

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018

AND INDEPENDENT AUDITORS' REVIEW REPORT TO UNIT HOLDERS

**INDEPENDENT REVIEW REPORT ON REVIEW OF INTERIM CONDENSED
FINANCIAL STATEMENTS**

To the Unit holders

Musharaka REIT Fund

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Musharaka REIT fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager") as at 30 June 2018, and the related interim condensed statements of profit and loss and comprehensive income, changes in net assets attributable to unit holders and cash flows for the period from 17 July 2017 to 30 June 2018, and a summary of significant accounting policies and other explanatory notes. The Fund Manager is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with IAS 34 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on the interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

BAKER TILLY MKM & CO.
Certified Public Accountants

Majid Muneer Alnemer
License number 381

Al-Khobar 16 Thu Al-Qi'dah 1439H
29 July 2018



MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**AS AT 30 JUNE 2018**

	<i><u>Note</u></i>	<i><u>Unaudited</u></i>
ASSETS		SR
Investment properties	5	866,401,858
Prepayments and other assets	7	902,652
Short term deposits	6	40,000,000
Cash and cash equivalents		165,180,265
Total assets		1,072,484,775
LIABILITIES		
Long term loan	8	160,726,050
Unearned rental revenue		10,070,567
Accrued management fees		9,399,122
Other liabilities		626,581
Total liabilities		180,822,320
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		891,662,455
Units in issue		88,000,000
Per unit value		10.13

The accompanying notes from 1 to 14 form an integral part of these interim condensed financial statements

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME (UNAUDITED)**FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018**

	<u><i>Note</i></u>	<u><i>Unaudited</i></u> <u><i>SR</i></u>
Revenue		
Rental revenue		65,470,293
Interest revenue		777,555
		<u>66,247,848</u>
Expenses		
Depreciation	5	(13,023,142)
Fund management fees	9,11	(9,399,122)
Other expenses	10	(1,267,578)
		<u>(23,689,842)</u>
Operating profit		42,558,006
Finance costs		(95,551)
Profit for the priod		<u>42,462,455</u>
Other comprehensive income		<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>42,462,455</u></u>
 Weighted average number of units outstanding		 <u><u>88,000,000</u></u>
Basic and diluted earnings per unit	13	<u><u>0.48</u></u>

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MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

**INTERIM CONDENSED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO
UNIT HOLDERS (UNAUDITED)****FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018**

	<i>Unaudited</i> <i>SR</i>
Units issued	880,000,000
Total comprehensive income for the period	42,462,455
Dividends	<u>(30,800,000)</u>
Net assets attributable to unit holders	<u><u>891,662,455</u></u>

The accompanying notes from 1 to 14 form an integral part of these interim condensed financial statements

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

**INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018**

	<i>Unaudited SR</i>
OPERATING ACTIVITIES	
Profit for the priod	42,462,455
Adjustments for:	
Depreciation	13,023,142
Interest revenue	(777,555)
Finance costs	95,551
Changes in operating assets and liabilities:	
Prepayments and other assets	(725,097)
Unearned rental revenue	10,070,567
Accrued management fees	9,399,122
Other liabilities	584,330
Net cash generated from operating activities	74,132,515
INVESTING ACTIVITIES	
Interest received on short term deposits	600,000
Acquisition of investment properties	(376,525,000)
Short term deposits	(40,000,000)
Net cash used in investing activities	(415,925,000)
FINANCING ACTIVITIES	
Proceeds from units issue	377,100,000
Net proceeds from long term loan	160,672,750
Dividend paid	(30,800,000)
Net cash generated from financing activities	506,972,750
Net change in cash and cash equivalents	165,180,265
CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD	165,180,265
<u>Non-cash transaction:</u>	
Acquisition of investment properties against units issued	502,900,000
Loan deferred transaction costs charged	53,300

The accompanying notes from 1 to 14 form an integral part of these interim condensed financial statements

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018

1 - GENERAL

Musharaka REIT (the “Fund”) is a closed-ended Real Estate Investment Fund incorporated in the Kingdom of Saudi Arabia in compliance with the real estate investment funds regulations and real estate investment traded funds instructions issued by board of the Capital Market Authority (CMA). The Fund is listed and traded in the Saudi Stock Exchange (“Tadawul”) and is in compliance with Shari'a Committee requirements. The Fund is managed by Musharaka Capital Company (the “Fund Manager”).

The offering of the units of the Fund has been approved by the CMA on 23/10/1438H (corresponding to 17 July 2017) and started its operations on 17 August 2017 as the offering and the refund of the surpluses on subscription processes lasted between the date of CMA approval to 16 August 2017. The Fund capital is SR 880,000,000 divided into 88,000,000 units at unit price of SR 10 and has a term of 99 years extendable for additional two years at the discretion of the Fund Manager after obtaining CMA approval.

The primary investment objective is to invest in developed properties that are qualified to generate periodic rental income and distribute at least 90% of the Fund's net profit as cash dividends to the unit holders annually.

The interim condensed financial statements should be read in conjunction with the annual audited financial statements of the Fund. The interim results may not be an indicator of the annual results of the Fund.

2 - BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

These interim condensed financial statements are prepared under the historical cost convention using the accruals basis of accounting and going concern concept.

2.3 Functional and presentation currency

The Fund interim condensed financial statements are presented in Saudi Riyals, which is also the Fund’s functional currency.

3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The key judgments and estimates and assumptions that have a significant impact on the interim condensed financial statements of the Fund are discussed below:

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued) FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018

3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

3.1 Judgements

Investment properties

As per CMA instructions, the Fund has adopted the cost model for investment properties. Accordingly, investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses.

Classification of leases as operating or capital leases

The Fund has entered into property leases on its investment property portfolio. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

3.2 Estimations and assumptions

Useful lives of investment properties

The Fund's management determines the estimated useful lives of its investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The fund's management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Impairment of investment properties

The Fund assesses whether there are any indicators of impairment for all investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amount as at 30 June 2018 was based on the value in use calculation.

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Investment property

Investment property is the property which is held either to earn rental income or for capital appreciation or for both. Investment property is initially measured at cost and are stated subsequently at cost less accumulated depreciation and impairment in value, if any. Freehold land and capital work in progress are not depreciated. The cost of investment property is depreciated on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of the principal classes of investment properties are as follows:

	Years
Building	40
Equipment	10

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(Managed by Musharaka Capital Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued) FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018

4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Investment property (Continued)

Impairment of investment properties

The carrying amounts of the Fund's investment properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of investment property exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is arrived based on available data from binding sales transactions at arm's length, for similar assets. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pretax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognised in the interim condensed statement of profit or loss and comprehensive income.

4.2 Cash and cash equivalents

Cash and cash equivalents in the interim condensed statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

4.3 Provisions

Provisions are 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 of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

4.4 Revenue

Rental income from investment property including incentives is recognised as revenue on a straight line basis over the non-cancellable period of the lease.

Interest revenue on deposits is recognised using the effective yield method.

4.5 Net assets value per unit

The net assets value (NAV) per unit as disclosed on the interim condensed statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at the period end.

4.6 Earnings per unit

Earnings per unit (EPU) is calculated by dividing the profit or loss attributable to units holders of the Fund by the weighted average number of units outstanding during the period.

4.7 Dividends

Dividend distribution to the unit holders is recognized as a liability in the interim condensed financial statements in the period in which the dividends are approved by the Fund's Board.

4.8 Zakat

Zakat and income tax are the unit holders obligations and are not provided for in these interim condensed financial statements.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)
FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018**5 - INVESTMENT PROPERTIES**

	<i>Land</i>	<i>Building</i>	<i>Equipment</i>	<i>Capital work in progress</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cost					
Additions	437,037,270	388,708,950	52,678,780	1,000,000	879,425,000
30 June 2018	437,037,270	388,708,950	52,678,780	1,000,000	879,425,000
Depreciation					
Charge for the period	-	8,450,902	4,572,240	-	13,023,142
30 June 2018	-	8,450,902	4,572,240	-	13,023,142
Net book value					
30 June 2018	437,037,270	380,258,048	48,106,540	1,000,000	866,401,858

Investment properties represent the Fund's investments in various residential compounds and warehousing facilities located within the Kingdom of Saudi Arabia.

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. In accordance with CMA instruction, investment properties are carried at cost less accumulated depreciation and impairment loss if any.

The fair value of investment properties are determined by two selected appraisers, namely, Olat Valuation Company and RE/MAX.

As at 30 June 2018, the fair value of investment properties is SR 847,176,208 compared with a carrying value of SR 865,401,858. No impairment was recorded though as recoverable amount is based on the value on use calculation.

Capital work in progress represent the advance paid on acquisition of right of use contracts with respect to various income generating properties, the total value of these rights amounting to SR 146 million. The transfer of these rights to the Fund along with the payment of the full consideration was completed in the subsequent period. Land and buildings are mortgaged against long term loan (note 8).

6 - SHORT TERM DEPOSITS

Short term deposits represent the amount invested by the Fund in a Murahaba with a local commercial bank which has an original maturity of more than 3 months for the purpose of yielding finance income at commercial rate.

7 - PREPAYMENTS AND OTHER ASSETS

	<i>SR</i>
Accrued finance income	177,555
Prepaid expenses	200,000
Others	525,097
	<u>902,652</u>

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)
FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018****8 - LONG TERM LOAN**

	<i>SR</i>
Long term loan	165,149,999
Less: deferred transaction costs	<u>(4,423,949)</u>
	<u><u>160,726,050</u></u>

The Fund entered into a bank facility agreement with a local commercial bank in the form of long term loans with an overall withdrawing limit of SR 400 million to finance the Fund in acquiring income generating investment properties. These facilities carry interest at commercial rates.

The Fund has withdrawn SR 160.7 million (net of transaction cost) during the period for the purpose of acquiring certain right of use contracts which was completed in the subsequent period. The loan is repayable on a single lumpsum payment after seven years from the date of withdrawal (28 June 2018). Accrued interest is repayable on a monthly basis.

The loan is secured by a mortgage of the Fund's investment properties and assignment of rental income.

9 - FUND MANAGEMENT FEES

The Fund is managed and administered by the Fund Manager. For these services, the Fund calculates the management fee, as set out in the Fund's terms and conditions, at an annual rate of 1.2% of the Funds net assets.

10 - OTHER EXPENSES

	<i>SR</i>
Edaa Fees	305,205
Tadawul Fees	249,866
Fund establishing fees	166,930
Advertising and branding	136,150
Custody fees	91,667
Fund units registration fees	64,024
Board and committee fees	46,600
Others	<u>207,136</u>
	<u><u>1,267,578</u></u>

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)
FOR THE PERIOD FROM 17 JULY 2017 TO 30 JUNE 2018****11 - RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties represent the Fund Manager, custodian, the Fund Board and the Fund Sharia Committee.

The following table provides the total amount of transactions that have been entered into with related parties during the period and their related accruals as at 30 June 2018:

Name of related party	Nature of transaction	Transactions for the period	Balance as at 30 June 2018
		SR	SR
Fund Manager	Management fees	9,399,122	9,399,122
	Transaction cost	7,670,000	-
Fund Board	Board of directors remunerations	40,000	-
	Sharia Committee remunerations	6,600	6,600
Custodian	Custody fee	91,667	91,667

The Fund Manager investment in the Fund at 30 June 2018 is 3,300,000 units.

The Board of Directors of the Fund Manager hold 457,321 units as at 30 June 2018.

12 - DIVIDEND DISTRIBUTION

During the period, the board resolved to distribute an interim dividend of SR 30.8 million (SR 0.35 per unit) which was paid during the period.

The Fund Manager shall make cash distributions at least once a year. Such distributions shall be made to the unit holders at no less than 90% of the Fund's net profits.

13 - EARNINGS PER UNIT

The calculation of basic earnings per unit is based on the profit attributable to unit holders and the weighted average number of units outstanding.

	SR
Profit for the period attributable to the unit holders	42,558,006
Weighted average number of units	88,000,000
Basic and diluted earnings per unit	0.48

There are no dilutive instruments, hence, no dilutive effect on the basic earning per unit of the fund.

14 - APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Fund Board of Directors on 29 July 2018.