

TALEEM REIT FUND
(Closed Ended Real Estate Investment Traded Fund)
(MANAGED BY SAUDI FRANSI CAPITAL)
Interim Financial Statements (UN-AUDITED)
for the period from 30 May 2017 to 30 June 2017
together with the
Review Report to the Unitholders



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REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS

The Unitholders
Taleem REIT Fund
Riyadh, Kingdom of Saudi Arabia

Scope of Review

We have reviewed the accompanying interim balance sheet of **Taleem REIT Fund** (the “Fund”) managed by **Saudi Fransi Capital** (the “Fund Manager”) as at 30 June 2017, and the related interim statements of income, cash flows and changes in net assets attributable to the Unitholders for the period from 30 May 2017 to 30 June 2017 (“the period”) and the attached notes from (1) to (13), which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Fund Manager and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim financial statements based on our review.

We conducted our review in accordance with the Saudi ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, endorsed in the Kingdom of Saudi Arabia. A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not give true and fair view of the financial position of the Fund as at 30 June 2017 and of its financial performance and its cash flows for the period then ended in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No. 348
Date: 11 Dhul Qi'dah 1438H
Corresponding to: 03 August 2017



TALEEM REIT FUND
(Closed Ended Real Estate Investment Traded Fund)
(MANAGED BY SAUDI FRANSI CAPITAL)
INTERIM BALANCE SHEET (UN-AUDITED)
As at 30 June 2017
(Amounts in SAR)

	<u><i>Note</i></u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	5	1,500,000
Investment property	7	250,000,000
Net investment in the finance leases	8	35,017,611
Total assets		286,517,611
<u>LIABILITIES</u>		
Fund management fee payable	6	175,685
Other liabilities		89,395
Total liabilities		265,080
Net asset value attributable to the Unitholders		285,125,253
Accrual for distribution	1	1,127,278
Total net asset value attributable to the Unitholders		286,252,531
Units in issue (numbers)		28,500,000
Net asset value - per unit		10.0439

The accompanying notes 1 to 13 form an integral part of these interim financial statements.

TALEEM REIT FUND
(Closed Ended Real Estate Investment Traded Fund)
(MANAGED BY SAUDI FRANSI CAPITAL)
INTERIM STATEMENT OF INCOME – (UN-AUDITED)
For the period from 30 May 2017 to 30 June 2017
(Amounts in SAR)

	<u><i>Note</i></u>	<u>2017</u>
<u>INCOME</u>		
Lease Rental Income on land		1,315,789
Lease finance income on finance lease		201,822
		<hr/> 1,517,611
<u>EXPENSES</u>		
Fund management fee	6	(175,685)
Other expenses		(89,395)
Total expenses		<hr/> (265,080)
Net profit for the period		<hr/> 1,252,531 <hr/>

The accompanying notes 1 to 13 form an integral part of these interim financial statements.

TALEEM REIT FUND
(Closed Ended Real Estate Investment Traded Fund)
(MANAGED BY SAUDI FRANSI CAPITAL)
INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)
For the period from 30 May 2017 to 30 June 2017
(Amounts in SAR)

	<u><i>Note</i></u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period		1,252,531
Operating assets and liabilities		
Purchase of land and building		(285,017,611)
Fund management fee payable		175,685
Other liabilities		89,395
Net cash used in operating activities		<u>(283,500,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of units		<u>285,000,000</u>
Net cash used in financing activities		<u>285,000,000</u>
Net change in cash and cash equivalents		<u>1,500,000</u>
Cash and cash equivalents at the end of the period		<u><u>1,500,000</u></u>

The accompanying notes 1 to 13 form an integral part of these interim financial statements.

TALEEM REIT FUND
(Closed Ended Real Estate Investment Traded Fund)
(MANAGED BY SAUDI FRANSI CAPITAL)
INTERIM STATEMENT OF CHANGES IN NET ASSET
ATTRIBUTABLE TO THE UNITHOLDERS (UN-AUDITED)
For the period from 30 May 2017 to 30 June 2017
(Amounts in SAR)

	<u><i>Note</i></u>	<u>2017</u>
Net profit for the period		1,252,531
Unit transactions during the period		
Proceeds from issue of units		<u>285,000,000</u>
		285,000,000
Net asset attributable to the unitholders at end of the period		<u>286,252,531</u>

Transactions in units for the period are summarized as follows:

	<u><i>(In numbers)</i></u>
Units in issue at the end of the period	<u>28,500,000</u>

The accompanying notes 1 to 13 form an integral part of these interim financial statements.

TALEEM REIT FUND
(Closed Ended Real Estate Investment Traded Fund)
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
For the period from 30 May 2017 to 30 June 2017

1. GENERAL

Taleem REIT Fund (“the Fund”) is a closed ended Shariah compliant real estate investment traded fund denominated in Saudi Riyals based on an agreement between Saudi Fransi Capital (the Fund Manager) and investors (the Unitholders). The Fund commenced its operations on 30th May 2017 (“Commencement Date”), which is the first day of listing of Taleem REIT Fund on Saudi Stock Exchange (“Tadawul”).

The duration of the Fund is ninety nine years from the date of commencement of operations and can be extended at the sole discretion of the Fund Manager after the approval of the Fund’s Board and Capital Market Authority (“CMA”).

The funds primary investment objective is to invest in constructionally developed real estates qualified to generate periodic return and rental income and distribute ninety percentage of the fund's net profit as dividends to the unitholders at least annually. The Fund can borrow Shariah compliant funds up to 50% of the value of its total assets.

The terms and conditions of the Fund have been approved by the CMA on 12 Sha’aban 1438 H (corresponding to 08 May 2017). The Subscription days of the Fund commenced on 14 Sha’aban 1438 (corresponding to 10 May 2017) and ended on 20 Sha’aban 1438 (corresponding to 16 May 2017).

The Fund Manager of the Fund is Saudi Fransi Capital and KASB Capital is the Custodian for the fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (REIFR) and the Real Estate Investment Traded Funds Instructions (REITF) (the “Regulations”) published by Capital Market Authority (CMA) on 19 Jumada II 1427H (corresponding to 15 July 2006) and 23 Muharram 1438H (corresponding to 24th October 2016) respectively detailing the requirements for real estate funds and REITs within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 *Statement of Compliance*

These interim financial statements have been presented in accordance with the requirements of the accounting standards on financial reporting issued by the Saudi Organization of Certified Public Accountants (SOCPA).

3.2 *Basis of measurement*

These interim financial statements have been prepared under the historical cost convention using accrual basis of accounting.

3.3 *Functional and presentation currency*

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

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
For the period from 30 May 2017 to 30 June 2017
(Amounts in SAR)

3. BASIS OF PREPARATION (CONTINUED)

3.4 *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 year in which the estimates are revised and on prospective basis.

Area of estimate

Determination of fair value of investment property and net investment in finance leases, net with significant unobservable inputs as of 30 June 2017 as disclosed in Note 12.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies for the presentation of these interim financial statements are set out below;

4.1 *Investment property*

Real estate that are held for capital appreciation or/and rental yields are recorded as investment properties.

Investment property is stated at cost less accumulated depreciation and any impairment in value, if any. The cost less estimated residual value (if any) of investment property is depreciated on a straight line basis over the estimated useful lives of the assets. Land on the other hand is reported at cost.

The carrying values of Investment property are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repair and maintenance are charged to the income statement, except for those expenditures that increase the value of improvement or materially extend the life.

Currently, the Fund has recognised land as an investment property. As land is a free gift of nature, therefore, no depreciation is charged in the interim financial statements on the said investment property.

4.2 *Net investment in finance leases*

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable (including unguaranteed residual value). The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Currently, the Fund estimates SAR Nil unguaranteed residual value for the finance lease assets.

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(Amounts in SAR)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 *Net investment in finance leases (Continued)*

The Fund has classified the asset as a finance lease as it met the following criteria:

- (1) the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset at the inception of the lease; and
- (2) the lease term of the assets covers major part of the economic life of the leased asset.

4.3 *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.

4.4 *Fund management fee*

Fund management fee is payable at an agreed rate with the Fund Manager. The Fund Manager will charge a management fee of 0.75% of the net book value per annum accrued daily and deducted bi-annually. Net book value is the cost that the Fund pays through amounts raised from investors or through borrowing, in order to acquire or invest in projects or investments within the Fund.

4.5 *Provisions*

A provision is recognised if, as a result of past events, the Fund has present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

4.6 *Revenue Recognition*

Investment property

Rental income is recognized on accrual basis.

Finance lease

The Fund follows the effective interest method in accounting for the recognition of lease finance income. Under this method, the unearned lease income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease, so as to produce a systematic return on the net investment in lease.

4.7 *Cash and cash equivalents*

Cash and cash equivalents represent bank balance and murabaha deposits maturing within ninety days from the date of deposits.

4.8 *Net asset value*

Net asset value per unit as disclosed in the balance sheet is calculated by dividing the net assets of the Fund by the number of units in issue at year end.

4.9 *Zakat/ Income tax*

Zakat/ Income tax is the obligation of the Unitholders and is not provided for in these interim financial statements.

TALEEM REIT FUND
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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Provision for distribution

The fund has accrued for provision for distribution as the fund is required to distribute a minimum of 90% of the fund's net profit.

5. CASH AND CASH EQUIVALENTS

2017

Cash at bank	(a)	1,500,000
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(a) This cash is deposited in current account maintained with Banque Saudi Fransi under the name of fund manager (Saudi Fransi Capital). No interest is receivable on this balance.

6. MANAGEMENT FEE, CUSTODIAN FEE AND OTHER CHARGES

As per the Terms and Conditions (T&C) of the Fund, the Fund Manager charges the following fees:

- Management fee calculated at an annual rate of 0.75% of the net book value. This is accrued daily and paid on semi-annually basis.
- Custody fee of 0.0375% of the net book value per annum, accrued daily and deducted bi-annually.

In addition to the above, the Fund will be directly and indirectly subject to other fee such as, but not limited to audit fee, trustee fee, Tadawul registration fee, CMA annual monitoring fee, lawyers' fee, government or municipality fee, and further any other fee and expenses related to the evaluation, management and development of properties such as valuation fee.

7. INVESTMENT PROPERTY

The fund has acquired the property leased out to "Tarbiah Islamiah School" for a consideration of SAR 285,000,000 (Saudi Riyal Two Hundred and Eighty Five Million) on 29 Shabaan 1438 corresponding to 25 May 2017. The said property is held in the name of "Rabwa Taleem Real Estate Company" which is owned by the KASB Capital ("Custodian of the Fund"). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property.

The Investment Property represents the land portion of the acquired property. The land is located in the Umm-al-Hamam district in Riyadh City and covers an area of 45,666.94 square meters on Al-Takhassusi Street.

30 June 2017

Purchased during the period		250,000,000
Impairment charge		--
Investment property at the end of the period		<u>250,000,000</u>

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8. NET INVESTMENT IN FINANCE LEASES

	30 June 2017 (Unaudited)			
	Not later than <u>one</u> <u>year</u>	Later than one year and less <u>than five</u> <u>years</u>	Later than <u>five years</u>	<u>Total</u>
Lease contract receivables	2,394,737	10,509,211	68,129,326	81,033,274
Unearned Interest Revenue	<u>(2,434,262)</u>	<u>(9,648,176)</u>	<u>(33,933,225)</u>	<u>(46,015,663)</u>
	(39,525)	861,035	34,196,101	35,017,611
Provision for lease losses	--	--	--	--
Net investment in finance lease	<u><u>(39,525)</u></u>	<u><u>861,035</u></u>	<u><u>34,196,101</u></u>	<u><u>35,017,611</u></u>

9. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include Saudi Fransi Capital ("the Fund Manager"), Banque Saudi Fransi (the Bank and the shareholder of the Fund Manager), KASB Capital ("Custodian"), Funds' Board of Directors (BOD), affiliates of the Fund manager and the Unit holders of the Fund are related parties.

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

Transactions with related parties during the period are as follows:

	<u>2017</u>
Management fee	<u>175,685</u>
Custody fee	<u>12,989</u>
Fund's BOD fee	<u>(1,402)</u>

The above transactions resulted in following balances as at 30 June:

	<u>2017</u>
Receivable / (Payable)	
Fund management and administration fee payable	<u>(175,685)</u>
Custody fee payable	<u>(12,989)</u>
Fund's BOD fee payable	<u>(1,402)</u>
Cash with the Bank	<u>1,500,000</u>

The Fund has entered into lease agreement with one of its unit holder and currently all the revenues recognised in the interim financial statements are from the said lease agreement.

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10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Financial instruments comprise of financial assets and financial liabilities.

The Fund's financial assets consist of bank balance, net investment in the finance leases and other assets; its financial liabilities consist of fund management fee payable and other liabilities. The fair values of financial instruments are not materially different from their carrying values. Investment property which comprises land is carried at cost and the fair value is expected to be significantly higher than the cost. The Fund will monitor the fair value on a regular basis in line with the relevant legislation.

11. RISK MANAGEMENT

Credit risk

Credit risk is the possibility of non-payment by counterparties and financial institutions through which the Fund transacts. The Fund is exposed to credit risk on its bank balance, and net investment in finance lease. The bank balance is maintained with reputed local banks in the Kingdom of Saudi Arabia. The maximum exposure to the credit risk for the financial assets is their carrying value. Net investment in finance lease is made with a unit holder of the Fund for whom no credit rating is available.

Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities which comprise of fund management, other liabilities and provision for distribution. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, there will be no sales and purchase of units permitted.

The Fund Manager expects to settle its financial liabilities contingent upon receipts of amounts from lease rentals.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to change in foreign exchange rates. The financial instruments of the Fund i.e. cash and payables are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

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 of land, availability of financing, investor sentiment, liquidity, legal, foreign exchange rate and regulatory environment.

TALEEM REIT FUND
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(Amounts in SAR)

12. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTY AND NET INVESTMENT IN FINANCE LEASE ARE FAIR VALUED

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudia 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 Saudia Arabia, development and investment property are carried at cost in these financial statements.

The valuations of the investment property and net investment in finance lease (the "properties") are carried out by Olat Properties Management and ValuStrat Consulting. Some of the individuals involved at the valuation from the appraiser's side are licensed by the Saudi Authority for Accredited Valuers (TAQEEM). Management has used the average of the two valuations for the purposes of disclosing the fair value of the properties. The properties were valued taking into consideration number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the financial & fragmentation plot analysis, the cost method, the direct comparison method, residual value method, and the discounted cash flow method.

	<u>2017</u>
Estimated fair value of investment property	250,432,529
Estimated fair value of net investment in finance lease	37,833,195
	288,265,724
Book value of investment property	250,000,000
Book value of net investment in finance lease	35,017,611
	285,017,611
Estimated fair value in excess of book value	3,248,113
Units in issue (numbers)	28,500,000
Share per unit in estimated fair value in excess of book value	0.1140

Below is an analysis of the properties fair value versus cost as at 30 June:

Net asset value:

	<u>2017</u>
Net assets value as per the interim financial statements	286,252,531
Estimated fair value in excess of book value	3,248,113
Net asset value based on fair valuation	288,373,366

Net asset value per unit:

	<u>2017</u>
Net assets value per unit as per the interim financial statements	10.0439
Estimated fair value in excess of book value	0.1140
Net asset value per unit based on fair valuation	10.1579

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(Amounts in SAR)

13. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These interim financial statements were approved by the Fund Board on 03 August 2017 corresponding to 11 Dhul Qi'dah 1438H.