

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

FINANCIAL STATEMENTS FOR THE PERIOD FROM 27
DECEMBER 2017 (DATE OF COMMENCEMENT) TO 31 DECEMBER
2018 ALONG WITH THE INDEPENDENT AUDITOR'S REPORT

AL MASHA'AR REIT FUND

FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

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INDEPENDENT AUDITORS' REPORT

**TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA**

Opinion

We have audited the accompanying financial statements of Al Masha'ar REIT Fund ("the Fund"), being managed by Muscat Capital (the "Fund Manager"), which comprise of the statement of assets and liabilities as at 31 December 2018 and the related statements of comprehensive income, changes in net assets attributable to the unitholders and cash flows for the period from 27 December 2017 to 31 December 2018 and the notes to the financial statements, comprising of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements taken as a whole, present fairly, in all material respects, the position of asset and liabilities of the Fund as at 31 December 2018 and its financial performance and cash flows for the period from 27 December 2017 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' 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 financial statements, and we have fulfilled our other 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
RIYADH, KINGDOM OF SAUDI ARABIA**

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
<p>Al Masha'ar REIT Fund owns a portfolio of investment properties comprising of commercial building 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 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 different/ independent real estate evaluators for all investment properties as at 31 December 2018 and confirmed that the valuation approaches are suitable for use in determining the carrying 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 higher than the carrying amount of the same; and - We reconciled the average fair value of the investment properties as per note 11 to the external valuers' reports.

INDEPENDENT AUDITORS' REPORT (Continued)

**TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA**

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

Funds' Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund's 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 the management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance 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 auditors' 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 "ISA" 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 Fund's internal control.

INDEPENDENT AUDITORS' REPORT (Continued)

**TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA**

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 auditors' 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 the 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
PKF Al Bassam & Co.
Allied Accountant

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



**04 February 2019G
Jumada Alawal 29, 1440H**

Al Riyadh
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69658 Al Riyadh 11557

Jeddah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Al Khobar
Tel: +966 13 893 3378
Fax: +966 13 893 3349
P.O. Box 4636 Al Khobar 31952

Buraydah
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69658 Al Riyadh 11557

Madinah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Info.sa@pkf.com

AL MASHA'AR REIT FUND

STATEMENT OF ASSETS AND LIABILITIES

As at 31 December 2018

(Amounts in Saudi Riyals)

	Note	31 December 2018
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	6	25,000
Murabaha deposits	7	10,150,978
Investments measured at FVTPL	8	7,669,714
Rent receivable		530,728
Prepayment and other assets		17,186
TOTAL CURRENT ASSETS		18,393,606
NON-CURRENT ASSETS		
Investment properties	9	565,481,182
TOTAL ASSETS		583,874,788
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accrued management fee	12	1,465,168
Accrued expenses and other liabilities		254,448
TOTAL LIABILITIES		1,719,616
NET ASSETS VALUE		582,155,172
UNITS IN ISSUE (Number)		57,240,000
PER UNIT VALUE		10.17
PER UNIT FAIR VALUE	11	10.29

The accompanying notes 1 to 17 form an integral part of these financial statements.

AL MASHA'AR REIT FUND

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Saudi Riyals)

	<u>Note</u>	<u>For the period from 27 December 2017 (date of commencement) to 31 December 2018</u>
Rentals from investment properties	9	39,167,728
Net realized and unrealized gain from Investments measured at FVTPL	10	298,140
Commission income from Murabaha deposit		152,051
Total operating income		39,617,919
Depreciation expense	9	(6,918,818)
Management fee	12	(5,858,775)
Other expenses	12	(2,202,754)
Total operating expenses		(14,980,347)
Net income for the period		24,637,572
Other comprehensive income		-
Total comprehensive income for the period		24,637,572

The accompanying notes 1 to 17 form an integral part of these financial statements.

AL MASHA'AR REIT FUND

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

(Amounts in Saudi Riyals)

	<u>Note</u>	<u>For the period from 27 December 2017 (date of commencement) to 31 December 2018</u>
Net asset value attributable to the Unitholder at beginning of the period		-
Changes from unit transaction:		
- Subscription of units – Cash		172,539,000
- Subscription of units – In-Kind contribution	1	399,861,000
		572,400,000
Income distributed to Unitholders	1	(14,882,400)
Total Comprehensive income for the period		24,637,572
Net asset value attributable to the unitholder at end of the period		<u>582,155,172</u>

Transactions in units for the period are summarized as follows:

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

The accompanying notes 1 to 17 form an integral part of these financial statements.

AL MASHA'AR REIT FUND

STATEMENT OF CASH FLOWS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

		For the period from 27 December 2017 (date of commencement) to 31 December 2018
	Notes	
OPERATING ACTIVITIES		
Net income for the period		24,637,572
<i>Adjustment to reconcile net income to net cash from operating activities:</i>		
Depreciation on investment properties	9	6,918,818
Unrealized gain from investments measured at FVTPL	10	(154,165)
		<u>31,402,225</u>
Changes in operating assets:		
Prepayment and other assets		(17,186)
Rent receivable		(530,728)
Changes in operating liabilities:		
Accrued Management fee		1,465,168
Accrued expenses and other liabilities		254,448
Net cash from operating activities		<u>32,573,927</u>
INVESTING ACTIVITIES		
Purchase of investment properties	1,9	(172,539,000)
Purchase of investments measured at FVTPL		(7,515,549)
Murabaha placements measured at amortised cost		(10,150,978)
Net cash used in investing activities		<u>(190,205,527)</u>
FINANCING ACTIVITIES		
Subscription of units	1	172,539,000
Income distributed to Unitholders	1	(14,882,400)
Net cash from financing activities		<u>157,656,600</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,000
Cash and cash equivalents at the beginning of the period		-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u><u>25,000</u></u>
Supplemental non-cash transactions		
Purchase of investment through subscription of units in REIT	1,9	<u><u>399,861,000</u></u>

The accompanying notes 1 to 17 form an integral part of these financial statements.

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(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 amounting to SAR 182,400,000 from Makkah Income Generating Fund, a Private Closed Fund also managed by Muscat Capital. Consideration to this purchase was disbursed by way of a cash payment as well as an "In-Kind" consideration by way of Units in the Al Masha'ar Fund.

The REIT is listed on Tadawul and the units of the REIT shall be 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 on 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 (Also see note 14).

In accordance, with the approved terms and conditions of the Fund, On 01 July 2018, the Fund's board of directors recommended to distribute dividends with regards to the period ended 30 June 2018 amounting to SR 0.26 per unit totalling SR 14,882,400 to its unit holders.

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 Kingdom of Saudi Arabia.

3.2 *Basis of measurement and functional and presentation currency*

These audited financial statements have been prepared under the historical cost convention, using accrual basis of accounting and are expressed in Saudi Arabian Riyals (SAR), which is REIT's functional and operational currency.

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

3. BASIS OF PREPARATION (Continued)

3.3 *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 REIT has made an assessment of REIT's ability to continue as a going concern and is satisfied that the REIT 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.

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 greater 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 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.

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.

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

3. BASIS OF PREPARATION (Continued)

3.4 *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 as follows:

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

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.

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 any impairment losses. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund i.e 35 years.

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

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.

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue recognition

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

Investment transactions

Investments transactions are accounted for as of the trade date.

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.

Zakat

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

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 period-end.

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.

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:

	IFRS 9	
	Measurement category	Carrying amount
Financial assets		
Cash at bank	Amortized cost	25,000
Murabaha deposits	Amortized cost	10,150,978
Investments measured at FVTPL	FVTPL (Mandatory)	7,669,714
Rent receivable	Amortized cost	530,728
Prepayment and other assets	Amortized cost	17,186
Total financial assets		18,393,606

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (Continued)

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.

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.

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

5. 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 quarterly basis.

- **TRANSACTION FEE**

Further, the Fund Manager charges the Fund, 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.

6. CASH AND CASH EQUIVALENTS

	<u>Note</u>	<u>31 December 2018</u>
Cash at bank	12	25,000
Total		<u>25,000</u>

7. MURABAHA DEPOSITS

	<u>31 December 2018</u>
Murabaha deposits	10,150,978
Total	<u>10,150,978</u>

Murabaha deposits are placed for a period ranging from one day to more than three months and earn special commission at an average rate of 3% per annum.

8. INVESTMENTS MEASURED AT FVTPL

	<u>Note</u>	<u>Fund manager</u>	<u>Number of units</u>	<u>Cost</u>	<u>Market Value</u>
Muscat Capital Money Market Fund	12	Muscat Capital	722,412.9	7,515,549	7,669,714

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

9. INVESTMENT PROPERTIES

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
Cost				
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
Accumulated Depreciation				
Balance as of 27 December 2017		-	-	-
Charge for the period	9.1	-	6,918,818	6,918,818
Balance as of 31 December 2018		-	6,918,818	6,918,818
Book Value:				
as of 31 December 2018		330,241,376	235,239,806	565,481,182

These investment properties represent three properties; namely:

- 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
- The Eskan 6 building is located in Makkah with an annual rental income of SAR 13.5m

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

10. NET REALIZED AND UNREALIZED GAIN FROM INVESTMENTS MEASURED AT FVTPL

	<u>31 December 2018</u>
Unrealized gain from investments measured at FVTPL	154,165
Realized gain from investments measured at FVTPL	143,975
Total	298,140

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

11. 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 are based on the market value obtained. However, in accordance with accounting policy of the fund, investment properties are carried at cost less accumulated depreciation and impairment if any in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The fair value of the investment properties is determined by two selected appraisers for each 13 properties i.e. **White Cubes Real Estate Company** and **Value Experts Company**. As of 31 December 2018, the valuation of the investment, properties are as follows:

<u>31 December 2018</u>	<u>First</u> <u>Appraiser</u>	<u>Second</u> <u>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 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. As an outcome of the valuation, the Fund Manager, recognized impairment on one of the property, whereby the net surplus on the remaining properties is disclosed below within the analysis of the investment properties fair value versus cost:

	<u>31 December 2018</u>
Estimated fair value of investment properties based on the average of the two valuers used	572,400,000
Less: the carrying value of investment property	<u>(565,481,182)</u>
Estimated fair value in surplus of book value	<u>6,918,818</u>
Units in issue (numbers)	57,240,000
Additional value per unit based on fair value	<u>0.12</u>

Net asset to unitholders:

	<u>31 December 2018</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	582,155,172
Estimated fair value in surplus of book value	<u>6,918,818</u>
Net assets attributable to unitholders based on fair valuation of investment properties	<u>589,073,990</u>

Net asset attributable to each unit:

	<u>31 December 2018</u>
Book value per unit as per the financial statements before fair value adjustment	10.17
Increase in value per unit based on fair value	<u>0.12</u>
Net assets attributable to each unit based on fair valuation	<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.

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in Saudi Riyals)

12. TRANSACTIONS WITH RELATED PARTIES

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 period and the balances resulting from such transactions are as follows:

<u>Related Party</u>	<u>Nature of transaction</u>	<u>Amount of transaction</u>	<u>Balance</u>
Muscat Capital	Management fee	(5,858,775)	(1,465,168)
	Admin fee	(292,938)	(73,528)
	Others	-	(76,921)
Riyadh Capital	Custodial fees	(175,763)	(1,900)
Bank Muscat	Current account	-	25,000
	Murabaha deposit	-	-
	Commission income from Murabaha deposit	1,073	-
Muscat Capital Money Market fund	Investments	-	7,669,714

13. FINANCIAL INSTRUMENTS AND 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, other receivables, accrued liabilities and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. 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.

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, interest 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.

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period from 27 December 2017 (date of commencement) to 31 December 2018

(Amounts in Saudi Riyals)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 rental, receivables, due from related parties and bank balances.

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.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

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. EVENTS AFTER THE REPORTING DATE

In accordance, with the approved terms and conditions of the Fund, On 2 January 2019, the Fund's board of directors recommended to distribute dividends with regards to the period ended 31 December 2018 amounting to SR 0.26 per unit totalling SR 14,882,400 to its unit holders.

The Fund Manager received approval from the CMA on 29 November 2018 to make certain changes to the investment objective of the Fund including to invest in any city within the Kingdom of Saudi Arabia and this was approved by the unitholders on the 23 December 2018. The Fund published its new Terms & Conditions with this updated investment objective to be effective from 10 January 2019.

15. 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 Company except for the following:

AL MASHA'AR REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in Saudi Riyals)**

15. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 16 Leases

In January 2016, the IASB issued the final version of IFRS leases which sets out the principles of recognition, measurement, presentation and disclosure of lease for parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 is effective for annual periods beginning on or after 1 January 2019 which early application is permitted but only if it also applies IFRS 15 Revenue from Contracts with Customers. The adoption of IFRS 16 will have an effect on the classification and measurement on the Fund's leased assets. The Fund is currently assessing the impact of IFRS 16 and plan to adopt the new standard on the required effective date.

16. LAST VALUATION DAY

The last valuation day of the period was at 31 December 2018.

17. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the REIT's Board on 29/05/1440 H (Corresponding to 04/02/2019).

Signed on behalf of Fund's Board of Directors



Authorized Signatory