

AL MASHA'AR REIT FUND
A Real Estate Investments Traded Fund
(Closed-Ended Fund)
(MANAGED BY MUSCAT CAPITAL)

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2019 TOGETHER WITH THE INDEPENDENT
AUDITORS' REPORT**

**AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)**

FINANCIAL STATEMENTS

For the year ended 31 December 2019

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INDEPENDENT AUDITOR'S REPORT

**TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Al Masha'ar REIT Fund ("the Fund"), being managed by Muscat Capital (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019 and statements of comprehensive income, changes in net assets attributable to the unitholders and 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 Organisation of Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 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 thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT (Continued)

**TO THE UNITHOLDERS
 AL MASHA'AR REIT FUND
 MANAGED BY MUSCAT CAPITAL**

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
<i>Investment Properties</i>	
<p>Al Masha'ar REIT Fund owns a portfolio of investment properties comprising of commercial buildings located in the Kingdom of Saudi Arabia.</p> <p>Investment properties, held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any impairment losses.</p> <p>Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.</p> <p>For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent TAQEEM certified property valuers to perform a formal valuation of the Fund's investment properties on semiannual basis.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment by the Fund manager and the potential impact of impairment if any, could be material to the financial statements.</p>	<p>For impairment of investment properties, we have carried out the following audit procedures:</p> <ul style="list-style-type: none"> - We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; - We obtained two valuation reports from individual and independent real estate evaluators for all investment properties as at 31 December 2019 and confirmed that the valuation approaches are suitable for use in determining the fair values as at the reporting date; - Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above-mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be materially higher than the carrying amount of the same; and - We involved our independent valuation expert to evaluate the valuation reports based on industry knowledge and to assess the appropriateness of the inputs and assumptions used in the valuation by the management experts; and - We reconciled the average fair value of the investment properties as per note 12 to the evaluators' reports.

INDEPENDENT AUDITORS' REPORT (Continued)

**TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL**

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and the Fund's Terms and Condition, 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, management 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 management 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 ISAs 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

INDEPENDENT AUDITORS' REPORT (Continued)

**TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL**

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management'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 audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and 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 year and are therefore the key audit matters. We describe these matters in our auditors' 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 communications.

For and on behalf of
Al-Bassam & Co.
Riyadh, Kingdom of Saudi Arabia



Ibrahim A. Al-Bassam
Certified Public Accountant
Registration No. 337



**25 February 2020G
Rajab 01, 1441H**

AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
<u>ASSETS</u>			
Cash and cash equivalents	7,13	1,499,302	25,000
Murabaha deposits	8,13	-	10,150,978
Investments carried at fair value through profit or loss (FVTPL)	9,13	18,039,084	7,669,714
Rent receivable		694,803	530,728
Prepayment and other assets		-	17,186
Investment properties, net	10	558,562,364	565,481,182
TOTAL ASSETS		578,795,553	583,874,788
<u>LIABILITIES</u>			
Accrued management fee	13	1,323,320	1,465,168
Accrued expenses and other liabilities	13	645,840	254,448
TOTAL LIABILITIES		1,969,160	1,719,616
NET ASSETS VALUE		576,826,393	582,155,172
UNITS IN ISSUE (<i>Number</i>)		57,240,000	57,240,000
PER UNIT VALUE		10.08	10.17
PER UNIT FAIR VALUE	12	10.32	10.29

The accompanying notes 1 to 22 form an integral part of these financial statements.

AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Amounts in Saudi Riyals)

	<u>Note</u>	For the year ended 31 December 2019	For the period from 27 December 2017 (date of commencement) to 31 December 2018
Rentals from investment properties	10	38,637,000	39,167,728
Net realized and unrealized gain from investments carried at FVTPL	11	237,007	298,140
Commission income from Murabaha deposit		69,337	152,051
Total operating income		38,943,344	39,617,919
Depreciation expense	10	(6,918,818)	(6,918,818)
Management fee	13	(5,807,400)	(5,858,775)
Other expenses		(1,781,105)	(2,202,754)
Total operating expenses		(14,507,323)	(14,980,347)
Net income for the year / period		24,436,021	24,637,572
Other comprehensive income		-	-
Total comprehensive income for the year / Period		24,436,021	24,637,572

The accompanying notes 1 to 22 form an integral part of these financial statements.

AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)
STATEMENT OF CHANGES IN NET ASSETS
For the year ended 31 December 2019
(Amounts in Saudi Riyals)

	Note	For the year ended 31 December 2019	For the period from 27 December 2017 (date of commencement) to 31 December 2018
Net asset value attributable to the Unitholder at beginning of the year / period		582,155,172	-
Changes from unit transaction:			
- Subscription of units – Cash		-	172,539,000
- Subscription of units – In kind contribution	1	-	399,861,000
		-	572,400,000
Dividend paid during the year / period	17	(29,764,800)	(14,882,400)
Total Comprehensive income for the year / Period		24,436,021	24,637,572
Net asset value attributable to the unitholder at end of the year / period		576,826,393	582,155,172

Transactions in units for the year / period are summarized as follows:

	For the year ended 31 December 2019	For the period from 27 December 2017 (date of commencement) to 31 December 2018
Number of units at the beginning of the year / period	57,240,000	-
Subscription of units – Cash	-	17,253,900
Subscription of units – In kind contribution	-	39,986,100
Number of units at the end of the year / period	57,240,000	57,240,000

The accompanying notes 1 to 22 form an integral part of these financial statements.

AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

	Notes	For the year ended 31 December 2019	For the period from 27 December 2017 (date of commencement) to 31 December 2018
OPERATING ACTIVITIES			
Net income for the year / period		24,436,021	24,637,572
<i>Adjustment to reconcile net income to net cash from operating activities:</i>			
Depreciation on investment properties	10	6,918,818	6,918,818
Impairment loss on investment property		-	-
Unrealized gain from investments carried at FVTPL	11	(176,714)	(154,165)
Realized gain from investments carried at FVTPL		(60,293)	(143,975)
Commission income on Murabaha		(69,337)	(152,051)
		31,048,495	31,106,199
Changes in operating assets:			
Prepayment and other assets		17,186	(17,186)
Rent receivable		(164,075)	(530,728)
Changes in operating liabilities:			
Accrued Management fee		(141,848)	1,465,168
Accrued expenses and other liabilities		391,392	254,448
Commission income received on murabaha		151,565	152,051
Net cash from operating activities		31,302,715	32,429,952
INVESTING ACTIVITIES			
Purchase of investment properties	1,10	-	(172,539,000)
Purchase of investments carried at FVTPL		(40,115,707)	(28,648,573)
Sale of investments carried at FVTPL		29,983,344	21,276,999
Purchase of Murabaha placements		(17,766,000)	(39,539,301)
Sale of Murabaha placements		27,834,750	29,388,323
Net cash used in investing activities		(63,613)	(190,061,552)
FINANCING ACTIVITIES			
Subscription of units	1	-	172,539,000
Dividend paid during the year / period	17	(29,764,800)	(14,882,400)
Net cash (used in) / from financing activities		(29,764,800)	157,656,600
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		1,474,302	25,000
Cash and cash equivalents at the beginning of the year / period		25,000	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR / PERIOD		1,499,302	25,000
Supplemental non-cash transactions			
Purchase of investment through subscription of units in REIT	1,10	-	399,861,000

The accompanying notes 1 to 22 form an integral part of these financial statements.

AL MASHA'AR REIT FUND (MANAGED BY MUSCAT CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

Al Masha'ar REIT Fund (the "REIT" or the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The Fund commenced its operation on 27 December 2017.

The REIT is managed by Muscat Capital (the "Fund Manager"), a Saudi Closed Joint Stock company with commercial registration no.1010259328, and an Authorized Person licensed by the CMA under license no. 08096-37 dated 20 June 2009.

The REIT acquired three properties, including one from Makkah Income Generating Fund, a Private Closed Fund also managed by Muscat Capital. Consideration of these purchases were disbursed by way of cash payment as well as an "In-Kind" consideration by way of Units in the Al Masha'ar Fund amounting to SAR 172,539,000 and SAR 399,861,000 respectively.

The REIT is listed on Tadawul and the units of the REIT are traded on Tadawul in accordance with its rules and regulations. The subscribed units of the REIT amount to SAR 572,400,000. The REIT has a term of 99 years, which is extendable at the discretion of the Fund Manager following the approval of CMA.

The initial terms and conditions of the REIT were approved by CMA on 26 Muharram 1439H (Corresponding to 16 October 2017).

The Fund was launched with the investment objective of investing in income-generating real estate assets only in the holy cities of Makkah and Medina, Kingdom of Saudi Arabia. Subsequent to the period ended 31 December 2018 and effective from 10 January 2019, the Fund published its new Terms & Conditions with the updated investment objective to invest in income-generating real estate in any city within the Kingdom of Saudi Arabia.

In accordance, with the approved terms and conditions of the Fund, On 02 January 2019 and 02 July 2019, the Fund's board of directors recommended to distribute dividends with regards to the six-month period ended 31 December 2019 and six-month period ended 30 June 2019 amounting to SR 0.26 per unit totalling SR 29,764,800 to its unitholders.

2. REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by CMA, detailing requirements for real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organisation of Certified Public Accountants ("SOCPA").

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

3.2 *Basis of measurement*

These financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit and loss.

**AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

3. BASIS OF PREPARATION (continued)

3.3 *Functional and presentation currency*

These financial statements have been prepared in Saudi Riyals (SAR) which is the Fund's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

3.4 *Critical accounting judgments, estimates and assumption*

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period, are described below. REIT based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of REIT. Such changes are reflected in the assumptions when they occur.

Going Concern

The Fund Manager of the Fund has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on REIT's ability to continue as a going concern.

Valuation of investment properties

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the assets' useful lives and do not include restructuring activities that the fund is not yet committed to or significant future investments that will enhance each assets performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

**AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

3. BASIS OF PREPARATION (continued)

3.4 Critical accounting judgments, estimates and assumption (continued)

Residual and useful lives of investment properties

The Fund Manager of the REIT determines the estimated residual value and useful lives of its investment properties for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management will review the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates

Expected credit loss

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Cash and cash equivalents

Cash and cash equivalents consist of bank balances with a local Bank. Cash and cash equivalents are carried at amortized cost within the statement of assets and liabilities

4.2 Receivables

Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective commission method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

4.3 Investment properties

Investment properties are Real estate assets that are held for capital appreciation and/or rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund i.e. 35 years.

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

**AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 *Impairment of non-current assets*

Properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the property is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

4.5 *Accrued expenses and other liabilities*

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

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

4.6 *Revenue recognition*

Rental income from an operating lease of the properties is recognized on a straight-line basis over the term of the lease.

4.7 *Investment transactions*

Investments transactions are accounted for as of the trade date.

4.8 *Management fees and other expenses*

Management fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the REIT. Management fee is calculated and payable quarterly in arrears.

4.9 *Zakat*

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

4.10 *Net assets value*

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the REIT by the number of units in issue at the year-end.

4.11 *Dividend distribution*

The REIT has a policy of distributing on annually at least 90% of its net profit, not including profit resulting from the sale of the underlying real estate assets and other investments.

4.12 *Financial instruments*

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IFRS 9 are as follows:

AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Financial instruments (continued)

Classification and measurement of financial instruments (continued)

	IFRS 9	
	Measurement category	Carrying amount
Cash at bank	Amortized cost	1,499,302
Murabaha deposits	Amortized cost	-
Investments measured at FVTPL	FVTPL (Mandatory)	18,039,084
Rent receivable	Amortized cost	694,803
Total financial assets		20,233,189
Accrued management fee	Amortized cost	1,323,320
Other Liabilities	Amortized cost	239,354
Total financial liabilities		1,562,674

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund classifies its financial assets at fair value through profit or loss (FVTPL). The Fund subsequently measures all equity investments at fair value through profit or loss, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to the statement of comprehensive income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of comprehensive income when the Fund's right to receive payments is established.

Impairment of financial assets

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

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

Derecognition

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

**AL MASHA'AR REIT FUND
(MANAGED BY MUSCAT CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Financial instruments (continued)

Financial liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTPL. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

5. New standards effective from 1 January 2019

IFRS 16 Leases

The Fund has adopted IFRS 16 - Leases effective from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exceptions for short-term leases and low-value items. Lessor accounting remains similar to the current standard – i.e. lessor continues to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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 Lease.

The Fund has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the Fund's financial statements as of the reporting date.

6. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

- MANAGEMENT FEE, OTHER EXPENSES

On a daily basis, the Fund Manager charges the Fund, management fee at the rate of 1 percent per annum of the Fund's net assets value and is paid on a quarterly basis.

- TRANSACTION FEE

Further, the Fund Manager charges the Fund, a one-time acquisition fee at the rate of 2.5 percent on the acquisition or sale price of the real estate assets, except for Eskan 4, 5 and 6.

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7. CASH AND CASH EQUIVALENTS

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash at bank	13	<u>1,499,302</u>	<u>25,000</u>
Total		<u><u>1,499,302</u></u>	<u><u>25,000</u></u>

8. MURABAHA DEPOSITS

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Murabaha deposits	13	<u>-</u>	<u>10,150,978</u>
Total		<u><u>-</u></u>	<u><u>10,150,978</u></u>

Murabaha deposits were placed for a year ranging from one day to more than three months and earned a special commission at an average rate of 2.75% per annum. All Murabaha placements were matured during the year.

9. INVESTMENTS CARRIED AT FVTPL

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Muscat Capital Money Market Fund	13	<u>18,039,084</u>	<u>7,669,714</u>

The following is the movement in investments during the year

	<u>31 December 2019</u>	<u>31 December 2018</u>
Cost:		
At the beginning of the year/period	7,669,714	-
Additions during the year/period	40,115,707	28,648,573
Sold during the year/period	<u>(29,923,051)</u>	<u>(21,133,024)</u>
At the end of the year/period	<u>17,862,370</u>	<u>7,515,549</u>
Change in fair value:		
Changes in fair value during the year/period	237,007	298,140
Sold during the year/period	<u>(60,293)</u>	<u>(143,975)</u>
At the end of the year/period	<u>176,714</u>	<u>154,165</u>
Net Investments at the end of the year/period	<u><u>18,039,084</u></u>	<u><u>7,669,714</u></u>

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10. INVESTMENT PROPERTIES, NET

As of 31 December 2019

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>Cost</u>				
Balance as of 31 December 2018		330,241,376	242,158,624	572,400,000
Additions		-	-	-
Impairment		-	-	-
Balance as of 31 December 2019		330,241,376	242,158,624	572,400,000
<u>Accumulated Depreciation</u>				
Balance as of 31 December 2018		-	6,918,818	6,918,818
Charge for the year	10.1	-	6,918,818	6,918,818
Balance as of 31 December 2019		-	13,837,636	13,837,636
Net Book Value:				
as of 31 December 2019		330,241,376	228,320,988	558,562,364

As of 31 December 2018

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>Cost</u>				
Balance as of 27 December 2017		-	-	-
Additions		330,241,376	242,158,624	572,400,000
Impairment		-	-	-
Balance as of 31 December 2018		330,241,376	242,158,624	572,400,000
<u>Accumulated Depreciation</u>				
Balance as of 27 December 2017		-	-	-
Charge for the period	10.1	-	6,918,818	6,918,818
Balance as of 31 December 2018		-	6,918,818	6,918,818
Net Book Value:				
as of 31 December 2018		330,241,376	235,239,806	565,481,182

The investment properties represent the following three properties:

- The Eskan 4 building is located in Makkah with an annual rental income of SAR 12.8M;
- The Eskan 5 building is located in Makkah with an annual rental income of SAR 12.3M; and
- The Eskan 6 building is located in Makkah with an annual rental income of SAR 13.5M.

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10. INVESTMENT PROPERTIES, NET (Continued)

10.1 The Fund has the policy of charging depreciation on building over 35 years using the straight-line method.

11. NET REALIZED AND UNREALIZED GAIN FROM INVESTMENTS CARRIED AT FVTPL

	31 December 2019	31 December 2018
Unrealized gain from investments carried at FVTPL	176,714	154,165
Realized gain from investments carried at FVTPL	60,293	143,975
Total	237,007	298,140

12. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED

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

The valuation of the investment properties (the "properties") is determined by **White Cubes Real Estate Company** and **Value Experts**. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager has used the average of two valuations for the purpose of disclosing the fair value of the properties. The properties were valued taking into consideration a number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost model, residual value method and discounted cash flow method.

As of 31 December 2019, the valuation of the investment properties are as follows:

<u>31 December 2019</u>	<u>First Appraiser</u>	<u>Second Appraiser</u>	<u>Average</u>
Investment properties	572,400,000	572,400,000	572,400,000
Total	572,400,000	572,400,000	572,400,000

<u>31 December 2018</u>	<u>First Appraiser</u>	<u>Second Appraiser</u>	<u>Average</u>
Investment properties	572,400,000	572,400,000	572,400,000
Total	572,400,000	572,400,000	572,400,000

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

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

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12. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (continued)

	<u>31 December 2019</u>	<u>31 December 2018</u>
The estimated fair value of investment properties based on the average of the two valuers used	572,400,000	572,400,000
Less: the carrying value of investment property	<u>(558,562,364)</u>	<u>(565,481,182)</u>
Estimated fair value in excess of book value	<u>13,837,636</u>	<u>6,918,818</u>
Units in issue (numbers)	57,240,000	57,240,000
Additional value per unit based on fair value	<u>0.24</u>	<u>0.12</u>

Net asset value:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	576,826,393	582,155,172
Estimated fair value in excess of book value	<u>13,837,636</u>	<u>6,918,818</u>
Net assets attributable to unitholders based on fair valuation of investment properties	<u>590,664,029</u>	<u>589,073,990</u>

Net asset attributable to each unit:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Net Asset value per unit as per the financial statements before fair value adjustment	10.08	10.17
Increase in value per unit based on fair value	<u>0.24</u>	<u>0.12</u>
Net assets attributable to each unit based on fair valuation	<u>10.32</u>	<u>10.29</u>

All properties are held in the name of Al Masha'ar REIT real estate Company (the "SPV"). The SPV is holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

13. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Fund include "Muscat Capital" being the Fund Manager, (Bank Muscat being the shareholder of Muscat Capital), with the underlying properties of the Fund being custodized with Riyadh Capital (being the custodian of the Funds).

In the ordinary course of its activities, the Fund transacts business with related parties.

The significant related party transactions entered into by the Fund during the year are as follows:

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13. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

		<u>31 December</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
<u>Related Party</u>	<u>Nature of transaction</u>	<u>Amount of</u> <u>transaction</u>	<u>Amount of</u> <u>transaction</u>
Muscat Capital	Management fee	(5,807,400)	(5,858,775)
	Admin fee	(290,370)	(292,938)
	Others	(313,600)	-
Riyad Capital	Custodial fees	(174,222)	(175,763)
Bank Muscat	Commission income from Murabaha deposit	-	1,073

The balances resulting from related party transactions are as follows:

		<u>31 December</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
<u>Related Party</u>	<u>Nature of transaction</u>	<u>Balance</u>	<u>Balance</u>
Muscat Capital	Management fee	(1,323,320)	(1,465,168)
	Admin fee *	(193,662)	(73,528)
	Others *	(78,134)	(76,921)
Riyad Capital	Custodial fees *	(45,692)	(1,900)
Bank Muscat	Current account	1,499,302	25,000
Muscat Capital			
Money Market fund	Investments	18,039,084	7,669,714

* These balances have been recorded under accrued expenses and other liabilities.

14. RISK MANAGEMENT

14.1 Financial risk management

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

Financial instruments carried in these financial statements principally include cash and cash equivalents, rent receivable other receivables, accrued management fee, and accrued expenses and other liabilities. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and liability simultaneously.

(a) Market risk

The REIT will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth in the kingdom, commission rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The REIT management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes is not significant to the REIT.

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14. RISK MANAGEMENT (Continued)

14.1 Financial risk management (Continued)

(a) Market risk (Continued)

Currency risk

Currency risk is the risk that the value of financial instrument may fluctuate due to a change in foreign exchange rates. The financial instruments of the Fund i.e. bank balances, financial assets held at FVPL, rent receivable, accrued management fee and accrued expenses and other liabilities are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

Price risk

Price risk is the risk that the value of Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements. The price risk arises primarily from uncertainty about the future prices of the financial instruments that the Fund holds. The Fund closely monitors the price movement of its investment in financial instruments. As of the statement of financial position date, the Fund has investment in Muscat Capital Money Market Fund.

The effect on the net assets (as a result of change in fair value of investments as 31 December) due to a reasonably possible change in equity of FVTPL investments, with all other variable held constant, is as follows:

		31 December 2019	31 December 2018
Effect on Net Assets	±5%	901,954	383,486

Commission rate risk

Commission rate risk is the risk that the value of future cashflows of financial instruments or fair value of fixed coupon financial instruments will fluctuate due to changes in the market commission rates.

The Fund is not subject to commission rate risk, as it does not currently have any commission bearing financial instruments.

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is exposed to credit risk for its rent receivable, other receivables and cash at bank.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Cash is placed with a reputable financial institution with a credit rating of Ba1.

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14. RISK MANAGEMENT (continued)

14.1 Financial risk management (continued)

(b) Credit risk (continued)

The following table shows maximum exposure to credit risk for the components of the statement of financial position

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash and cash equivalents	13	1,499,302	25,000
Rent Receivable		694,803	530,728

The management has conducted a review as required under IFRS 9 and based on an assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash and cash equivalents and rent receivable

(c) Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities which comprises of management fee payable and other liabilities. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, no sales and purchase of units are permitted unless specifically approved by CMA.

The remaining contractual maturities at the reporting date of the Fund's financial liabilities consisting of accrued management and accrued expenses and other liabilities are all due within 12 months. The undiscounted amount of these financial liabilities approximates their carrying value at the reporting date.

The Fund Manager already has adequate cash and liquid assets to settle its financial liabilities as they fall due.

(d) Operational risk

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

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

14.2 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are observable inputs for the asset or liability.

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14. RISK MANAGEMENT (continued)

14.2 Fair value estimation (continued)

As of December 31, 2019, the Fund's financial instruments comprise cash and cash equivalent, Investment carried at fair value through profit and loss, rent receivable, accrued management fee and accrued expenses and other liabilities. Except for Investments carried at fair value through profit or loss, all the financial instruments are measured at amortised cost and their carrying value is a reasonable approximate of fair value. Investments carried at fair value through profit or loss are held in level 1 hierarchy of fair value.

15. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and financial liabilities are classified under amortised cost (except for investments carried at fair value through profit or loss which are classified at fair value) as of 31 December 2019 and 31 December 2018.

16. SEGMENT REPORTING

The Fund has invested in three real estate investments in the Kingdom of Saudi Arabia. As it is invested in a single industry sector and in a single country, no segment information has been presented.

17. DIVIDEND DISTRIBUTION

In accordance with the approved terms and conditions of the Fund, on 02 January 2019 and 02 July 2019, the Fund's Board approved to distribute dividends with regards to the period ended 31 December 2018 and 30 June 2019 amounting to SAR 0.26 per unit totalling SAR 29,764,800 to its unitholders. The same was paid on 17 January 2019 and 23 July 2019 respectively.

18. CHANGES IN FUNDS TERMS AND CONDITIONS

During the year the Fund has revised its terms and conditions in which the Fund has revised its custodian fee from 0.03 percent of the Total Net Assets Value (NAV) to a fixed amount of SAR 175,000 per annum. Further, during the year, the Fund has entered into a contract with Riyadh Bank for a financing facility amounting to 500 Million SAR to be utilised by the Fund for acquiring new properties and assets within the Kingdom of Saudi Arabia. The Fund has not utilised the financing facility till the year ended 31 December 2019. The loan is for a period of 5 years from the date of receiving the amount. In addition to it, the Fund has changed its advisory board from Ideal Ratings to Meethaq Islamic Banking.

19. EVENTS AFTER THE REPORTING DATE

In accordance, with the approved terms and conditions of the Fund, On 13 January 2020, the Fund's board of directors recommended to distribute dividends with regards to the year ended 31 December 2019 amounting to SR 0.26 per unit totalling SR 14,882,400 to its unitholders.

20. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and interpretations have been issued but are not yet effective. The Fund intends to adopt all the applicable standards and interpretations when these become effective. The Fund manager has assessed the impact of these new standards and interpretations and believes that none of these would have any effect on the future financial statements of the Fund.

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21. LAST VALUATION DAY

The last valuation day of the period was at 31 December 2019.

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 25 February 2020 (Corresponding to Rajab 01, 1441H).

Signed on behalf of Fund's Board of Directors

Authorized Signatory

