315,209	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 financial statements.
- c) Development in progress represents the directly attributable costs incurred for the construction of real estate project.
- d) During the year ended 31 December 2019, residential units costing SR 29.7 million were sold, having a sales value of SR 31.2 million, resulting in a sales gain of SR 1.4 million.
- e) Movement in cost of investment in real estate project was as follows;

	2019 SR' 000	2018 SR' 000
Balance at the beginning of the year	346,408	347,054
Cost incurred during the year	-	8,580
Less: cost of residential units sold	(29,741)	(9,226)
Loss based on fair value (i)	(1,458)	-
Balance at the end of the year	315,209	346,408

Fair value of investment in real estate project

The fair value of the investment in real estate project as at 31 December 2019 is SR 315,209 million (31 December 2018: SR 358.09 million) based on the average evaluation of two independent evaluators. The valuation of the investment in real estate project as at 31 December 2019 is carried out by ValuStrat and Colliers International, which are credited valuers by Saudi Authority for Accredited Valuers (TAQEEM). The evaluators have used the market comparable approach (i.e. approach based on the value of the recent comparable transactions) to evaluate the value of the real estate project.

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

	2019 SR' 000	2018 SR' 000
Investment in real estate project at cost	316,667	346,408
Unrealised gain/(loss) based on fair value	-	11,682
Impairment loss on fair value of investment in real estate project	(1,458)	-
Fair value of the real estate project	315,209	358,090

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

9. INVESTMENT IN REAL ESTATE PROJECT (continued)

Fair value of investment in real estate project (continued)

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

	2019 SR' 000	2018 SR' 000
Net asset value (considering investment in real estate project at cost)	340,187	341,880
Unrealised gain/ loss based on fair value of the real estate project	(1,458)	11,682
Net asset value at fair value	<u>338,729</u>	<u>353,562</u>

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

	2019 SR	2018 SR
Net asset value (considering investment in real estate project at cost)	0.964	0.969
Impact on net asset value per unit using the fair value of the real estate project	(0.004)	0.033
Net asset value per unit at fair value	<u>0.960</u>	<u>1.002</u>

10. RELATED PARTY DISCLOSURES

At 31 December 2019, the Fund has an investment in Al-Ahli Saudi Riyal Trade Fund ("SRTF") of 21.33 million units valued at SR 40.61million (31 December 2018: 11.5 million units valued at SR 21.4 million). SRTF is also managed and administered by the Fund Manager.

At 31 December 2019, the Fund has an amount of SR 0.78 million (31 December 2018: SR 4.1 million) payable to the Fund Manager, in respect of management fee, administration fee and other expenses (note 7).

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

The details of major related party transactions are as follows;

Related party	Nature of transaction	Amount of transactions	
		2019 SR 000	2018 SR 000
Fund Manager	Management fee, administration fee and other expenses	78	4,117
AlAhli Saudi Riyal Trade Fund (SRTF)	Investment made by the Fund	23,828	5,139
	Investment redeemed by the Fund	5,253	17,931
SEDCO Development Company - Developer and unitholder of the Fund	Development cost	-	8,580

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

11. UNIT TRANSACTIONS

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

12. RISK MANAGEMENT

The Fund's objective in managing risk is the creation and protection of unit holder value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund is exposed to market risk (which includes commission rate risk and currency risk), credit risk and liquidity risk arising from the financial instruments it holds. Furthermore, the fund is exposed to operational risk

The Fund Manager is responsible for identifying and controlling risks. The Fund Board, which is appointed by the Fund Manager, supervises the Fund and is ultimately responsible for the overall management of the Fund.

Monitoring and controlling risk is primarily set up to be performed based on the limits established by the Fund Board. The Fund has investment guidelines that set out its overall business strategies, its tolerance of risk and its general risk management philosophy and is obliged to take appropriate actions.

Commission rate risk

Commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of the financial instruments.

As at 31 December 2019, the Fund is not exposed to commission rate risk as its assets and liabilities are non-commission bearing.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund did not undertake any transactions in foreign currencies during the year or prior year. Accordingly, the Fund is not exposed to foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund seeks to limit credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Fund is exposed to credit risk on advances paid to developer. For advances paid to the developer, the maximum exposure to credit risk of the Fund is the carrying value as disclosed in the statement of financial position.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The liquidity needs are monitored on a regular basis and the Fund Manager ensures that sufficient funds are available to meet any commitments as they arise.

Operational risk

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

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

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

12. RISK MANAGEMENT (continued)

Developer risk

Developer risk is the risk that the Fund will exclusively engage a single developer to develop all the projects and the performance of the Fund will be dependent on the performance of the developer.

The developer risk is mitigated by proper selection of a well-known developer.

Exit risk

Exit risk arises from the possibility that the Fund will not be able to sell its real estate investment in line with its investment objectives, as the real estate markets conditions may change, therefore, making it difficult to sell the real estate investment at all or at a price higher than the costs.

The Fund's objective is to manage the exit risk by identifying the potential buyers on timely basis, so as to balance the limiting of financial losses and damage to its reputation while achieving its investment objective of generating returns to investors.

13. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	<i>(SR '000)</i>			
<i>31 December 2019</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<u>Financial assets</u>				
Investment carried at fair value through profit or loss	-	40,612	-	40,612
Total	-	40,612	-	40,612

	<i>(SR '000)</i>			
<i>31 December 2018</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<u>Financial assets</u>				
Investment carried at fair value through profit or loss	-	21,368	-	21,368
Total	-	21,368	-	21,368

The fair value of other financial assets and financial liabilities of the Fund are not materially different from their carrying values. The fair value hierarchy of investment in real estate project is categorized as level 3. For relevant details please refer to Note 9.

14. LAST VALUATION DAY

The last valuation day of the year was 31 December 2019 (31 December 2018).

15. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Fund Board on 24 February 2020.