

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 27 DECEMBER 2017 (DATE OF  
COMMENCEMENT) TO 30 JUNE 2018**

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

**THE UNITHOLDERS  
AL MASHA'AR REIT FUND  
KINGDOM OF SAUDI ARABIA**

**Introduction:**

We have reviewed the accompanying interim statement of assets and liabilities of Al Masha'ar REIT Fund ("the Fund") managed by Muscat Capital (the "Fund Manager") as at 30 June 2018 and the related interim statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the period from 27 December 2017 (date of commencement) to 30 June 2018 and the accompanying notes which form an integral part of these interim condensed financial statements. The Fund's management is responsible for the preparation and presentation of these interim condensed financial in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

**Scope of Review:**

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

**Conclusion:**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia.

**For and on behalf of  
Al Bassam & Co.  
Allied Accountants**

**Sultan Ahmed Al Shubaily  
Certified Public Accountant  
Registration No. 600**



**1 August 2018  
19 Dhual Qadah 1439**

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## AL MASHA'AR REIT FUND

### INTERIM STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)

As at 30 June 2018

(Amounts in Saudi Riyals)

	Note	30 June 2018
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	6	10,075,286
Investments measured at FVTPL	7	25,987,891
Prepayment and other assets		551,394
<b>TOTAL CURRENT ASSETS</b>		<b>36,614,571</b>
<b>NON-CURRENT ASSETS</b>		
Investment properties	8	568,095,124
<b>TOTAL ASSETS</b>		<b>604,709,695</b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Deferred rental income		18,896,238
Accrued management fee	11	1,480,853
Accrued expenses and other liabilities		324,051
<b>TOTAL LIABILITIES</b>		<b>20,701,142</b>
<b>NET ASSETS VALUE</b>		<b>584,008,553</b>
<b>UNITS IN ISSUE (Number)</b>		<b>57,240,000</b>
<b>PER UNIT VALUE</b>		<b>10.20</b>
<b>PER UNIT FAIR VALUE</b>	10	<b>10.28</b>

The accompanying notes 1 to 16 form an integral part of these interim condensed financial statements.

## AL MASHA'AR REIT FUND

### INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in Saudi Riyals)

	Note	For the period from 27 December 2017 (date of commencement) to 30 June 2018
Rentals from investment properties		19,740,762
Gain from Investments measured at FVTPL	9	164,418
Commission income from time deposit		4,129
<b>Total operating income</b>		<b>19,909,309</b>
Depreciation expense	8	(3,459,409)
Impairment loss on investment property	8	(845,467)
Management fee	11	(2,943,817)
Other expenses		(1,052,063)
<b>Total operating expenses</b>		<b>(8,300,756)</b>
<b>Net income for the period</b>		<b>11,608,553</b>
Other comprehensive income		-
<b>Total comprehensive income for the period</b>		<b>11,608,553</b>

The accompanying notes 1 to 16 form an integral part of these interim condensed financial statements.

## AL MASHA'AR REIT FUND

### INTERIM STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

(Amounts in Saudi Riyals)

	<u>Note</u>	<u>For the period from 27 December 2017 (date of commencement) to 30 June 2018</u>
<b>Net asset value attributable to the Unitholder at beginning of the period</b>		
<b>Changes from unit transaction:</b>		
- Subscription of units – Cash		171,720,000
- Subscription of units – In kind contribution	1	400,680,000
		572,400,000
<b>Total Comprehensive income for the period</b>		11,608,553
<b>Net asset value attributable to the unitholder at end of the period</b>		584,008,553

**Transactions in units for the period are summarized as follows:**

	<u>For the period from 27 December 2017 (date of commencement) to 30 June 2018</u>
<b>Number of units at the beginning of the period</b>	-
Subscription of units – Cash	17,172,000
Subscription of units – In kind contribution	40,068,000
<b>Number of units at the end of the period</b>	<b>57,240,000</b>

The accompanying notes 1 to 16 form an integral part of these interim condensed financial statements.

## AL MASHA'AR REIT FUND

### INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the period from 27 December 2017 (date of commencement) to 30 June 2018

(Amounts in Saudi Riyals)

	Note	For the period from 27 December 2017 (date of commencement) to 30 June 2018
<b>OPERATING ACTIVITIES</b>		
Net income for the period		11,608,553
<i>Adjustment to reconcile net income to net cash from operating activities:</i>		
Depreciation on investment properties	8	3,459,409
Impairment loss on an investment property		845,467
Unrealized gain from investments measured at FVTPL		(150,756)
		<u>15,762,673</u>
<b>Changes in operating assets:</b>		
Prepayment and other assets		(551,394)
<b>Changes in operating liabilities:</b>		
Deferred rental income		18,896,238
Accrued Management fee		1,480,853
Accrued expenses and other liabilities		324,051
<b>Net cash from operating activities</b>		<u><b>35,912,421</b></u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investment properties	1,6	(171,720,000)
Purchase investments measured at FVTPL		(28,648,573)
Proceed from sale investments measured at FVTPL		2,811,438
<b>Net cash used in investing activities</b>		<u><b>(197,557,135)</b></u>
<b>FINANCING ACTIVITIES</b>		
Subscription of units	1	171,720,000
<b>Net cash from financing activities</b>		<u><b>171,720,000</b></u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>10,075,286</b>
Cash and cash equivalents at the beginning of the period		-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<u><b>10,075,286</b></u>
<b>Supplemental non-cash transactions</b>		
Purchase of investment through subscription of units in REIT	1,6	<u><b>400,680,000</b></u>

The accompanying notes 1 to 16 form an integral part of these interim condensed financial statements.

# AL MASHA'AR REIT FUND

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 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 18 January 2018.

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 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 primary investment objective of the REIT is to provide its investors with regular income by investing in income-generating real estate assets only in the holy cities of Makkah And Medina, Saudi Arabia.

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

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.

### 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 all type of real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

### 3. BASIS OF PREPARATION

#### 3.1 *Statement of compliance*

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia.

#### 3.2 *Basis of measurement and functional and presentation currency*

These unaudited interim condensed 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 REITs functional and operational currency.

## AL MASHA'AR REIT FUND

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

#### 3. BASIS OF PREPARATION (Continued)

##### 3.3 *Critical accounting judgments, estimates and assumption*

The preparation of the interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. 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 interim condensed 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 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 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 interim 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 is a Real estate 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 property 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 condensed interim statement of comprehensive income.

# AL MASHA'AR REIT FUND

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 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 interim condensed financial statements.

#### Net assets value

The net assets value per unit disclosed in the interim condensed 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 compared as follows:

	IFRS 9	
	Measurement category	Carrying amount
<b>Financial assets</b>		
Cash and cash equivalents	Amortized cost	10,075,286
Investments measured at FVTPL	FVPL (Mandatory)	25,987,891
Prepayment and other assets	Amortized cost	551,394
<b>Total financial assets</b>		<b>36,614,571</b>

## AL MASHA'AR REIT FUND

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 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 (FVPL). 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 FVPL. 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 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

#### 5. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

- **MANAGEMENT FEE, OTHER EXPENSES**

On quarterly basis the Fund Manager charges the Fund, management fee at the rate of 1 percent per annum of the Fund's total assets value. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund such as audit and legal fees, board compensation and other similar charges.

- **TRANSACTION FEE**

Further, the Fund Manager charges the Fund, one-time acquisition fee at the rate of 2 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>30 June 2018</u>
Current Account	75,286
Time deposits	10,000,000
<b>Total</b>	<b><u>10,075,286</u></b>

Time deposits are placed for a period ranging from one day to three months and earn special commission at average rate of 2.5% per annum.

#### 7. INVESTMENTS MEASURED AT FVTPL

	<b>Fund manager</b>	<b>Number of units</b>	<b>Cost</b>	<b>Market Value</b>
Trade Finance Fund	Muscat Capital	2,483,528.5	25,837,135	25,987,891

## AL MASHA'AR REIT FUND

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

#### 8. INVESTMENT PROPERTIES

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<b>Cost</b>				
Balance as of 18 January 2018		-	-	-
Additions		330,241,376	242,158,624	572,400,000
Impairment	8.2		(845,467)	(845,467)
<b>Balance as of 30 June 2018</b>		<b>330,241,376</b>	<b>241,313,157</b>	<b>571,554,533</b>
<b>Accumulated Depreciation</b>				
Balance as of 18 January 2018		-	-	-
Charge for the period	8.1	-	3,459,409	3,459,409
<b>Balance as of 30 June 2018</b>		<b>-</b>	<b>3,459,409</b>	<b>3,459,409</b>
<b>Book Value :</b>				
<b>as of 30 June 2018</b>		<b>330,241,376</b>	<b>237,853,748</b>	<b>568,095,124</b>

These investment properties represent three properties; namely:

- The Eskan 4 investment is located in Makkah and is classified as in the Service sector with an unchanged annual rental of SAR 12.8m
- The Eskan 5 investment is located in Makkah and is classified as in the Service sector with an annual rental of SAR 12.3m
- The Eskan 6 investment is located in Makkah and is classified as in the Service sector with an annual rental of SAR 13.5m

8.1 The Fund has the policy of charging depreciation on building over 35 years. The depreciation is charged on depreciable amount.

8.2 There was an impairment loss during the period amounting to SR 845,467 relating to a property. Furthermore, the fair value of the remaining properties increased by SR 5,338,211

#### 9. GAIN FROM INVESTMENTS MEASURED AT FVTPL

	<u>30 June 2018</u>
Unrealized gain from investments measured at FVTPL	150,756
Realized gain from investments measured at FVTPL	13,662
<b>Total</b>	<b>164,418</b>

## AL MASHA'AR REIT FUND

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

#### 10. 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 **Century 21 Valuation Company**. As of 30 June 2018, the valuation of the investment, properties are as follows:

<b>30 June 2018</b>	<b>First Appraiser</b>	<b>Second Appraiser</b>	<b>Average</b>
Investment properties	572,400,000	572,775,73	572,587,868
<b>Total</b>	<b>572,400,000</b>	<b>572,775,735</b>	<b>572,587,868</b>

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 (Also see Note: 8.2):

	<b>30 June 2018</b>
Estimated fair value of investment properties based on the average of the two valuers used	572,587,868
Less: the carrying value of investment property	(568,095,124)
Estimated fair value in surplus of book value	4,492,744
Units in issue (numbers)	57,240,000
Additional value per unit based on fair value	0.08

#### *Net asset to unitholders:*

	<b>30 June 2018</b>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	584,008,553
Estimated fair value in surplus of book value	4,492,744
Net assets attributable to unitholders based on fair valuation of investment properties	588,501,297

#### *Net asset attributable to each unit:*

	<b>30 June 2018</b>
Book value per unit as per the financial statements before fair value adjustment	10.20
Increase in value per unit based on fair value	0.08
Net assets attributable to each unit based on fair valuation	10.28

All properties are held in the name of Eskan for development (the "Trustees"). The Trustees are 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 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

#### 11. 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. All related party transactions are approved by the Fund Board of Director.

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	(2,943,817)	(1,480,853)
Riyadh Capital	Custodial fees	(88,315)	(45,381)
Bank Muscat	Current account	-	75,286
	Time deposit	-	10,000,000
	Commission income from time deposit	4,129	
Trade Finance fund	Investments	-	25,987,891

#### 12. 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 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

#### 12. 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.

#### 13. EVENTS AFTER THE REPORTING DATE

In accordance, with the approved terms and conditions of the Fund, On 1 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.

#### 14. 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:

##### **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 Company's leased assets. The Company is currently is assessing the impact of IFRS 16 and plan to adopt the new standard on the required effective date.



## **AL MASHA'AR REIT FUND**

### **NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

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**30 June 2018**

**(Amounts in Saudi Riyals)**

#### **15. LAST VALUATION DAY**

The last valuation day of the period was 30 June 2018.

#### **16. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the REIT's Board on 16 Dhul Qa'dah 1439 H (Corresponding to 29 July 2018).

**Signed on behalf of Fund's Board of Directors**



Authorized Signatory