

**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
**AND INDEPENDENT AUDITOR'S REPORT**

**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**INDEPENDENT AUDITOR'S REPORT****TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

***Opinion***

We have audited the financial statements of Musharaka REIT Fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows 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 ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed 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 the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the fund's 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.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion there on, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR'S REPORT**

**TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)**

(Managed by Musharaka Capital Company)

***Key Audit Matters (Continued)***

| <b>Impairment of investment properties</b>  |   |
|---|---|
| <b>Key audit matter</b>   | <b>How our audit addressed the key audit matter</b>   |
| <p>As at 31 December 2019, the carrying value of the Fund's investment properties amounted to SR 978.99 million.</p> <p>As part of the assessment of impairment on its investment properties, the Fund uses valuations carried out by third party valuers to ascertain the fair value of these properties.</p> <p>We considered this as a key audit matter as the valuation of the investment properties involves significant estimation and assumptions that could have a material impact on the financial statements of the Fund.</p> <p><i>Refer to note 5.1 to the financial statements on the accounting policy for impairment of non-financial assets and notes 7 for the disclosures on investment properties.</i></p> | <p>We performed the following as part of our audit:</p> <ul style="list-style-type: none"> <li>- Assessed the qualifications and expertise of the third-party valuers engaged in the valuation of investment properties.</li> <li>- Involved our real estate valuation specialists to review the valuation reports for selected properties and assessed whether the valuation approaches and methods used are in accordance with the established standards for valuation of properties and suitable for use in determining the fair value for the purpose of assessment of impairment and disclosure of fair value in the financial statements.</li> <li>- Assessed the appropriateness and adequacy of the accounting treatment and policies used and disclosures made in the Fund's financial statements related to the impairment of investment properties.</li> </ul> |

**INDEPENDENT AUDITOR'S REPORT**

**TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)**

(Managed by Musharaka Capital Company)

**Key Audit Matters (Continued)**

| <b>Implementation of IFRS 16 "Leases"</b>   |   |
|---|---|
| <b>Key audit matter</b>   | <b>How our audit addressed the key audit matter</b>   |
| <p>The Fund has adopted IFRS 16 "Leases" with effect from 1 January 2019 and this new standard supersedes the requirements of IAS 17 'Leases'.</p> <p>IFRS 16 introduces a new lease accounting model, where lessees are required to recognize a Right of Use (ROU) asset and a lease liability arising from a lease in the statement of financial position.</p> <p>The Fund has applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore, the cumulative impact of adopting IFRS 16 has been recognized as an adjustment to the opening retained earnings at 1 January 2019 without restating the comparative amounts. As a result, the Fund has recognized ROU assets of SR 217.4 million, lease liability of SR 168.1 million and a increase in retained earnings of SR 49.3 as of that date.</p> <p>We considered this as a key audit matter because of the significant judgements required in the assumptions and estimates made in order to determine the ROU assets and lease liabilities. The assumptions and estimates include assessment of lease term and the determination of appropriate discount rates.</p> <p><i>Refer to note 3 to the financial statements on the accounting policy for lease liabilities and right of use assets and notes 7, 9 and 14 for the disclosures on leases.</i></p> | <p>We performed the following as part of our audit:</p> <ul style="list-style-type: none"> <li>- Reviewed management's assessment of the impact of IFRS 16 in terms of the classification and measurement of its ROU assets and lease liabilities, and understood the approach taken towards implementation.</li> <li>- Assessed the accuracy of the lease data by testing, on a sample basis, the lease data provided by management through the inspection of lease contracts.</li> <li>- Tested lease schedules, on a sample basis, by recalculating the amounts underlying the ROU assets and lease liabilities, based on the terms of the lease contracts.</li> <li>- Assessed the appropriateness of the discount rates applied by management in determining lease liabilities.</li> <li>- Reviewed the adequacy of the Fund's disclosures included in the accompanying financial statements in relation to the implementation of the new standard.</li> </ul> |

## INDEPENDENT AUDITOR'S REPORT

### TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)

(Managed by Musharaka Capital Company)

#### ***Responsibilities of Fund Manager and Those Charged with Governance for the Financial Statements***

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and the Fund's terms and conditions, 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.

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.

Those charged with governance, i.e. the Board of Directors, are 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.

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 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.

## INDEPENDENT AUDITOR'S REPORT

### TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND (CONTINUED)

(Managed by Musharaka Capital Company)

#### *Auditor's Responsibilities for the Audit of the Financial Statements (Continued)*

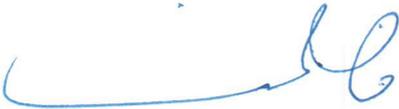
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Baker Tilly MKM & Co.**  
Certified Public Accountants



**Majid Muneer Alnemer**  
License No. 381  
Al-Khobar 2 Sha'ban 1441H  
26 March 2020



**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

|  | <i>Note</i> | <b>2019</b>          | <i>2018</i>   |
|--|-------------|----------------------|---------------|
|  |             | <b>SR</b>            | <b>SR</b>     |
| <b>ASSETS</b>                                  |             |                      |               |
| Investment properties                          | 7           | <b>978,986,053</b>   | 843,727,725   |
| Prepaid right of use                           | 8           | -                    | 145,422,566   |
| Net investment in finance leases               | 9           | <b>207,162,087</b>   | -             |
| Lease receivables                              | 10          | <b>9,054,606</b>     | 2,671,655     |
| Prepayments and other assets                   | 11          | <b>5,758,561</b>     | 5,715,843     |
| Short term deposits                            | 12          | <b>60,000,000</b>    | 25,000,000    |
| Cash and cash equivalents                      |             | <b>12,925,844</b>    | 35,127,521    |
| <b>TOTAL ASSETS</b>                            |             | <b>1,273,887,151</b> | 1,057,665,310 |
| <b>LIABILITIES</b>                             |             |                      |               |
| Borrowings                                     | 13          | <b>185,743,163</b>   | 159,792,309   |
| Lease liabilities                              | 14          | <b>151,615,548</b>   | -             |
| Unearned rental revenue                        | 15          | <b>17,979,074</b>    | 14,297,549    |
| Accrued management fees                        | 16,22       | <b>8,720,363</b>     | 6,428,194     |
| Other liabilities                              | 17          | <b>2,604,628</b>     | 3,876,097     |
| Dividend payable                               | 18          | -                    | 24,640,000    |
| <b>TOTAL LIABILITIES</b>                       |             | <b>366,662,776</b>   | 209,034,149   |
| <b>NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b> |             | <b>907,224,375</b>   | 848,631,161   |
| <b>Units in issue</b>                          |             | <b>88,000,000</b>    | 88,000,000    |
| <b>Per unit value</b>                          |             | <b>10.31</b>         | 9.64          |

The accompanying notes from 1 to 29 form an integral part of these financial statements

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2019**

|   | <i>Note</i> | <b>2019</b>                | <i>For the period<br/>from 17 July<br/>2017 to 31<br/>December 2018</i> |
|---|-------------|----------------------------|---|
|   |             | <b>SR</b>                  | <b>SR</b>   |
| <b>Revenue</b>  |             |                            |   |
| Rental revenue  | 22          | <u>94,648,476</u>          | <u>123,103,621</u>  |
| <b>Expenses</b>   |             |                            |   |
| Depreciation  | 7           | <b>(23,912,643)</b>        | (20,515,942)  |
| Fund management fee                                     | 16,22       | <b>(15,294,445)</b>        | (15,827,316)  |
| Other operating expenses                                | 19          | <b>(6,209,901)</b>         | (2,846,014)   |
| Allowance for expected credit losses                    | 10          | <b>(2,920,968)</b>         | -   |
| Impairment loss on investment properties                | 7           | -                          | (14,181,333)  |
| Amortization of prepaid right of use                    | 8           | -                          | (4,323,225)   |
| Rent expense  |             | -                          | (7,227,797)   |
|   |             | <u><b>(48,337,957)</b></u> | <u>(64,921,627)</u>   |
| <b>Operating profit</b>                                 |             | <b>46,310,519</b>          | 58,181,994  |
| Gain on exchange of investment property                 | 7           | <b>2,401,494</b>           | -   |
| Finance income  | 20          | <b>11,624,440</b>          | 1,012,784   |
| Finance costs   | 21          | <b>(20,251,088)</b>        | (4,323,617)   |
| <b>Profit for the year / period</b>                     |             | <b>40,085,365</b>          | 54,871,161  |
| Other comprehensive income                              |             | -                          | -   |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR / PERIOD</b> |             | <u><b>40,085,365</b></u>   | <u>54,871,161</u>   |
| <b>Weighted average number of units outstanding</b>     |             | <u><b>88,000,000</b></u>   | <u>88,000,000</u>   |
| <b>Basic and diluted earnings per unit</b>              | 25          | <u><b>0.46</b></u>         | <u>0.62</u>   |

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The accompanying notes from 1 to 29 form an integral part of these financial statements

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**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

|   | <u>Note</u> | <u>SR</u>                 |
|---|-------------|---------------------------|
| <b>For the year ended 31 Dec 2019</b>           |             |                           |
| As at 1 January 2019                            |             | <u>848,631,161</u>        |
| Impact of applying IFRS 16                      | 3           | <u>49,307,849</u>         |
| As at 1 January 2019 (adjusted)                 | 3           | <u>897,939,010</u>        |
| Profit for the year                             |             | <u>40,085,365</u>         |
| Other comprehensive income                      |             | <u>-</u>                  |
| Total comprehensive income for the year         |             | <u>40,085,365</u>         |
| Dividends                                       | 18          | <u>(30,800,000)</u>       |
| As at 31 December 2019                          |             | <u><u>907,224,375</u></u> |
| <br>  |             |                           |
| For the period from 17 July 2017 to 31 Dec 2018 |             |                           |
| Units issued                                    |             | <u>880,000,000</u>        |
| Profit for the period                           |             | <u>54,871,161</u>         |
| Other comprehensive income                      |             | <u>-</u>                  |
| Total comprehensive income for the period       |             | <u>54,871,161</u>         |
| Dividends                                       | 18          | <u>(86,240,000)</u>       |
| As at 31 December 2018                          |             | <u><u>848,631,161</u></u> |

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The accompanying notes from 1 to 29 form an integral part of these financial statements

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**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

|   | <i>For the period<br/>from 17 July<br/>2017 to 31</i> |                          |
|---|---|--------------------------|
|   | <u>2019</u>   | <u>December 2018</u>     |
|   | <u>SR</u>   | <u>SR</u>                |
| <b>OPERATING ACTIVITIES</b>                                       |   |                          |
| Profit for the year / period                                      | 40,085,365  | 54,871,161               |
| Adjustments for:  |   |                          |
| Depreciation  | 23,912,643  | 20,515,942               |
| Amortization of prepaid right of use                              | -   | 4,323,225                |
| Impairment loss on investment properties                          | -   | 14,181,333               |
| Gain on exchange of investment property                           | (2,401,494)   | -                        |
| Allowance for expected credit losses                              | 2,920,968   | -                        |
| Finance costs   | 20,251,088  | 4,323,617                |
| Finance income  | (11,624,440)  | (1,012,784)              |
| Changes in operating assets and liabilities:                      |   |                          |
| Lease receivables   | (7,914,219)   | (2,671,655)              |
| Prepayments and other assets                                      | (426,836)   | (869,780)                |
| Unearned rental revenue   | 3,681,525   | 14,297,549               |
| Accrued management fees   | 2,292,169   | 6,428,194                |
| Other liabilities   | (179,038)   | 3,830,390                |
| <b>Net cash from operating activities</b>                         | <u>70,597,731</u>                                     | <u>118,217,192</u>       |
| <b>INVESTING ACTIVITIES</b>                                       |   |                          |
| Proceeds from investment in finance lease                         | 5,724,572   | -                        |
| Finance income received   | 10,955,103  | -                        |
| Acquisition of right of use                                       | -   | (149,745,791)            |
| Acquisition of investment properties                              | (25,625,000)  | (375,525,000)            |
| Investment in short - term deposits                               | (35,000,000)  | (25,000,000)             |
| Interest received on short term deposits                          | 533,150   | 863,721                  |
| <b>Net cash used in investing activities</b>                      | <u>(43,412,175)</u>                                   | <u>(549,407,070)</u>     |
| <b>FINANCING ACTIVITIES</b>                                       |   |                          |
| Proceeds from units issue   | -   | 377,100,000              |
| Net change in lease liability                                     | (1,218,059)   | -                        |
| Short term loan obtained  | 100,000,000   | -                        |
| Short term loan paid  | (100,000,000)   | -                        |
| Net proceeds from long - term loan                                | 26,015,228  | 160,672,750              |
| Finance costs paid  | (18,744,402)  | (9,855,351)              |
| Dividends paid  | (55,440,000)  | (61,600,000)             |
| <b>Net cash (used in) generated from financing activities</b>     | <u>(49,387,233)</u>                                   | <u>466,317,399</u>       |
| <b>Net change in cash and cash equivalents</b>                    | <u>(22,201,677)</u>                                   | <u>35,127,521</u>        |
| Cash and cash equivalents at the beginning of the year / period   | <u>35,127,521</u>                                     | <u>-</u>                 |
| <b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR / PERIOD</b> | <u><u>12,925,844</u></u>                              | <u><u>35,127,521</u></u> |

**MUSHARAKA REIT FUND**  
 (Managed by Musharaka Capital Company)  
**STATEMENT OF CASH FLOWS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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|   | <i>For the period</i> |                      |
|---|-----------------------|----------------------|
|   | <i>from 17 July</i>   |                      |
|   | <i>2017 to 31</i>     |                      |
|   | <u>2019</u>           | <u>December 2018</u> |
|   | <i>SR</i>             | <i>SR</i>            |
| <b><u>Non-cash transaction:</u></b>                                 |                       |                      |
| Impact of IFRS 16 adoption (note 3)                                 | <b>49,307,849</b>     | -                    |
| Deferred loan arrangement fee transferred to borrowing              | <b>520,305</b>        | -                    |
| Recognition of investment in finance lease on exchange transaction  | <b>28,239,673</b>     | -                    |
| Drecognition of investment in finance lease on exchange transaction | <b>21,983,516</b>     | -                    |
| Lease liabilities waived on exchange transaction                    | <b>17,393,292</b>     | -                    |
| Acquisition of investment properties against units issued           | <b>-</b>              | <b>502,900,000</b>   |

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The accompanying notes from 1 to 29 form an integral part of these financial statements

## **MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **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 registered address of the Fund manager is: Musharaka Capital Company P.O.Box 712, Al Khobar 31952, Kingdom of Saudi Arabia.

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. The Fund's term is 99 years extendable for additional two years at the discretion of the Fund Manager after obtaining CMA approval.

The primary investment objective of the Fund 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 comparative figures presented in the statement of profit or loss and other comprehensive income covers the period since inception (17 July 2017) to 31 December 2018 which may effect the comparability of the accompanying financial statements.

#### **2 - BASIS OF PREPARATION**

The financial statements of the Fund for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”) and Fund's terms and conditions.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Saudi Riyals which is also the functional currency of the Fund and all values are rounded to the nearest Saudi Riyal (SR), except when otherwise indicated.

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.

#### **3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS**

##### **3.1 New standards, interpretations and amendments adopted by the fund**

The Fund has applied IFRS 16 effective from 1 January 2019. The nature and effect of changes as a result of adoption of this new accounting standard are described below.

##### **IFRS 16 Leases**

The International Accounting Standard Board (IASB) published the new standard on leases, IFRS 16 'Leases' on 13 January 2016. The rules and definitions of IFRS 16 supersede 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Fund has adopted IFRS 16 Leases from 1 January 2019. The Fund has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in net assets attributable to unitholders at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported in the last annual audited financial statements for the period ended 31 December 2018, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

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### 3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

#### 3.1 New standards, interpretations and amendments adopted by the fund (continued)

##### IFRS 16 Leases (continued)

###### (a) Definition of a lease

Previously, the Fund determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement contains a Lease'. The Fund now assesses whether a contract is, or contains, a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

On transition to IFRS 16, the Fund elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Fund allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Fund has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

###### (b) Fund as a lessee

The Fund leases properties. As a lessee, the Fund previously classified leases as operating or finance leases based on its assessments of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Fund. Under IFRS 16, the Fund recognises right-of-use assets and lease liabilities for most leases i.e. these leases are on the statement of financial position.

##### *Significant accounting policies*

The Fund recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is included under investment property.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in assessments of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Fund depreciates right of use assets on straight-line basis over the lease term.

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

##### 3.1 New standards, interpretations and amendments adopted by the fund (continued)

###### IFRS 16 Leases(continued)

###### (b) Fund as a lessee(continued)

###### *Transition*

Previously, the Fund classified property leases as operating leases under IAS 17. These include land and commercial shops and malls. At transition, for leases classified as operating leases under IAS 17, lease liabilities have been measured at the present value of the remaining lease payments discounted at the Fund's incremental borrowing rate as at 1 January 2019. Right-of-use assets have been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

At transition, the Fund used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

###### (c) Fund as a lessor

Except where Fund acts as an intermediate lessor, the Fund is not required to make any adjustments on transition for leases in which it is a lessor. The Fund has classified these leases as operating leases. The accounting policies applicable to the Fund as a lessor are not different from those under IAS 17. The Fund shall account for those leases applying this standard from the date of initial application.

A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

###### (d) Fund as an intermediate lessor

The Fund is also acting as an intermediate lessor for right of use assets obtained which were already leased to the tenants.

###### *Significant accounting policies*

At the commencement date of the lease, the Fund has recognised assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

The Fund uses the interest rate implicit in the lease to measure the net investment in the lease. If the interest rate implicit in the sublease cannot be readily determined, Fund may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease. If both rates cannot be readily determined, the Fund's incremental borrowing rate is used. Generally, the Fund uses its incremental borrowing rate as the discount rate.

###### *Transition*

The Fund has reassessed subleases that were classified as operating leases under IAS 17 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or as a finance lease under IFRS 16. On the basis of the remaining contractual terms and conditions of the head lease and sublease. At that date the Fund has classified some subleases as finance leases.

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)****3.1 New standards, interpretations and amendments adopted by the fund (continued)****IFRS 16 Leases(continued)****(e) The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:**

|  | <i>Note</i> | <i>As at 31<br/>December 2018</i> | <i>Effect of<br/>adoption</i> | <i>As at 1 January<br/>2019</i> |
|--|-------------|-----------------------------------|-------------------------------|---------------------------------|
|  |             | SR                                | SR                            | SR                              |
| <b>Effect on total assets</b>  |             |                                   |                               |                                 |
| Investment properties (a)  | 7           | 843,727,725                       | 142,281,612                   | 986,009,337                     |
| Prepaid right of use (a)   | 8           | 145,422,566                       | (145,422,566)                 | -                               |
| Net investment in finance leases (b)   | 9           | -                                 | 219,142,816                   | 219,142,816                     |
| Lease receivables  | 10          | 2,671,655                         | 1,389,700                     | 4,061,355                       |
|  |             | <u>1,057,665,310</u>              | <u>217,391,562</u>            | <u>1,275,056,872</u>            |
| <b>Effect on total liabilities</b>   |             |                                   |                               |                                 |
| Lease liabilities (b)  | 14          | -                                 | 170,226,899                   | 170,226,899                     |
| Other liabilities  | 17          | 3,876,097                         | (2,143,186)                   | 1,732,911                       |
|  |             | <u>209,034,149</u>                | <u>168,083,713</u>            | <u>377,117,862</u>              |
| <b>Net effect of adjustment on net assets<br/>attributable to unit holders</b> |             |                                   |                               |                                 |
|  |             | <u>848,631,161</u>                | <u>49,307,849</u>             | <u>897,939,010</u>              |

- (a) Under IAS 17, land rent and prepaid right of use asset were accounted for as operating leases, Under IFRS 16, land lease is accounted for as a right of use asset using the present value of minimum lease payments payable over the term of land lease agreement. As for prepaid right of use asset, such amount was reclassified to investment properties without discounting due to the fact that they were prepaid.
- (b) The Fund accounted for the sublease contracts under IAS 17 as operating lease, upon adoption of IFRS 16, the Fund has assessed the sublease contracts to determine whether they are finance leases or not and has identified seven contracts over which the sublease period form substantial term of the head lease agreements and thus accounted for these agreements as finance leases and accordingly, de-recognised these properties and presented the present value of the minimum lease payments receivable as net investment in finance lease in accordance with IFRS 16. The Fund has also recognised lease liability at the present value of minimum lease payments for land. The difference between the cost of the derecognised properties and the net investment in finance lease recognised was accounted for as an adjustment to the opening net assets attributable to unitholders.

**3.2 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 Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective are not expected to have a significant impact on the Company's financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Business Combinations.
- Amendments to IAS 1 and IAS 8.
- IFRS 17 Insurance Contracts.

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 4 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires Fund manager 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, estimates and assumptions that have a significant impact on the financial statements of the Fund are discussed below:

##### 4.1 Judgements

###### *Classification of leases as operating or finance leases*

###### *Fund as a lessor*

The Fund has entered into commercial and residential 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 as such accounts for the contracts as operating leases.

###### *Determining the lease term for lease contracts*

The Fund has applied judgement to determine the lease term for those lease contracts in which it is a lessee that include renewal options. The assessment of whether the Fund is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

##### 4.2 Estimates and assumptions

###### *Valuation of investment properties*

The Fund hires the services of third party to obtain estimates of the market value of investment properties using recognised valuation techniques for the purposes of their impairment review and disclosures in the financial statements.

###### *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 Manager 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.

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 4.2 Estimates and assumptions (continued)

##### *Impairment of financial assets held at amortised cost*

The Fund uses a provision matrix to calculate Expected Credit Losses "ECLs" for lease receivables and investment in finance lease. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type, and coverage by guarantees and other forms of credit insurance).

The provision matrix is initially based on the Fund's historical observed default rates. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. At every reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the trade receivables is disclosed in Notes 10.

## 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Investment properties

Investment property is the property which is held (by owner or lessee under finance lease) 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 is not depreciated. The cost of investment property is depreciated on a straight-line basis over estimated useful lives of the assets.

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

|                                  | <u>Years</u> |
|----------------------------------|--------------|
| Buildings                        | 35 - 40      |
| Furniture, fixture and equipment | 10           |

### 5.2 Rental revenue

Rental income arising from operating leases on investment properties is recognised, net of discount, in accordance with the terms of lease contracts over the lease term on a straight-line basis over the non-cancellable period of lease.

### 5.3 Cash and cash equivalents

Cash and cash equivalents in the 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.

### 5.4 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.

### 5.5 Finance income

Finance income is recognised as the interest accrues using the effective interest method.

### 5.6 Net assets value per unit

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

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 5.7 Earnings per unit

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

##### 5.8 Dividend

Unpaid dividend to the unit holders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Fund's Board.

##### 5.9 Zakat

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

##### 5.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

##### 5.11 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

##### 5.12 Financial assets

###### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

###### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as described below:

###### **Financial assets at amortised cost**

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's financial assets at amortised cost includes lease receivables, short term deposits and cash and cash equivalents.

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 5.12 Financial assets (Continued)

###### *Derecognition*

A financial asset is primarily derecognised when:

The rights to receive cash flows from the asset have expired, or

The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

###### *Impairment of financial assets*

The Fund recognises an allowance for expected credit losses (ECLs). ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For rent receivables, the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the tenants and the economic environment.

##### 5.13 Financial liabilities

###### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

###### *Subsequent measurement*

###### **Loans, borrowings and payables**

After initial recognition, borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well through the EIR amortisation process. Transaction costs are amortised using the EIR method from the date at which the loan is recognised over the repayment term.

###### *Derecognition*

A financial liability is derecognised when the obligation is discharged, cancelled or expires.

**MUSHARAKA REIT FUND**  
**(Managed by Musharaka Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5.14 Fair value measurement**

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

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

- Level 1 - Fair value measurements are those derived from quoted prices in an active market (that are unadjusted) for identical assets or liabilities.
- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly observable.
- Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

For the purpose of fair value disclosures, the Fund 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.

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****6 - SEGMENT INFORMATION**

The Fund Manager monitors the operating results of the Fund's business segments separately for the purpose of making decisions about resource allocation and performance assessment.

**Business segments**

For management purposes, the Fund is organised into three major segments, namely:

*i) Commercial properties:*

Includes commercial complexes that offer leasable space.

*ii) Residential properties:*

Includes residential compounds and hotel apartments.

*iii) Warehouse properties:*

Includes closed warehouse facilities.

Allocation of the segment revenues ,profit or loss, assets and liabilities as at 31 December 2019 are as following:

|  | <i>Commercial<br/>properties</i> | <i>Residential<br/>properties</i> | <i>Warehouse<br/>properties</i> | <i>Unallocated</i>  | <i>Total</i>         |
|--|----------------------------------|-----------------------------------|---------------------------------|---------------------|----------------------|
|  | <i>SR</i>                        | <i>SR</i>                         | <i>SR</i>                       | <i>SR</i>           | <i>SR</i>            |
| <b>Revenue</b>                                 |                                  |                                   |                                 |                     |                      |
| Major customers                                | -                                | 59,495,000                        | 9,279,661                       | -                   | 68,774,661           |
| Others   | 18,648,815                       | 7,225,000                         | -                               | -                   | 25,873,815           |
|  | <u>18,648,815</u>                | <u>66,720,000</u>                 | <u>9,279,661</u>                | <u>-</u>            | <u>94,648,476</u>    |
| <b>Expenses</b>                                |                                  |                                   |                                 |                     |                      |
| Depreciation, amortization and impairment loss | (8,887,879)                      | (14,034,580)                      | (990,184)                       | -                   | (23,912,643)         |
|  | <u>9,760,936</u>                 | <u>52,685,420</u>                 | <u>8,289,477</u>                | <u>(30,650,468)</u> | <u>40,085,365</u>    |
| <b>Profit for the year</b>                     |                                  |                                   |                                 |                     |                      |
|  | <u>327,395,238</u>               | <u>776,884,909</u>                | <u>90,900,686</u>               | <u>78,706,318</u>   | <u>1,273,887,151</u> |
| <b>Total assets</b>                            |                                  |                                   |                                 |                     |                      |
|  | <u>342,319,898</u>               | <u>13,017,888</u>                 | <u>-</u>                        | <u>11,324,990</u>   | <u>366,662,776</u>   |
| <b>Total liabilities</b>                       |                                  |                                   |                                 |                     |                      |

**Geographical segments**

The Fund's assets and operations are all located in the Kingdom of Saudi Arabia.

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****6 - SEGMENT INFORMATION (Continued)**

Allocation of the segment revenues and profit or loss for the period from 17 July 2017 to 31 December 2018 and assets and liabilities as at 31 December 2018 are as follows:

|  | <i>Commercial<br/>properties</i> | <i>Residential<br/>properties</i> | <i>Warehouse<br/>properties</i> | <i>Unallocated</i>  | <i>Total</i>         |
|--|----------------------------------|-----------------------------------|---------------------------------|---------------------|----------------------|
|  | <i>SR</i>                        | <i>SR</i>                         | <i>SR</i>                       | <i>SR</i>           | <i>SR</i>            |
| <b>Revenue</b>                                 |                                  |                                   |                                 |                     |                      |
| Major customers                                | -                                | 80,780,712                        | 13,144,068                      | -                   | 93,924,780           |
| Others   | 19,321,170                       | 9,857,671                         | -                               | -                   | 29,178,841           |
|  | <u>19,321,170</u>                | <u>90,638,383</u>                 | <u>13,144,068</u>               | <u>-</u>            | <u>123,103,621</u>   |
| <b>Expenses</b>                                |                                  |                                   |                                 |                     |                      |
| Depreciation, amortization and impairment loss | (4,323,225)                      | (33,338,835)                      | (1,358,440)                     | -                   | (39,020,500)         |
| Rent expense                                   | (7,227,797)                      | -                                 | -                               | -                   | (7,227,797)          |
|  | <u>7,770,148</u>                 | <u>57,299,548</u>                 | <u>11,785,628</u>               | <u>(21,984,163)</u> | <u>54,871,161</u>    |
| <b>Profit for the period</b>                   |                                  |                                   |                                 |                     |                      |
|  | <u>148,094,221</u>               | <u>752,836,165</u>                | <u>90,891,560</u>               | <u>65,843,364</u>   | <u>1,057,665,310</u> |
| <b>Total assets</b>                            |                                  |                                   |                                 |                     |                      |
|  | <u>162,123,647</u>               | <u>9,441,616</u>                  | <u>4,855,933</u>                | <u>32,612,953</u>   | <u>209,034,149</u>   |
| <b>Total liabilities</b>                       |                                  |                                   |                                 |                     |                      |

**Geographical segments**

The Fund's assets and operations are all located in the Kingdom of Saudi Arabia.

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****7 - INVESTMENT PROPERTIES**

|                                 | <u>2019</u>               | <u>2018</u>        |
|---------------------------------|---------------------------|--------------------|
|                                 | <u>SR</u>                 | <u>SR</u>          |
| Owned investment properties (a) | <b>866,807,509</b>        | 843,727,725        |
| Right of use assets (b)         | <b>112,178,544</b>        | -                  |
|                                 | <b><u>978,986,053</u></b> | <u>843,727,725</u> |

**(a) Owned investment properties**

|   | <i>Land</i>        | <i>Buildings</i>   | <i>Furniture,<br/>fixture and<br/>equipment</i> | <i>Total</i>       |
|---|--------------------|--------------------|---|--------------------|
|   | <i>SR</i>          | <i>SR</i>          | <i>SR</i>                                       | <i>SR</i>          |
| <b>Cost:</b>                              |                    |                    |   |                    |
| Additions                                 | 437,037,270        | 388,708,950        | 52,678,780                                      | 878,425,000        |
| 31 December 2018                          | <u>437,037,270</u> | <u>388,708,950</u> | <u>52,678,780</u>                               | <u>878,425,000</u> |
| 1 January 2019                            | <b>437,037,270</b> | <b>388,708,950</b> | <b>52,678,780</b>                               | <b>878,425,000</b> |
| Additions                                 | 22,551,500         | 31,987,000         | -   | 54,538,500         |
| Disposals                                 | -                  | (16,433,952)       | -   | (16,433,952)       |
| 31 December 2019                          | <u>459,588,770</u> | <u>404,261,998</u> | <u>52,678,780</u>                               | <u>916,529,548</u> |
| <b>Depreciation and impairment losses</b> |                    |                    |   |                    |
| Charge for the period                     | -                  | 13,309,764         | 7,206,178                                       | 20,515,942         |
| Impairment loss                           | 7,082,415          | 7,098,918          | -   | 14,181,333         |
| 31 December 2018                          | <u>7,082,415</u>   | <u>20,408,682</u>  | <u>7,206,178</u>                                | <u>34,697,275</u>  |
| 1 January 2019                            | <b>7,082,415</b>   | <b>20,408,682</b>  | <b>7,206,178</b>                                | <b>34,697,275</b>  |
| Charge for the year                       | -                  | 9,759,771          | 5,264,993                                       | 15,024,764         |
| 31 December 2019                          | <u>7,082,415</u>   | <u>30,168,453</u>  | <u>12,471,171</u>                               | <u>49,722,039</u>  |
| <b>Net book value</b>                     |                    |                    |   |                    |
| 31 December 2019                          | <u>452,506,355</u> | <u>374,093,545</u> | <u>40,207,609</u>                               | <u>866,807,509</u> |
| 31 December 2018                          | <u>429,954,855</u> | <u>368,300,268</u> | <u>45,472,602</u>                               | <u>843,727,725</u> |

Owned investment properties represent the Fund's investments in various residential compounds, warehousing facilities and hotel apartments located within the Kingdom of Saudi Arabia.

Investment properties at 31 December 2019 with a net book value of SR 836.33 million ( 31 December 2018: SR 843.73) million are pledged as security against bank borrowings (note 13).

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 valuations prepared by two independent evaluators. In accordance with CMA instructions, investment properties are carried at cost less accumulated depreciation and impairment loss if any.

The fair values of the properties are based on valuations performed by Olat Valuation Company and Remax Real Estate, both are independent valuers accredited by the Saudi Authority for Accredited Valuers.

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****7 - INVESTMENT PROPERTIES (Continued)****(a) Owned investment properties (Continued)**

As at 31 December 2019, the average valuation of the above investment properties amounted to SR 905,096,232 (31 December 2018: 847,418,209). Key assumptions used for the valuation of investment properties include discount rate at 9% (31 December 2018: 9%) and income yield rate ranging from 7% to 9% (31 December 2018: 7.4% to 9%).

For the period ended 31 December 2018 Management has adjusted the valuation performed by Olaat Valuation Company and Remax Real Estate by reducing expected yield to match market average for similar properties and increased the weight given to the "Income Approach" as it is more reliable than the "Cost Approach". As a result of these adjustments, fair value dropped by SR 14,181,333 for certain investment properties.

**(b) Right of use assets**

|                           | <i>Land</i>        | <i>Buildings</i>    | <i>Total</i>        |
|---------------------------|--------------------|---------------------|---------------------|
|                           | <i>SR</i>          | <i>SR</i>           | <i>SR</i>           |
| <b>Cost:</b>              |                    |                     |                     |
| 1 January 2019            | -                  | -                   | -                   |
| Impact of IFRS 16         | 71,956,338         | 74,612,563          | 146,568,901         |
| 1 January 2019 (adjusted) | 71,956,338         | 74,612,563          | 146,568,901         |
| Disposals                 | <b>(9,201,908)</b> | <b>(13,981,697)</b> | <b>(23,183,605)</b> |
| 31 December 2019          | <b>62,754,430</b>  | <b>60,630,866</b>   | <b>123,385,296</b>  |
| <b>Depreciation:</b>      |                    |                     |                     |
| 1 January 2019            | -                  | -                   | -                   |
| Impact of IFRS 16         | 2,108,487          | 2,178,802           | 4,287,289           |
| 1 January 2019 (adjusted) | 2,108,487          | 2,178,802           | 4,287,289           |
| Disposals                 | <b>(782,394)</b>   | <b>(1,186,022)</b>  | <b>(1,968,416)</b>  |
| Charge for the year       | <b>4,386,437</b>   | <b>4,501,442</b>    | <b>8,887,879</b>    |
| 31 December 2019          | <b>5,712,530</b>   | <b>5,494,222</b>    | <b>11,206,752</b>   |
| <b>Net book value</b>     |                    |                     |                     |
| 31 December 2019          | <b>57,041,900</b>  | <b>55,136,644</b>   | <b>112,178,544</b>  |
| 31 December 2018          | -                  | -                   | -                   |

The Fund has acquired right of use assets ("ROU") of certain commercial properties, i.e. land and building for term ranging from 15.5 to 16.5 years.

The fair values of the ROU are based on valuations performed by Olaat Valuation Company and Remax Real Estate both are, independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 31 December 2019, the average valuation of the buildings amounted to SR 63,772,273 (2018: SR 79,159,619) calculated by allocating the overall average valuation of the acquired right of use buildings amounted to SR 126,659,463 (2018: SR 158,716,210) to the remaining area after the derecognition of the portion of buildings that was derecognised on finance lease arrangements. The valuation is determined as an average value of the valuation reports made by two independent valuers. Key assumptions used for the valuation of the ROU include discount rate ranging between 10.5% to 11%.

**Fair value hierarchy**

The fair value of investment properties is classified in the third level of fair value hierarchy.

Any significant movement in the assumptions used for fair valuation of investment properties such as discount rates, yield, rental growth, vacancy rate etc. would result in significantly lower/higher fair value of those assets.

**MUSHARAKA REIT FUND**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****8 - PREPAID RIGHT OF USE**

The Fund has acquired right of use ("ROU") of certain commercial properties for tenure ranging from 15.5 to 16.5 years.

The fair values of the ROU are based on valuations performed by Olat Valuation Company and Remax Real Estate both are, independent valuers accredited by the Saudi Authority for Accredited Valuers.

ROU at 31 December 2018 with a net book value of SR 145.42 million are pledged as security against bank borrowings (note 11).

As at 31 December 2018, the average valuation of the above ROU properties amounted to SR 161,705,072. Key assumptions used for the valuation of the ROU include discount rate ranging between 11% to 12%.

As at 1 January 2019, the balances of the prepaid right of use derecognised on adoption of IFRS 16 (note 3).

**9 - NET INVESTMENT IN FINANCE LEASES**

|                         | <u>2019</u>        | <u>2018</u> |
|-------------------------|--------------------|-------------|
|                         | <u>SR</u>          | <u>SR</u>   |
| Gross lease receivables | 291,926,011        | -           |
| Finance income          | (84,763,924)       | -           |
|                         | <u>207,162,087</u> | <u>-</u>    |

The maturity analysis of lease liabilities as at 31 December 2019 is as follows:

|                         | <i>Less than one<br/>year</i> | <i>One to five<br/>years</i> | <i>More than<br/>five years</i> | <i>Total</i>       |
|-------------------------|-------------------------------|------------------------------|---------------------------------|--------------------|
|                         | <u>SR</u>                     | <u>SR</u>                    | <u>SR</u>                       | <u>SR</u>          |
| Gross lease receivables | 18,617,700                    | 70,850,595                   | 202,457,716                     | 291,926,011        |
| Finance income          | (8,095,070)                   | (33,244,275)                 | (43,424,579)                    | (84,763,924)       |
|                         | <u>10,522,630</u>             | <u>37,606,320</u>            | <u>159,033,137</u>              | <u>207,162,087</u> |

Fund has investment in sublease against right of use assets (note 7).

**10 - LEASE RECEIVABLES**

|                                      | <u>2019</u>       | <u>2018</u>      |
|--------------------------------------|-------------------|------------------|
|                                      | <u>SR</u>         | <u>SR</u>        |
| Lease receivables - Billed           | 11,500,108        | 435,391          |
| Lease receivables - Unbilled         | 475,466           | 2,236,264        |
|                                      | <u>11,975,574</u> | <u>2,671,655</u> |
| Allowance for expected credit losses | (2,920,968)       | -                |
|                                      | <u>9,054,606</u>  | <u>2,671,655</u> |

An aged analysis of rent receivables as at 31 December 2019 and 2018 is as follows:

|      | <i>Neither past due<br/>nor impaired</i> | <i>Days past due</i> |                     |                     |                      | <i>Total</i> |
|------|--|----------------------|---------------------|---------------------|----------------------|--------------|
|      |  | <i>&lt; 180 days</i> | <i>181-270 days</i> | <i>270-365 days</i> | <i>&gt; 365 days</i> |              |
|      | <u>SR</u>                                | <u>SR</u>            | <u>SR</u>           | <u>SR</u>           | <u>SR</u>            | <u>SR</u>    |
| 2019 | 475,466                                  | 6,470,705            | 964,982             | 1,057,073           | 3,007,348            | 11,975,574   |
| 2018 | 2,236,264                                | 435,391              | -                   | -                   | -                    | 2,671,655    |

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****10 - LEASE RECEIVABLES (Continued)**

The movement in the allowance for expected credit losses is as follows:

|             | <u>2019</u>             | <u>2018</u> |
|-------------|-------------------------|-------------|
|             | <i>SR</i>               | <i>SR</i>   |
| 1 January   | -                       | -           |
| Additions   | <b>2,920,968</b>        | -           |
| 31 December | <b><u>2,920,968</u></b> | <u>-</u>    |

**11 - PREPAYMENTS AND OTHER ASSETS**

|                               | <u>2019</u>             | <u>2018</u>      |
|-------------------------------|-------------------------|------------------|
|                               | <i>SR</i>               | <i>SR</i>        |
| Deferred loan arrangement fee | <b>4,176,695</b>        | 4,697,000        |
| Prepaid expenses              | <b>339,754</b>          | 258,268          |
| Accrued interest income       | <b>285,250</b>          | 149,063          |
| VAT receivable                | <b>956,862</b>          | 611,512          |
|                               | <b><u>5,758,561</u></b> | <u>5,715,843</u> |

Deferred loan arrangement fee constitutes administrative and consultancy fee on the unavailed loan facility amounting to SR 208.85 million (2018: SR 234.85 million) (note 13).

**12 - SHORT TERM DEPOSITS**

Short term deposits represent the amount invested by the Fund in a Murahaba deposit with a local commercial bank, which is in compliance with Sharia Committee standards, has an original maturity of more than 3 months for the purpose of yielding finance income at commercial rates.

Deposits earn interest at rate ranging between 2.35% to 2.76% (2018: 2% to 2.65%).

**13 - BORROWINGS**

|                           | <u>2019</u>               | <u>2018</u>        |
|---------------------------|---------------------------|--------------------|
|                           | <i>SR</i>                 | <i>SR</i>          |
| <b>(a) Long term loan</b> |                           |                    |
| Long term loan            | <b>191,165,228</b>        | 165,150,000        |
| Less: transaction costs   | <b>(5,422,065)</b>        | (5,357,691)        |
|                           | <b><u>185,743,163</u></b> | <u>159,792,309</u> |

The Fund entered into a bank facility agreement, which is in compliance with Sharia Committee standards, with Al Rajhi bank in the form of long term loans with an overall withdrawing limit of SR 400 million to finance the acquisition of income generating assets. These facilities carry interest at SIBOR (6 months) plus a margin of 1.85%.

The Fund has withdrawn SR 26 million (2018: SR 165.15 million) for the purpose of acquiring investment properties (2018: certain rights of use). The loan is repayable on a single lumpsum payment after seven years from the date of withdrawal (28 June 2018). Interest is payable on a semi-annual basis.

The loan is secured by a mortgage of the Fund's investment properties, promissory note and assignment of rental income (note 7).

**(b) Short term loan**

During the year, the Fund has withdrawn its short term borrowing limit. These facilities carry interest at SIBOR (1 months) plus a margin of 1.85%. This facility was settled within two weeks of withdrawal.

**MUSHARAKA REIT FUND**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****14 - LEASE LIABILITIES**

|                         | <u>2019</u>               | <u>2018</u> |
|-------------------------|---------------------------|-------------|
|                         | <i>SR</i>                 | <i>SR</i>   |
| Gross lease liabilities | <b>214,126,280</b>        | -           |
| Finance charges         | <b>(62,510,732)</b>       | -           |
|                         | <b><u>151,615,548</u></b> | <u>-</u>    |

The maturity analysis of lease liabilities as at 31 December 2019 is as follows:

|                         | <i>Less than one<br/>year</i> | <i>Two to five<br/>years</i> | <i>More than<br/>five years</i> | <i>Total</i>              |
|-------------------------|-------------------------------|------------------------------|---------------------------------|---------------------------|
|                         | <i>SR</i>                     | <i>SR</i>                    | <i>SR</i>                       | <i>SR</i>                 |
| Gross lease liabilities | <b>18,640,000</b>             | <b>47,392,000</b>            | <b>148,094,280</b>              | <b>214,126,280</b>        |
| Finance charges         | <b>(5,277,772)</b>            | <b>(24,189,497)</b>          | <b>(33,043,463)</b>             | <b>(62,510,732)</b>       |
|                         | <b><u>13,362,228</u></b>      | <b><u>23,202,503</u></b>     | <b><u>115,050,817</u></b>       | <b><u>151,615,548</u></b> |

Lease liability represents present value of minimum lease payments for lease of land.

When measuring lease liabilities, the Fund discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rate applied is 4.58%. The reconciliation of the operating lease commitment as at 31 December 2018 previously disclosed under IAS 17 and lease liabilities initially recognised under IFRS 16 is as follows:

|   | <u>SR</u>                 |
|---|---------------------------|
| Lease commitments as per 2018                   | <b>242,167,300</b>        |
| Discounted at incremental borrowing rate        | <b><u>170,226,899</u></b> |
| Lease liability recognised as at 1 January 2019 | <b><u>170,226,899</u></b> |

**15 - UNEARNED RENTAL REVENUE**

Unearned rental revenue represents advance rent received, against operating lease of owned investment properties (note 7) , for future period and rental period is yet to expire.

**16 - FUND MANAGEMENT FEE**

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 total assets.

**17 - OTHER LIABILITIES**

|                         | <u>2019</u>             | <u>2018</u>      |
|-------------------------|-------------------------|------------------|
|                         | <i>SR</i>               | <i>SR</i>        |
| Security deposits       | <b>978,000</b>          | 992,235          |
| Accrued expenses        | <b>876,991</b>          | 1,499,052        |
| Advance rent            | <b>480,858</b>          | -                |
| Accrued finance charges | <b>268,779</b>          | 45,707           |
| Deferred rent payable   | -                       | 1,315,503        |
| Others                  | -                       | 23,600           |
|                         | <b><u>2,604,628</u></b> | <u>3,876,097</u> |

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****18 - DIVIDEND PAYABLE**

During the year, the Fund declared and paid dividends of SR 30.8 million (for the period from 17 July 2017 to 31 December 2018: SR 86.24 million declared, of which SR 61.60 million were paid during the period and the balance was paid on 2019). As per the terms and conditions of the Fund, it aims to distribute cash dividend, at least once annually, not less than 90% of the net profit.

**19 - OTHER OPERATING EXPENSES**

|                                   | <i>For the period<br/>from 17 July<br/>2017 to 31<br/>December 2018</i> |                      |
|-----------------------------------|---|----------------------|
|                                   | <b>2019</b>   | <b>December 2018</b> |
|                                   | <b>SR</b>   | <b>SR</b>            |
| Right of use property manager fee | <b>2,178,541</b>  | -                    |
| Utilities                         | <b>1,006,320</b>  | 255,919              |
| Fees and subscriptions            | <b>855,704</b>  | 1,337,172            |
| Valuation fee                     | <b>475,500</b>  | 271,000              |
| Advertising and branding          | <b>184,593</b>  | 123,816              |
| Board of director's fee           | <b>60,000</b>   | 60,000               |
| Others                            | <b>1,449,243</b>  | 798,107              |
|                                   | <b>6,209,901</b>  | <b>2,846,014</b>     |

**20 - FINANCE INCOME**

|  | <i>For the period<br/>from 17 July<br/>2017 to 31<br/>December 2018</i> |                      |
|--|---|----------------------|
|  | <b>2019</b>   | <b>December 2018</b> |
|  | <b>SR</b>   | <b>SR</b>            |
| Interest income on short - term deposits         | <b>691,025</b>  | 1,012,784            |
| Interest income from investment in finance lease | <b>10,933,415</b>   | -                    |
|  | <b>11,624,440</b>   | <b>1,012,784</b>     |

**21 - FINANCE COSTS**

|                                       | <i>For the period<br/>from 17 July<br/>2017 to 31<br/>December 2018</i> |                      |
|---------------------------------------|---|----------------------|
|                                       | <b>2019</b>   | <b>December 2018</b> |
|                                       | <b>SR</b>   | <b>SR</b>            |
| Interest expense on borrowings        | <b>8,458,999</b>  | 3,901,058            |
| Amortization of loan arrangement fee  | <b>846,159</b>  | 422,559              |
| Interest expense on lease liabilities | <b>10,945,930</b>   | -                    |
|                                       | <b>20,251,088</b>   | <b>4,323,617</b>     |

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****22 - RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties represent Musharaka Capital Company (Fund Manager), Alinma Bank (Custodian), the unit holders, 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 balances:

| Related party    | Nature of transaction  | For the period<br>from 17 July<br>2017 to 31<br>December 2018 |                     |
|------------------|--|---|---------------------|
|                  |  | 2019<br>SR  | December 2018<br>SR |
| Fund Manager     | Management fees  | 15,294,445  | 15,827,316          |
|                  | Commission on purchase of investment property and right of use | 312,500   | 9,130,935           |
|                  | Loan arrangement fee   | -   | 6,000,000           |
| Fund Board       | Board of Directors remunerations                               | 60,000  | 60,000              |
| Sharia Committee | Sharia Committee remunerations                                 | 33,000  | 46,750              |
| Custodian        | Custody fee  | 100,000   | 141,667             |
| Unit holder      | Rental revenue   | 32,045,000  | 43,721,671          |

The Fund Manager's investment in the Fund at 31 December 2019 is 4.64 million units (31 December 2018 is 4 million units).

Balances with related parties as at 31 December are as follows:

|                | 2019<br>SR       | 2018<br>SR       |
|----------------|------------------|------------------|
| Fund Manager * | 8,720,363        | 6,428,194        |
| Custodian **   | 241,667          | 141,667          |
|                | <b>8,962,030</b> | <b>6,569,861</b> |

\* Presented under accrued management fee

\*\* Presented under accrued expenses

The basis and term of payment for fees payable to related parties are as per terms and conditions of the Fund approved by CMA as follows:

| Type of fee                      | Basis and rate   | Payment term                                |
|----------------------------------|--|---|
| Management fees                  | 1.2% of the total assets   | Every six (6) months                        |
| Board of directors remunerations | SR 5,000 per meeting only payable to the independent members, maximum up to SR 80,000 per annum for all members. | After the meeting of the Board of Directors |
| Sharia Committee remunerations   | SR 33,000 per annum  | Every six (6) months                        |
| Custody fees                     | SR 100,000 per annum   | Annually                                    |

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE PERIOD FROM 17 JULY 2017 TO 31 DECEMBER 2019****23 - FAIR VALUES AND RISK MANAGEMENT****23.1 Fair value measurements of financial instruments**

The Fund does not have financial assets and financial liabilities which are measured at fair value.

**23.2 Risk Management**

The Fund's activities expose it to a variety of financial risks, credit risk, liquidity risk and market price

**Credit Risk:**

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to credit risk on the followings:

|                                  | <u>2019</u>        | <u>2018</u>       |
|----------------------------------|--------------------|-------------------|
|                                  | <i>SR</i>          | <i>SR</i>         |
| Net investment in finance leases | 207,162,087        | -                 |
| Short term deposits              | 60,000,000         | 25,000,000        |
| Cash and cash equivalents        | 12,925,844         | 35,127,521        |
| Lease receivables                | 9,054,606          | 2,671,655         |
| Other assets                     | 285,250            | 149,063           |
|                                  | <u>289,427,787</u> | <u>62,948,239</u> |

The carrying amount of financial assets represents the maximum credit exposure.

The Fund seeks to limit its credit risk with respect to rent receivables by charging rent in advance and by monitoring outstanding balances on an ongoing basis. As at 31 December 2019, the Fund's lease receivables of SR 9 million are presented net of allowance for Expected Credit Loss ("ECL") of SR 2.9 million.

Net investment in finance lease represents net balance due to as per contracts with lessee. Future cash flows are expected as per contracts. Bank balances and short term deposits are held with banks with sound credit ratings.

**Liquidity Risk:**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities.

|                              | <b>31 December 2019</b> |                    |                    |                    |
|------------------------------|-------------------------|--------------------|--------------------|--------------------|
|                              | <u>Carrying</u>         | <u>Less than 1</u> | <u>1 year to 5</u> | <u>More than 5</u> |
|                              | <u>amount</u>           | <u>year</u>        | <u>years</u>       | <u>years</u>       |
|                              | <i>SR</i>               | <i>SR</i>          | <i>SR</i>          | <i>SR</i>          |
| <b>Financial Liabilities</b> |                         |                    |                    |                    |
| Borrowings                   | 185,743,163             | -                  | -                  | 185,743,163        |
| Lease liabilities            | 151,615,548             | 13,362,228         | 23,202,503         | 115,050,817        |
| Accrued management fees      | 8,720,363               | 8,720,363          | -                  | -                  |
| Other liabilities            | 2,604,628               | 2,604,628          | -                  | -                  |
|                              | <u>348,683,702</u>      | <u>24,687,219</u>  | <u>23,202,503</u>  | <u>300,793,980</u> |

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE PERIOD FROM 17 JULY 2017 TO 31 DECEMBER 2019****23 - FAIR VALUES AND RISK MANAGEMENT (Continued)****Liquidity Risk: (Continued)**

|                         | 31 December 2018   |                   |                   |                    |
|-------------------------|--------------------|-------------------|-------------------|--------------------|
|                         | Carrying amount    | Less than 1 year  | 1 year to 5 years | More than 5 years  |
|                         | SR                 | SR                | SR                | SR                 |
| Financial Liabilities   |                    |                   |                   |                    |
| Borrowings              | 159,792,309        | -                 | -                 | 159,792,309        |
| Accrued management fees | 6,428,194          | 6,428,194         | -                 | -                  |
| Other liabilities       | 3,876,097          | 3,876,097         | -                 | -                  |
| Dividend payable        | 24,640,000         | 24,640,000        | -                 | -                  |
|                         | <u>194,736,600</u> | <u>34,944,291</u> | <u>-</u>          | <u>159,792,309</u> |

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and credit facilities are available to meet the Fund's future commitments.

**Market Risk:**

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates and interest rates, and will affect the Fund's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**Currency Risk:**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Fund's currency. The Fund has no exposure to currency risk.

**Interest Rate Risk**

Interest rate risk is the exposure associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial position and cash flows. Variable rate financial liabilities as at 31 December 2019 amounted to SR 185,743,163 (2018: SR 159,792,309).

An increase of 100 basis points in the interest rate would have increased finance costs for the year ended 31 December 2019 by SR 1,911,652 (2018: SR 825,750).

Management monitors the changes in interest rates and manages its impact on the financial statements.

**24 - OPERATING LEASE ARRANGEMENTS***Fund as a lessor*

The Fund has entered into operating leases on its investment properties and right of use with lease terms between 5 to 16.5 years. The minimum rents receivable under non-cancellable lease agreements are as at 31 December are as follows:

|   | 2019               | 2018               |
|---|--------------------|--------------------|
|   | SR                 | SR                 |
| Within one year                             | 15,556,621         | 97,344,807         |
| After one year but not more than five years | 215,134,896        | 278,787,603        |
| More than five years                        | 2,745,746          | 190,482,342        |
|   | <u>233,437,262</u> | <u>566,614,752</u> |

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE PERIOD FROM 17 JULY 2017 TO 31 DECEMBER 2019****25 - 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.

|   | <i>For the period<br/>from 17 July<br/>2017 to 31<br/>December 2018</i> | <i>December 2018</i> |
|---|---|----------------------|
|   | <u>2019</u>   | <u>SR</u>            |
|   | <u>SR</u>   | <u>SR</u>            |
| Profit for the year / period attributable to the unit holders | <b>40,085,365</b>   | 54,871,161           |
| Weighted average number of units                              | <b>88,000,000</b>   | 88,000,000           |
| Basic and diluted earnings per unit                           | <b><u>0.46</u></b>  | <u>0.62</u>          |

**26 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

Investment properties, net investment in finance leases, long term loan and lease liabilities are expected to be realised after twelve (12) months from the reporting date. All other assets and liabilities are of a current nature.

**27 - EVENTS AFTER THE REPORTING DATE**

After the reporting date the Fund Manager has declared cash dividend amounting SR 30.8 million for the year ended 31 December 2019.

**28 - COMMITMENTS**

Fund entered into an agreement for the acquisition of automotive showrooms and a dedicated car maintenance center in Riyadh. As at 31 December 2019 the Fund had capital commitment against this agreement amounting to SR 70 million.

**29 - APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Fund's Board of Directors on March 26, 2020.