

RIYAD REAL ESTATE INCOME FUND
Open-Ended Fund
(Managed by Riyad Capital)
Financial Statements
For the period from 09 June 2015 to 31 December 2015
together with the
Independent Auditor's Report to the Unitholders



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INDEPENDENT AUDITOR'S REPORT

The Unitholders
Riyad Real Estate Income Fund
Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **Riyad Real Estate Income Fund** (the "Fund") managed by Riyadh Capital (the "Fund Manager"), which comprise the balance sheet as at 31 December 2015 and the related statements of income, cash flows and changes in net assets attributable to the unitholders for the period from 09 June 2015 to 31 December 2015 and the attached notes (1) through (18) which form an integral part of the financial statements.

Fund Manager's responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the preparation and fair presentation of the financial statements 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 Manager's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Fund Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as at 31 December 2015 and the results of its operations and its cash flows for the period from 09 June 2015 to 31 December 2015 in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

Emphasis of matter paragraph

We draw attention to note 7(b) to the accompanying financial statements which states that as at 31 December 2015, the rights in one of the Fund's Development Property having carrying value of SAR 32.7 million were held in the name of the Fund's unit holder (the "Legal Owner") and was not transferred in the name of Riyadh Real Estate Income Company (the "Trustee"), which holds legal title of all properties on behalf of the Fund. Subsequent to the period end, the rights of said development property have not been transferred in the name of the Trustee, therefore, the Fund has derecognized the said Development Property and the unit holder has paid cash to the Fund against the units issued.

**For KPMG Al Fozan & Partners
Certified Public Accountants**

Abdullah Hamad Al Fozan
License No. 348

Riyadh on: 6 Safar 1438H
Corresponding to: 6 November 2016



RIYAD REAL ESTATE INCOME FUND
Open-Ended Fund
(Managed by Riyadh Capital)
BALANCE SHEET
As at 31 December 2015
(Amounts in SAR)

	<u>Notes</u>	<u>2015</u>
<u>ASSETS</u>		
Cash at bank		3,480,491
Held for trading investment	9	314,423,564
Accrued Income		94,130
Investment property	8	128,035,323
Development property	7	59,655,000
Total Assets		505,688,508
<u>LIABILITIES</u>		
Accrued expenses		5,160,416
Unearned Income		1,630,263
Acquisition Fee Payable		1,272,333
Other Payable		90,000
Total Liabilities		8,153,012
Net assets attributable to the Unitholders		497,535,496
Units in issue (<i>numbers</i>)	10	50,000,000
Net assets attributable to each unit		9.95

The accompanying notes 1 to 18 form an integral part of these financial statements.

RIYAD REAL ESTATE INCOME FUND
Open-Ended Fund
(Managed By Riyad Capital)
STATEMENT OF INCOME
For the period from 09 June 2015 to 31 December 2015
(Amounts in SAR)

	<u>Note</u>	<u>2015</u>
<u>INCOME</u>		
Net income from held for trading investment	<i>11</i>	1,128,564
Rental income		2,794,725
		3,923,289
<u>EXPENSES</u>		
Fund management fee		(4,283,680)
Custodian fees		(856,736)
Depreciation on Investment property		(470,343)
Legal expenses		(687,034)
Other expenses		(90,000)
		(6,387,793)
Net loss for the period		(2,464,504)

The accompanying notes 1 to 18 form an integral part of these financial statements.

RIYAD REAL ESTATE INCOME FUND
Open-Ended Fund
(Managed by Riyad Capital)
STATEMENT OF CASH FLOWS
For the period from 09 June 2015 to 31 December 2015
(Amounts in SAR)

2015

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss for the period (2,464,504)

Adjustments to reconcile net income to net cash used in operating activities:

Unrealized gain on revaluation of held for trading investment (1,020,960)
Depreciation on Investment property 470,343
(3,015,121)

Changes in operating assets and liabilities

Held for trading investment (313,402,604)
Other receivables (94,130)
Investment property (128,505,666)
Development property (15,455,000)
Accrued expenses 5,160,416
Unearned Income 1,630,263
Acquisition Fee Payable 1,272,333
Other Payable 90,000
Net cash used in operating activities (452,319,509)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of units 455,800,000
Net cash generated from financing activities 455,800,000

Net increase in cash and cash equivalents 3,480,491
Cash and cash equivalents at end of the period 3,480,491

NON-CASH TRANSACTIONS

Units issued against development property 44,200,000

The accompanying notes 1 to 18 form an integral part of these financial statements.

RIYAD REAL ESTATE INCOME FUND
Open-Ended Fund
(Managed by Riyadh Capital)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE
UNITHOLDERS
For the period from 09 June 2015 to 31 December 2015
(Amounts in SAR)

	<u>2015</u>
Issuance of units	
- For cash consideration	455,800,000
- Against in kind capital contribution (Development property)	<u>44,200,000</u>
	500,000,000
Net loss for the period	(2,464,504)
Net assets attributable to the Unitholders at end of the period	<u><u>497,535,496</u></u>

The accompanying notes 1 to 18 form an integral part of these financial statements.

RIYAD REAL ESTATE INCOME FUND
Open-Ended Fund
(Managed by Riyadh Capital)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 09 June 2015 to 31 December 2015

1. THE FUND AND ITS ACTIVITIES

Riyadh Real Estate Income Fund (“the Fund”) is a Shari’ah-compliant open-ended real estate investment income fund. The Fund was established in the Kingdom of Saudi Arabia, under Article 4(b) of the Investment Funds Regulations. The Fund is managed through an agreement between Riyadh Capital (the “Fund Manager”) and the Fund investors (the “Unitholders”). The term of the Fund (the “Fund Term”) is 20 years from the Initial Subscription Date, subject to two 1-year extensions. The Initial Subscription Date of the Fund is 25 January 2015 and the closing date of Initial Subscription of the Fund is 09 June 2015.

The investment objective of the Fund is to provide its investors with rental income and capital appreciation by investing in and developing income-generating real estate assets in Saudi Arabia. The Fund intends to finance the acquisition, development and operating costs through a combination of equity raised in the offering of Units, Shari’ah-compliant debt financing and return from its investments.

The fund aims to acquire and / or develop a set of real estate assets for generating income. Fund Manager aims to distribute 5% of the initial capital to investors during the first two years of the term of the fund, and subsequently 7% of the initial capital. It is expected that the annual dividend rate will increase during the term of the Fund with the increasing number of income-producing real estate assets owned by the Fund.

In dealing with the Unit holders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. Furthermore, the Unit holders are considered to be shareholders and owners of the assets of the Fund and any income distribution is made in relation to their respective ownership share to the total number of units.

Capital Market Authority’s (“CMA”) approval for the establishment of the Fund was granted on 22 January 2015 (corresponding to 02 Rabi Al-Akhar 1436H). The Fund commenced its operation on 09 June 2015.

The Fund Manager of the Fund is Riyadh Capital and the Custodian of the Fund is Riyadh Real Estate Income Company, an associate of the Fund Manager, acts under a trust agreement (the Trustee).

2. REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the “Regulations”) published by Capital Market Authority (CMA) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and 19 Jumada II 1427H (corresponding to 15 July 2006) respectively, detailing requirements for all type of funds within the Kingdom of Saudi Arabia.

3. SUBSCRIPTION / REDEMPTION

The Fund is open for subscriptions / redemptions of units on last business day of each calendar year. The net assets attributable to the unitholders of the Fund is determined on last business day of each calendar year (each a “Valuation Day”). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of Fund assets minus Fund liabilities) by the total number of outstanding Fund units on the relevant Valuation Day.

RIYAD REAL ESTATE INCOME FUND
Open-Ended Fund
(Managed by Riyadh Capital)
NOTES TO THE FINANCIAL STATEMENTS
For the period from 09 June 2015 to 31 December 2015

4. BASIS OF PRESENTATION

4.1 *Statement of compliance*

These financial statements have been presented in accordance with the requirements of accounting standard issued by the Saudi Organization of Certified Public Accountants.

These financial statements were approved by the Fund's Board of Directors on 27 October 2016.

4.2 *Basis of measurement*

These financial statements have been prepared under the historical cost convention, except for the measurement of investments held for trading at fair value, using accrual basis of accounting and the going concern concept.

4.3 *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyal (SAR) which is the functional currency of the Fund. All financial information presented has been rounded to the nearest SAR.

4.4 *Use of estimates and judgments*

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set below:

5.1 *Development property*

Properties acquired, constructed or are in the course of construction and development are classified as development properties. The cost of development properties includes the cost of land and other related expenditure. The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed and handed over for its intended use. The Fund's management reviews the carrying values of the development properties at each reporting date.

5.2 *Investment property*

Real estate that are held for capital appreciation or/and rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund i.e 20 years.

Residual values and useful lives of investment property are subject to review and adjustment, as necessary, when an asset carrying exceeds its recoverable amount; it has to be written down immediately to its recoverable amount. Capital gains result from disposal, arises when selling value of an asset exceeds its carrying value, recorded in net basis in the statement of income.

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(Amount in SAR)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.3 *Impairment of assets*

Properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.

5.4 *Held for trading investments*

Investments purchased for trading are initially recognized at cost at trade date and are re-measured at their market values as at each balance sheet date. The unrealized gains or losses from revaluation and realized gains or losses from disposal of held for trading investments are recognized in the Statement of Income.

5.5 *Revenue recognition*

Realized gains and losses on investments held for trading at disposal are determined on average cost basis. The realized gain or losses from investments held for trading represents the difference between the carrying amount of investment at the beginning of the reporting period, or the transaction price if it was purchased in the current reporting period, and its sale price.

Unrealized gains and losses represent the difference between the carrying amount of a financial instrument at the beginning of the year, or the transaction price if it was purchased in the current reporting year, and its carrying amount at the end of the reporting year.

Rental income on investment property are recognised on accrual basis.

5.6 *Zakat*

Zakat is the obligation of the Unitholders and is not provided for in these financial statements.

5.7 *Cash and cash equivalents*

Cash and cash equivalents for the purpose of cash flows represent cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Fund without any restrictions.

6. MANAGEMENT FEE AND OTHER EXPENSES

On each Valuation Day the Fund Manager charges the Fund, management fee at the rate of 1.5 percent per annum of the Fund's net asset value. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund such as audit and legal fees, board compensation and other similar charges.

In addition, on each Valuation Day the Fund Manager charges the Fund, custodian and administration fees at the rate of 0.3 percent per annum of the Fund's net asset value.

Further, the Fund Manager charges the Fund, acquisition fee at the rate of 1 percent on the acquisition price of real estate assets.

RIYAD REAL ESTATE INCOME FUND

Open-Ended Fund

(Managed by Riyadh Capital)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 09 June 2015 to 31 December 2015

(Amount in SAR)

7. DEVELOPMENT PROPERTY

<u>Development property</u>	31 December 2015		
	<u>Erad Tower</u>	<u>Seed Portfolio Project</u>	<u>Total</u>
	<i>(a)</i>	<i>(b)</i>	
Cost of land acquired	23,000,000	32,700,000	55,700,000
Development cost incurred during the period	3,955,000	--	3,955,000
Total cost	26,955,000	32,700,000	59,655,000

(a) **Erad Tower** represents a project by the Fund for the development of a 13 floor building that will be operated by an international serviced apartment operator "Ascott". The property is located in Riyadh. From the total amount of cost of land, the Fund has made payment of SAR 11,500,000 in the form of issuance of units.

(b) **Seed Portfolio Project** represents mainly a project by the Fund for the development of a Retail Complex. The property is located in Riyadh. The Fund had purchased the rights in this property against issuance of units which were held in the name of the Fund's unit holder (the "Legal Owner"). As of 31 December 2015, the rights in this property have not been transferred in the name of Riyadh Real Estate Income Company (the "Trustee").

8. INVESTMENT PROPERTY

<u>Investment property</u>	<u>Note</u>	31 December 2015			
		<u>Land</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
Acquired during the period		73,965,666	48,480,000	6,060,000	128,505,666
Depreciation charge for the period	<i>8.1</i>	--	(228,000)	(242,343)	(470,343)
At the end of the period		73,965,666	48,252,000	5,817,657	128,035,323

This represents two properties; namely:

- **Izdhar Center** : represents a newly built commercial property located on Othman Bin Afan Road in the Izdihar District (within close proximity to Arabian Centre's Al Nakheel Mall). The property is located in Riyadh.
- **Altamiz Center** : represents a commercial property located on the intersection of Imam Road and Khalid Bin Waleed Street in the Qurtoba neighborhood. The property is located in Riyadh.

8.1 The Fund has the policy of charging depreciation on building and equipment over 20 years and 7 years respectively. The depreciation is charged on depreciable amount i.e. cost less residual value.

RIYAD REAL ESTATE INCOME FUND

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NOTES TO THE FINANCIAL STATEMENTS

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(Amount in SAR)

9. HELD FOR TRADING INVESTMENT

9.1 These represent investment in units of open ended mutual fund managed by the Fund Manager. The market value of this investment is summarized as follows:

<u>Description</u>	2015	
	<u>Units</u>	<u>Market Value</u>
Commodity Trading Fund (SAR)	157,507.1191	314,423,564
	<u>157,507.1191</u>	<u>314,423,564</u>

9.2 The cost of the above held for trading investment amounted to SAR 313,402,604.

10. UNIT TRANSACTIONS

Transactions in units for the period are summarized as follows:

	<i>(In numbers)</i>
Units issued during the period	50,000,000
Units at end of the period	<u>50,000,000</u>

11. NET INCOME FROM HELD FOR TRADING INVESTMENT

	For the period from 09 June 2015 to 31 December <u>2015</u>
Realized gain on sale of held for trading investment	107,604
Unrealized gain on revaluation of held for trading investment	1,020,960
	<u>1,128,564</u>

12. TRANSACTION WITH RELATED PARTIES

Related parties of the Fund include "Riyad Capital" being the Fund Manager, Riyadh Bank (being the shareholder of Riyadh Capital) and other funds managed by the Fund Board.

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

Riyad Bank acts as a banker of the Fund and as at 31 December 2015 SAR 3,480,491 were held in current account of the Fund maintained with Riyadh Bank.

The significant related party transactions entered into by the Fund during the period and the balances resulting from such transactions are as follows:

<u>Related Party</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the period</u>	<u>Closing balance Payable</u>
Riyad Capital	Fund management fee	(4,283,680)	(4,283,680)
	Custodian fees	(856,736)	(856,736)
	Expenses incurred on behalf of the Fund	(90,000)	(90,000)
	Acquisition fee	--	(1,272,333)

RIYAD REAL ESTATE INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
For the period from 09 June 2015 to 31 December 2015

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Credit risk

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

The Fund is exposed to credit risk on its balance with bank and receivables. Bank balance is kept with Riyad Bank which has sound financial standing.

Special commission rate risk

Special 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.

The Fund is subject to special commission rate risk on its held for trading investments as the investment in the investee Fund is in Sukuk bonds and murabaha placements. To manage this risk, the Fund Manager monitors the changes in commission rates on a regular basis.

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulties in arranging funds to meet commitments associated with its financial liabilities.

The Fund's terms and conditions provide for the subscriptions and redemptions of units on last business day of each calendar year and it is, therefore, exposed to the liquidity risk of meeting Unitholders redemptions.

The Fund Manager expects to settle its financial liabilities including the fund management fee through earning rental income on investment properties. Further, the Fund's securities are considered to be readily realizable as they also invests in mutual funds and deposits with banks and can easily be realised at any time. The Fund Manager monitors the liquidity requirements on a regular basis with a view to ensuring that sufficient funds are available to meet any commitments as they arise.

Market Risk

The Fund will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth of the Kingdom, interest rates, demand-supply, availability of financing, investor sentiment, liquidity, legal, foreign exchange rate and regulatory environment.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

Financial instruments comprise of financial asset and financial liability. The Fund's financial asset consists of cash at bank, held for trading investments and other receivables and financial liability consists of accrued expenses and other payables.

For investments traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of other financial assets and liabilities is not materially different from their carrying values.

RIYAD REAL ESTATE INCOME FUND

Open-Ended Fund

(Managed by Riyad Capital)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 09 June 2015 to 31 December 2015

(Amount in SAR)

15. SUBSEQUENT EVENT

The Fund had purchased multiple properties amounting to SAR 11.5 million and SAR 32.7 million during the period and classified them under "Development Property". The payment against properties were made in the form of issuance of units. As of 31 December 2015, the rights in a property (Seed Portfolio project, Note 7(b)) valuing SAR 32.7 million, classified under "Development Property", have not been transferred in the name of Riyad Real Estate Income Company (the "Trustee"). Subsequent to period-end, rights in the said development property were not transferred in the name of the Trustee and the Fund derecognised this Development Property and received cash against the units issued.

16. EFFECT OF NET ASSET VALUE IF DEVELOPMENT AND INVESTMENT PROPERTIES ARE FAIR VALUED

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared are based on the market value obtained. However, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia, development and investment properties are carried at cost in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The fair value of the investment and development properties are determined by two selected appraisers i.e. Barcode Company Limited and Colliers International. As of 31 December 2015, the valuation of the investment and development properties are as follows:

	31 December 2015		
	<u>Barcode Company Limited</u>	<u>Colliers International</u>	<u>Average value of two valuers</u>
Investment property	126,403,976	127,800,000	127,101,988
Development property	61,989,400	63,700,000	62,844,700
Total	<u>188,393,376</u>	<u>191,500,000</u>	<u>189,946,688</u>

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment and development properties.

The investment and development properties were valued taking into consideration number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the financial & fragmentation plot analysis, the cost method, the direct comparison method, and residual value method. Below is an analysis of the development and investment properties fair value versus cost:

	<u>2015</u>
Estimated fair value of investment and development properties based on the average of the two valuers used	189,946,688
Less: the carrying value of	
- investment property	(128,035,323)
- development property	(59,655,000)
Estimated fair value in excess of book value	<u>2,256,365</u>
Units in issue (numbers)	<u>50,000,000</u>
Additional value per unit based on fair value	<u>0.05</u>

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NOTES TO THE FINANCIAL STATEMENTS
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16. EFFECT OF NET ASSET VALUE IF DEVELOPMENT AND INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)

Net asset attributable to unitholders:

	<u>2015</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	497,535,496
Estimated fair value in excess of book value	2,256,365
Net assets attributable to unitholders based on fair valuation of investment and development properties	<u>499,791,861</u>

Net asset attributable to each unit:

	<u>2015</u>
Net assets value per unit as per the financial statements before fair value adjustment	9.95
Additional value per unit based on fair value	0.05
Net assets attributable to each unit based on fair valuation	<u>10.00</u>

All properties, except Seed Portfolio Project, are held in the name of Riyad Real Estate Income Company (the "Trustee"). The Trustee is holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

17. LAST VALUATION DAY

The last valuation day of the period was 31 December 2015.

18. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 27 October 2016 corresponding to 26 Muharram 1438H.