

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed by Riyad Capital)
Financial Statements
For the year ended December 31, 2017
Together with
Independent Auditor's Report to the Unitholders



AUDITOR'S REPORT

TO THE UNITHOLDERS
RIYAD REIT FUND
Riyadh, Kingdom of Saudi Arabia

Unqualified Opinion

We have audited the accompanying financial statements of Riyadh REIT Fund (“the Fund”), being managed by Riyadh Capital (the “Fund Manager”), which comprise of the statement of balance sheet as at 31 December 2017 and the related statements of income, cash flows and changes in net assets attributable to the unitholders for the year then ended and the attached notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the balance sheet of the Fund as at 31 December 2017 and the results of its income and cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

Basis for Unqualified 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 ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, 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.



AUDITOR'S REPORT (Continued)

TO THE UNITHOLDERS

RIYAD REIT FUND

Riyadh, Kingdom of Saudi Arabia

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
<p>The Riyadh REIT Fund owns a portfolio of investment properties comprising of commercial building being located in the Kingdom of Saudi Arabia.</p> <p>Investment properties, being 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 management 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 management and the potential impact of impairment 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 reviewed the methodology applied by the external valuers to ensure it is appropriate; - We obtained two valuation reports from two different/ independent real estate valuers for all investment properties as at 30 September 2017 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date; - Based on the average fair value of the related investment properties as per the above mentioned valuation reports, we have determined that the average fair value is higher than the carrying amount of the same; and - We reconciled the average fair value of the investment properties as per note 14 to the external valuers' reports.



Audit - Consultants - Zakat & Tax

Al-Bassam & Co.
Allied Accountants

(Member firm of PKF International)

AUDITOR'S REPORT (Continued)

TO THE UNITHOLDERS
RIYAD REIT FUND
Riyadh, Kingdom of Saudi Arabia

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 accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, fund 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 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 audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



AUDITOR'S REPORT (Continued)

TO THE UNITHOLDERS
RIYAD REIT FUND
Riyadh, Kingdom of Saudi Arabia

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

- 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 audit 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.

For and on behalf of
PKF Al Bassam & Co.
Allied Accountant



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

21 February 2018
5 Jumada Al Thani 1439

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed by Riyadh Capital)
BALANCE SHEET
As at 31 December 2017
(Amounts in SAR)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>			
Cash and cash equivalents		21,940,840	22,017,540
Rent receivable, net	6	9,352,894	2,672,925
Other receivable	9	4,632,315	248,707
Advances to sub-contractor		984,429	1,507,080
Property under development	7	92,614,163	65,653,828
Investment properties	8	588,160,884	412,583,915
Total Assets		717,685,525	504,683,995
<u>LIABILITIES</u>			
Tawaruq facility	15	194,923,371	-
Accrued expenses	9	18,627,357	11,880,119
Unearned rental income		5,924,727	6,185,634
Transaction fee payable	9	5,878,540	4,102,333
Other payable		3,360,965	611,771
Total Liabilities		228,714,960	22,779,857
Net assets attributable to the Unitholders		488,970,565	481,904,138
Units in issue (<i>numbers</i>)		50,000,000	50,000,000
Book value attributable to each unit		9.78	9.64
Fair value attributable to each unit	14	10.50	10.01

The accompanying notes 1 to 20 form an integral part of these financial statements.

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed By Riyadh Capital)
STATEMENT OF INCOME
For the year ended 31 December 2017
(Amounts in SAR)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>INCOME</u>			
Rental revenue		38,400,474	22,011,900
Realized gain from sales of held for trading investments		121,500	1,656,933
Total Revenue		38,521,974	23,668,833
<u>EXPENSES</u>			
Property management expenses	10	(1,579,543)	(1,515,743)
Other expenses	11	(1,251,299)	(671,868)
Fund management fee		(7,181,616)	(6,318,143)
Custodial fee		(100,000)	(100,000)
Funds From Operations		28,409,516	15,063,079
Investment property depreciation		(8,343,089)	(5,175,880)
Net income for the year		20,066,427	9,887,199

The accompanying notes 1 to 20 form an integral part of these financial statements.

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed by Riyadh Capital)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(Amounts in SAR)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	20,066,427	9,887,199
<i>Adjustments to reconcile net income to net cash (used in)/ from operating activities:</i>		
Realized gain from sale of held for trading investments	(121,500)	(1,656,933)
Provision for doubtful debt	524,431	-
Investment property depreciation	8,343,089	5,175,880
	28,812,447	13,406,146
Changes in operating assets and liabilities		
Purchase of held for trading investments	(20,000,000)	-
Proceeds from held for trading investments	20,121,500	316,080,497
Rent Receivable	(7,204,400)	(2,429,253)
Other receivables	(4,383,608)	(248,707)
Advances to sub-contractor	522,651	(1,507,080)
Investment properties	(183,920,058)	(289,729,175)
Property under development	(26,960,335)	(38,698,828)
Proceeds from disposal of property under development	-	32,700,000
Accrued expenses	6,747,238	6,604,703
Unearned rental income	(260,907)	3,891,975
Transaction fee payable	1,776,207	2,830,000
Other payables	2,749,194	636,771
Net cash (used in) /from operating activities	(182,000,071)	43,537,049
CASH FLOWS FROM FINANCING ACTIVITIES		
Tawaruq facility	194,923,371	-
Dividends paid	(13,000,000)	(25,000,000)
Net cash from /(used in) financing activities	181,923,371	(25,000,000)
Net (decrease) / increase in cash and cash equivalents	(76,700)	18,537,049
Cash and cash equivalents at the beginning of the year	22,017,540	3,480,491
Cash and cash equivalents at end of the year	21,940,840	22,017,540

The accompanying notes 1 to 20 form an integral part of these financial statements.

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed by Riyadh Capital)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS
For the year ended 31 December 2017
(Amounts in SAR)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Net assets value attributable to the Unitholders at the beginning of the year		481,904,138	497,016,939
Net income for the year		20,066,427	9,887,199
Dividends paid	16	(13,000,000)	(25,000,000)
Net assets value attributable to the Unitholders at the end of the year		<u>488,970,565</u>	<u>481,904,138</u>

The accompanying notes 1 to 20 form an integral part of these financial statements.

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed by Riyadh Capital)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017
(Amount in SAR)

1. THE FUND AND ITS ACTIVITIES

Riyad REIT is a closed-ended a Shari'ah-compliant real estate investment traded fund. The REIT operates in accordance with Real Estate Investment Funds Regulations and REIT Regulations issued by the CMA. The REIT is listed on the Tadawul and units of the REIT shall be on traded on the Tadawul in accordance with its rules and regulations. The Capital of the REIT is SAR [500,000,000]. The REIT has a term of 99 years, which is extendable in the discretion of the Fund Manager with the prior approval of the CMA.

Riyad Capital (the "Fund Manager"), a Saudi Arabian One Person Closed Joint Stock Company with Saudi Arabian commercial registration no. 1010239234, and an Authorized Person licensed by the CMA under license no. 07070-37, manages the REIT.

The primary investment objective of the REIT is to provide its investors with current income by investing in construction developed income-producing real estate assets in Saudi Arabia. While the REIT will primarily invest in such assets, the REIT may opportunistically invest in real estate development projects; provided that (i) at least 75% of the REIT's total assets are invested in developed real estate assets which generate periodic income and (ii) the REIT may not invest in vacant land.

The REIT may, a secondary basis, invest in development opportunities with profitable growth potentials that cater for specific real-estate needs, previously unavailable in certain areas. An added value is expected, in the medium term, to be created to Unitholders in such development projects.

In the long term, the REIT's investment portfolio will continue to focus on attractive investment opportunities in different real-estate sectors, including, but not limited to, offices, trade exhibitions, houses, hospitality facilities, warehouses, etc. in order to build a real-estate base with diverse and stable income for Unitholders as well as achieve reasonable increase in the portfolio value.

The REIT shall be governed by the laws of Saudi Arabia and the regulations implemented by the CMA. The investments of the REIT shall comply with the Regulation of Ownership and Investment in Real Estate by Non-Saudis. The offering of units in the REIT has been approved by the CMA on 8/2/1438H (corresponding to 8/11/2016G).

2. REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by Capital Market Authority (CMA) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and 19 Jumada II 1427H (corresponding to 15 July 2006) respectively, detailing requirements for all types of funds within the Kingdom of Saudi Arabia.

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed by Riyadh Capital)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended December 31, 2017
(Amount in SAR)

3. BASIS OF PRESENTATION

3.1 *Statement of compliance*

These financial statements have been presented in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

As required by SOCPA, all funds are required to transition to international financial reporting standards (“IFRS”) as endorsed by SOCPA effective for the years beginning on or after 1 January 2018 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Fund’s management will analyse the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

These financial statements were approved by the Fund’s Board of Directors on 7 February 2018.

3.2 *Basis of measurement*

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting and the going concern concept.

3.3 *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyal (SAR) which is the functional currency of the Fund. All financial information presented has been rounded to the nearest SAR.

3.4 *Use of estimates and judgments*

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set below:

4.1 *Cash and cash equivalents*

Cash and cash equivalents for the purpose of cash flows represent cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Fund without any restrictions.

4.2 *Rent receivable*

Rent receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Any subsequent recoveries of amounts previously written-off are credited in the statement of income.

4.3 *Property under development*

Properties acquired, constructed or are in the course of construction and development are classified as development properties. The cost of development properties includes the cost of land and other related expenditure. The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed and handed over for its intended use. The Fund’s management reviews the carrying values of the development properties at each reporting date. Commission on tawaruq facility with regards to property under development is being capitalized till the related property is ready for use.

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended December 31, 2017
(Amounts in SAR)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 *Investment properties*

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 30 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.

4.5 *Held for trading investments*

Investments purchased for trading are initially recognized at cost at trade date and are re-measured at their market values as at each balance sheet date. The unrealized gains or losses from revaluation and realized gains or losses from disposal of held for trading investments are recognized in the Statement of Income.

4.6 *Revenue recognition*

Rental Revenue

Rental revenue on investment property is recognised on accrual basis.

Gain from held for trading investment

Realized gains and losses on investments held for trading at disposal are determined on average cost basis. The realized gain or losses from investments held for trading represents the difference between the carrying amount of investment at the beginning of the reporting period, or the transaction price if it was purchased in the current reporting period, and its sale price.

Unrealized gains and losses represent the difference between the carrying amount of a financial instrument at the beginning of the year, or the transaction price if it was purchased in the current reporting year, and its carrying amount at the end of the reporting year.

4.7 *Expenses*

Expenses including Property management expenses, Fund management fees, custodial fees and other fees are recorded on accrual basis.

4.8 *Zakat*

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

4.9 *Dividend distribution*

The fund has a policy of distributing at least 90% of net income as dividends.

4.10 *Impairment of assets*

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.

RIYAD REIT
A Real Estate Investment Traded Fund
Closed Ended Fund
(Managed by Riyadh Capital)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2017
(Amounts in SAR)

5. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

- **MANAGEMENT FEE, OTHER EXPENSES**

On semiannual basis the Fund Manager charges the Fund, management fee at the rate of 1.2 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 1 percent on the acquisition or sale price of the real estate assets.

6. RENT RECEIVABLE, NET

	<u>2017</u>	<u>2016</u>
Rent Receivable	9,877,325	2,672,925
Provision for doubtful debts	(524,431)	-
	9,352,894	2,672,925

7. PROPERTY UNDER DEVELOPMENT

<u>Property under development</u>	<u>Erad Tower</u>	<u>2017 Seed Portfolio Project</u>	<u>Total</u>
	(a)	(b)	
Balance as of December 31, 2016	65,653,828	-	65,653,828
Development Cost incurred during the year	26,960,335	-	26,960,335
Balance as of December 31, 2017	92,614,163	-	92,614,163

<u>Property under development</u>	<u>Erad Tower</u>	<u>2016 Seed Portfolio Project</u>	<u>Total</u>
	(a)	(b)	
Balance as of December 31, 2015	26,955,000	32,700,000	59,655,000
Development Cost incurred during the year	38,698,828	-	38,698,828
Disposals	-	(32,700,000)	(32,700,000)
Balance as of December 31, 2016	65,653,828	-	65,653,828

(a) **Erad Tower** represents a project by the Fund for the development of a 13 floor building that will be operated by an international serviced apartment operator "Ascott". The property is located in Khobar. From the total amount of cost of land, the Fund has made payment of SAR 11,500,000 in the form of issuance of units.

(b) **Seed Portfolio Project** represents mainly a project by the Fund for the development of a Retail Complex. The property is located in Riyadh. The Fund had purchased the rights in this property against issuance of units which were held in the name of the Fund's unit holder (the "Legal Owner"). During 2016, the rights in this property have not been transferred in the name of Riyadh Real Estate Income Company (the "Company") and accordingly the property was returned for cash.

RIYAD REIT
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Closed Ended Fund
(Managed by Riyadh Capital)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2017
(Amounts in SAR)

8. INVESTMENT PROPERTIES

<u>Cost</u>	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
Balance as of December 31, 2016		240,024,841	165,080,000	13,130,000	418,234,841
Additions		95,631,129	74,292,120	13,996,809	183,920,058
Balance as of December 31, 2017		335,655,970	239,372,120	27,126,809	602,154,899
<u>Accumulated Depreciation</u>					
Balance as of December 31, 2016		-	(3,989,954)	(1,660,972)	(5,650,926)
Charge for the year	8.1	-	(6,925,108)	(1,417,981)	(8,343,089)
Balance as of December 31, 2017		-	(10,915,062)	(3,078,953)	(13,994,015)
Book Value :					
as of December 31, 2017		335,655,970	228,457,058	24,047,856	588,160,884
as of December 31, 2016		240,024,841	161,090,046	11,469,028	412,583,915

This represents seven properties; namely:

- Izdhar Center: represents a newly built commercial property located on Othman Bin Afan Road in the Izdihar District (within close proximity to Arabian Centre's Al Nakheel Mall). The property is located in Riyadh.
- Altamiz Center: represents a commercial property located on the intersection of Imam Road and Khalid Bin Waleed Street in the Qurtoba neighborhood. The property is located in Riyadh.
- Shati: represents a newly built commercial property located on Prince Mohammed Bin Fahad Road in the Al Shatea neighborhood. The property is located in Dammam.
- Forsan Plaza: represents a commercial property located on King Fahad Road between the Kingdom Center and the Faisaliah Tower. The property is located in Riyadh.
- Ascott Tahlia: represents a commercial property located on Tahlia street close to Bin Hamran, one of Jeddah's most prominent business and shopping centers. The property is located in Jeddah.
- Residence: represents commercial building and hospitality villas consisting of showrooms and office suites located within Hittin district. The property is located in Riyadh.
- Vivienda: represents a newly built hotel villas located on Musa Ibn Nussair Street in Mather Ash Shamali district, between Takhasusi road Prince Turki Ibn Abdulaziz Al Awwal road. The property is located in Riyadh.

- 8.1** The Fund has the policy of charging depreciation on building and equipment over 30 years and 15 years respectively. The depreciation is charged on depreciable amount i.e. cost less residual value.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2017
(Amounts in SAR)

9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties of the Fund include “Riyadh Capital” being the Fund Manager, Riyadh Bank (being the shareholder of Riyadh Capital).

In the ordinary course of its activities, the Fund transacts business with related parties. The related parties transactions are governed by limits set by the regulations issued by the CMA. All related party transactions are approved by the Fund Board.

Riyadh Bank acts as a banker of the Fund and as at December 31, 2017 SAR. 21,940,840 (2016: SAR 6,734,734) were held in current accounts of the Fund maintained therewith.

The significant related party transactions entered into by the Fund during the year and the balances resulting from such transactions are as follows:

<u>Related Party</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balances (Payable) / Receivable</u>	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Riyadh Capital	Fund management fee*	(7,181,616)	(6,318,936)	(17,783,439)	(10,601,823)
	Transaction fee	(1,776,207)	-	(5,878,540)	(4,102,333)
	Cash in investment account	-	-	-	15,282,806
Riyadh Bank	Tawaruq facility**	(3,285,110)	-	(194,923,371)	-
	Cash margin against letter of credit***	-	-	3,900,000	-

*Fund management fee payable is included in the balance sheet under accrued expenses.

** Tawaruq facility includes commission being capitalized and included in the balance sheet under Property under development and Investment properties.

*** Cash margin against letter of credit is included in the balance sheet under other receivable.

10. PROPERTY MANAGEMENT EXPENSES

	<u>For the year ended December 31, 2017</u>	<u>For the year ended 31 December, 2016</u>
Property management fee	624,503	1,044,854
Maintenance	261,575	195,007
Utilities	324,965	149,382
Securities charges	368,500	126,500
	<u>1,579,543</u>	<u>1,515,743</u>

RIYAD REIT
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Closed Ended Fund
(Managed by Riyadh Capital)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2017
(Amounts in SAR)

11. OTHER EXPENSES

	<u>For the year ended December 31, 2017</u>	<u>For the year ended 31 December, 2016</u>
Legal	406,885	372,275
Appraisals	40,000	257,500
Doubtful debt	524,431	-
Bank charges	63,377	-
Others	216,606	42,093
	<u>1,251,299</u>	<u>671,868</u>

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk on its balance with bank and receivables. Bank balance is kept with Riyadh Bank which has sound financial standing.

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulties in arranging funds to meet commitments associated with its financial liabilities.

The Fund Manager monitors the liquidity requirements on a regular basis with a view to ensuring that sufficient funds are available to meet any commitments as they arise.

Market Risk

The Fund 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 of the Kingdom, interest rates, demand-supply, availability of financing, investor sentiment, liquidity, legal, foreign exchange rate and regulatory environment

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13. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

Financial instruments comprise of financial asset and financial liability. The Fund's financial asset consists of cash and cash equivalents and other receivables and financial liability consists of accrued expenses and other payables.

For investments traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of other financial assets and liabilities is not materially different from their carrying values.

14. EFFECT OF NET ASSET VALUE IF DEVELOPMENT AND 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 generally accepted accounting standards in the Kingdom of Saudi Arabia, development and 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 and development properties are determined by two selected appraisers i.e. **Barcode** Company Limited and **Century 21** International. As of 30 September the valuation of the investment and development properties are as follows:

<u>2017</u>	<u>Barcode Company Limited</u>	<u>Century 21 International</u>	<u>Average</u>
Investment property	632,149,794	621,002,154	626,575,974
Property under development	92,102,275	88,480,000	90,291,138
Total	724,252,069	709,482,154	716,867,112
<u>2016</u>	<u>Barcode Company Limited</u>	<u>Century 21 International</u>	<u>Average</u>
Investment property	433,169,206	418,610,000	425,889,603
Property under development	69,864,000	71,590,000	70,727,000
Total	503,033,206	490,200,000	496,616,603

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14. EFFECT OF NET ASSET VALUE IF DEVELOPMENT AND INVESTMENT PROPERTIES ARE FAIR VALUED (continued)

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

The investment and development 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. Below is an analysis of the development and investment properties fair value versus cost:

	<u>2017</u>	<u>2016</u>
Estimated fair value of investment and development properties based on the average of the two valuers used	716,867,112	496,616,603
Less: the carrying value of		
- investment property	(588,160,884)	(412,583,915)
- development property	(92,614,163)	(65,653,828)
Estimated fair value in excess of book value	36,092,065	18,378,860
Units in issue (numbers)	50,000,000	50,000,000
Additional value per unit based on fair value	0.72	0.37

Net asset attributable to unitholders:

	<u>2017</u>	<u>2016</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	488,970,565	481,904,138
Estimated fair value in excess of book value	36,092,065	18,378,860
Net assets attributable to unitholders based on fair valuation of investment and development properties	525,062,630	500,282,998

Net asset attributable to each unit:

	<u>2017</u>	<u>2016</u>
Book value per unit as per the financial statements before fair value adjustment	9.78	9.64
Additional value per unit based on fair value	0.72	0.37
Net assets attributable to each unit based on fair valuation	10.50	10.01

All properties are held in the name of Riyadh Real Estate Income Company (the "Trustee"). The Trustee is holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

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15. TAWARUQ FACILITY

During the year ended 31 December 2017, the Fund has obtained a Tawaruq facility (Shari'ah compliant), whereby the outstanding balance as of 31 December 2017 is SR 194,923,371, from Riyad Bank through Riyad Capital. The facility carries a floating special commission rate of SIBOR+ 1%. The maturity date of the tawaruq facility will be maturing during the period ending 28 June 2018.

16. DIVIDENDS DISTRIBUTION

- On 21 May 2017, the Fund's board of directors has approved to distribute a dividend with regards to the six month period ended 30 June 2017 for an amount of SR 0.26 per unit totalling SR 13 million to its unit holders.
- Subsequently, on 21 January 2018, the Fund's board of directors has approved to distribute a dividend with regards to the six month period ended 31 December 2017 for an amount of SR 0.30 per unit totalling SR 15 millions to its unit holders.

17. SIGNIFICANT EVENTS

- On 24 January 2018, the Fund's Board of directors has approved to establish a sukuk program with a targeted size of one billion Saudi Riyal through a series of tranches. The program aims to diversify sources of finances and their maturity profiles and to support the expansion of Riyad REIT portfolio by acquiring income producing assets beside the assets announced earlier which will be financed through the capital increase.

The program will be established and launched after completion of all regulatory procedures.

- On 21 May 2017, the fund Board of Directors has recommended to increase the Fund's capital by SAR 1.050 Billion to finance the fund by offering a combination of rights issue and In-kind shares after obtaining the regulatory approvals. On 18 September 2017, the fund has submitted the request file to increase the fund size to the Capital Market Authority.

18. CAPITAL COMMITMENTS AND CONTINGENCIES

- As at 31 December 2017, the Fund has capital commitments regarding "Ascott Al Khobar" (Property under development) for an amount of SR 80 million (31 December 2016: SR 106 million). The above is expected to be incurred in 2018.
- As at 31 December 2017, the fund has outstanding letters of credit of SR 3.9 million (31 December 2016: SR nil), being issued by Riyad Bank, against which a cash margin, being included in the balance sheet under other receivable, of the same amount is blocked thereby.

19. LAST VALUATION DAY

The last valuation day of the year was 31 December 2017.

20. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board of Directors on 7 February 2018 corresponding to 21 Jumada Al Awal 1439H.