

**Jadwa REIT Saudi Fund**  
**(Managed by Jadwa Investment Company)**

**FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 11 FEBRUARY 2018 TO  
31 DECEMBER 2018**

**INDEPENDENT AUDITOR'S REPORT  
To the Unitholders of Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)**

**Opinion**

We have audited the accompanying financial statements of Jadwa REIT Saudi Fund (the "Fund") being managed by Jadwa Investment Company, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of cash flows and statement of changes in net assets for the period from 11 February 2018 to 31 December 2018, and 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 financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the period from 11 February 2018 to 31 December 2018 in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia.

**Basis for Unqualified Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISA") as 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, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

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

**INDEPENDENT AUDITOR'S REPORT**  
**To the Unitholders of Jadwa REIT Saudi Fund**  
**(Managed by Jadwa Investment Company) (continued)**

**Key Audit Matters (continued)**

<b>Key Audit Matter</b>	<b>How the key matter was addressed in the audit</b>
<p>The 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"> <li>- 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;</li> <li>- We reviewed the methodology applied by the external valuers to ensure it is appropriate;</li> <li>- We obtained two valuation reports from two different / independent real estate valuers 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;</li> <li>- 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</li> <li>- We reconciled the average fair value of the investment properties as per note 7 to the external valuers' reports.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT**  
**To the Unitholders of Jadwa REIT Saudi Fund**  
**(Managed by Jadwa Investment Company) (continued)**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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, 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA as 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 ISA as 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 AUDITOR'S REPORT**  
**To the Unitholders of Jadwa REIT Saudi Fund**  
**(Managed by Jadwa Investment Company) (continued)**

**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 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- 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 Alluhaid & Alyahya Chartered Accountants

  
Saleh A. Al-Yahya  
Certified Public Accountant  
Registration No. 473

Riyadh 21 Jumada Al-Thani 1440 H  
(27 February 2019)



Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	<i>SR</i>
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Investment properties	6	1,524,395,217
<b>CURRENT ASSETS</b>		
Rent receivables	8	26,582,690
Prepayments and value-added tax	9	10,346,116
Bank balances	10	20,459,428
<b>TOTAL CURRENT ASSETS</b>		<b>57,388,234</b>
<b>TOTAL ASSETS</b>		<b>1,581,783,451</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Due to related parties	12	59,441
Accrued management fee	12	6,619,153
Accrued expenses	11	295,995
<b>TOTAL LIABILITIES</b>		<b>6,974,589</b>
<b>NET ASSETS</b>		<b>1,574,808,862</b>
Units in issue	14	158,000,000
Per unit value		9.97
Per unit fair value	7	11.03


The attached notes 1 to 24 form an integral part of these financial statements.

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF COMPREHENSIVE INCOME

For the period from 11 February 2018 to 31 December 2018

	<i>Notes</i>	<b>SR</b>
<b>INCOME</b>		
Rental revenue from investment properties		<b>117,561,752</b>
<b>EXPENSES</b>		
Depreciation	6	<b>(35,824,433)</b>
Management fee	12	<b>(12,301,877)</b>
General and administrative expenses	16	<b>(1,946,580)</b>
		<b>(50,072,890)</b>
<b>NET INCOME FOR THE PERIOD</b>		<b>67,488,862</b>
Other comprehensive income		-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>67,488,862</b>



The attached notes 1 to 24 form an integral part of these financial statements.

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF CASH FLOWS

For the period from 11 February 2018 to 31 December 2018

	<i>Notes</i>	<b>SR</b>
<b>OPERATING ACTIVITIES</b>		
Net income for the period		67,488,862
Adjustments for non-cash and other items:		
Depreciation	6	35,824,433
		<u>103,313,295</u>
Changes in operating assets and liabilities:		
Rent receivables		(26,582,690)
Prepayments and value-added tax		(10,346,116)
Due to related parties		59,441
Accrued management fee		6,619,153
Accrued expenses		295,995
		<u>73,359,078</u>
<b>INVESTING ACTIVITY</b>		
Purchase of investment properties	6	(543,666,650)
		<u>(543,666,650)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from units sold	14	563,447,000
Dividends distributed	21	(72,680,000)
		<u>490,767,000</u>
Net cash from operating activities		<u>73,359,078</u>
Net cash from investing activities		<u>(543,666,650)</u>
Net cash from financing activities		<u>490,767,000</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>20,459,428</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<u>20,459,428</u>
<b>NON-CASH TRANSACTIONS</b>		
Investment properties (compensated against sale of units)	6	<u>1,016,553,000</u>

The attached notes 1 to 24 form an integral part of these financial statements.



Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF CHANGES IN NET ASSETS

For the period from 11 February 2018 to 31 December 2018

	<i>Fund units</i> SR	<i>Cumulative</i> <i>income (loss)</i> SR	<i>Total</i> <i>unitholders' net</i> <i>assets</i> SR
Issuance of units			
- for cash	563,447,000	-	563,447,000
- for consideration other than cash	1,016,553,000	-	1,016,553,000
	1,580,000,000	-	1,580,000,000
Net income for the period	-	67,488,862	67,488,862
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	67,488,862	67,488,862
Dividend distribution (note 21)	-	(72,680,000)	(72,680,000)
<b>Net asset value attributed to the unitholders at the end of the period</b>	<b>1,580,000,000</b>	<b>(5,191,138)</b>	<b>1,574,808,862</b>




The attached notes 1 to 24 form an integral part of these financial statements.

# Jadwa REIT Saudi Fund (Managed by Jadwa Investment Company)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

### 1 GENERAL

Jadwa REIT Saudi Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The Fund operates in accordance with Real Estate Investment Fund Regulations ("REIFR") and Real Estate Investment Traded Funds ("REITF") Instructions issued by the Capital Market Authority ("CMA"). The Fund is listed on Saudi Stock Exchange ("Tadawul") and the units of the Fund started to be traded on Tadawul in accordance with its rules and regulations. The Capital of the Fund is SR 1,580,000,000 divided into 158,000,000 units of SR 10 each. The Fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of the CMA.

The Fund is being managed by Jadwa Investment Company, a Saudi Arabian closed joint stock company with commercial registration number 1010228782, and an Authorized Person licensed by the CMA under license number 06034-37 (the "Fund Manager").

The following entities have been established and approved by the CMA as special purpose vehicles (the "SPVs") for the beneficial interest of the Fund:

1. Real Estate Development Areas Company, a Limited Liability Company with commercial registration number 1010385322.
2. Jadwa Al Masha'ar Real Estate Company, a Limited Liability Company with commercial registration number 1010495554.

The primary investment objective of the Fund is to provide its investors with regular income by investing in income-generating real estate assets in Saudi Arabia, excluding the Holy Cities of Makkah and Medina.

While the Fund will primarily invest in developed real estate assets which are ready for use, it may also opportunistically invest in real estate development projects in a value not exceeding 25% of the Fund's total asset value with the aim of achieving an increase in value per unit; provided that (i) at least 75% of the Fund's total assets are invested in developed real estate assets which generate periodic income and (ii) the Fund shall not invest in White Land.

### 2 REGULATING AUTHORITY

The Fund is governed by the REIFR published by the CMA in the Kingdom of Saudi Arabia on 19 Jumada II 1427 H (corresponding to 15 July 2006) and REITF instructions published by CMA on 23 Muharram 1438 H (corresponding to 24 October 2016), detailing requirements for all real estate funds operating 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"), as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia.

#### 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 Riyals ("SR"), which is the functional currency of the Fund. All financial information has been rounded off to the nearest SR.

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the 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. Revision to accounting estimates are recognized in the period in which the estimates are reviewed and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

**4.1 Useful lives of investment properties**

The management determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods. The estimated useful lives of the investment properties are disclosed in note 6.

**4.2 Impairment of investment properties**

The Fund assesses whether there are any indicators of impairment for all investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

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

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial 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.

**5 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements are as follows:

**5.1 Investment properties**

Investment properties comprise completed properties that are held to earn rentals or for capital appreciation or both. Investment property is stated at cost including transaction costs net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

The cost less estimated residual value, if any, of investment property is depreciated on a straight-line basis over the estimated useful lives of the assets. Land, on the other hand, is reported at cost.

The fair value of investment properties is disclosed in note 7.

**5.2 Impairment of non-financial assets**

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value 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 asset 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, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.3 Cash and cash equivalents**

For the purposes of cash flows statement, cash and cash equivalents consists of bank balances.

**5.4 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**5.4.1 Initial recognition and measurement of financial instruments**

The Fund initially recognises financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

Initial measurement of the financial instrument is at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets carried at FVTPL are expensed in the statement of comprehensive income.

**5.4.2 Financial assets – subsequent classification and measurement**

Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL. There are two criteria used to determine how financial assets should be classified and measured:

- a) The Fund's business model for managing the financial assets; and
- b) The contractual cash flow characteristics of the financial asset

A financial asset is measured at amortised cost if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Otherwise, a financial asset is measured at FVTPL.

The Fund has no financial assets measured at FVTPL and FVOCI.

The Fund derecognises a financial asset when the rights to the cash flows from the financial asset have expired or where the Fund has transferred substantially all risks and rewards associated with the financial asset and does not retain control of the financial asset.

**5.4.3 Impairment of financial assets**

The Fund assesses on a forward-looking basis the ECL associated with its debt instruments as part of its financial assets, carried at amortised cost and FVOCI, the ECL is based on a 12-month ECL and life time ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. Where there is no significant financing component in the financial instruments recognised at amortised cost or FVOCI, then the Fund can use simplified approach and assess allowance on lifetime ECL using a forward-looking provision matrix.

As at period end, the Fund has bank balances, rent receivables and due from a related party as financial assets carried at amortised cost.

The bank balances are demand deposits with reputable financial institutions with investment grade credit rating. These financial institutions are highly capitalised and sufficiently liquid. They adhere to strict requirements of their regulator with respect to capital adequacy and liquidity requirements. Further, based on the economic review in general and assessment of the forecast of the Saudi Arabian Financial Institutions specifically by the reputable financial analyst and other agencies, the management believes that the financial institutions will continue their positive capital of liquidity requirements. Accordingly, the management believes no provision is required at this stage.

With respect to rent receivables, these are short-term receivables which are current and are settled within a very short period of time. No provision has been booked on the rent receivables as the management expects the receivable to be fully recoverable.

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.4.4 Financial liabilities – subsequent classification and measurement**

Financial liabilities are subsequently measured at amortised cost using the effective interest rate ("EIR") method. The EIR is the rate that discounts the estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

The Fund derecognises a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The Fund's financial liabilities include due to related parties, accrued management fee and accrued expenses.

**5.4.5 Offsetting of financial instruments**

Financial assets and liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and liabilities simultaneously.

**5.5 Provision**

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**5.6 Revenue recognition**

The Fund recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15, *Revenue from Contracts with Customers*:

- Step 1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.
- Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Fund expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Fund will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Fund expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Fund satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Fund's performance as the Fund performs; or
- The Fund's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Fund's performance does not create an asset with an alternative use to the Fund and the Fund has an enforceable right to payment for performance completed to date.

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied. When the Fund satisfies a performance obligation by delivering the promised services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.6 Revenue recognition (continued)**

The specific recognition criteria described below must also be met before revenue is recognised.

**Rental income**

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

**5.7 Management fees**

Management fees are charged by the Fund Manager at the rate of 0.75% per annum of the Fund's net asset market value. Management fee is calculated and payable semi-annually in arrears.

**5.8 Expenses**

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under IFRS.

**5.9 Net assets value**

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

**5.10 Zakat**

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

**5.11 Dividend distribution**

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

**5.12 Standards effective 1 January 2018**

The Fund has adopted the following new standards which have been issued and effective from 1 January 2018:

**5.12.1 IFRS 9, Financial Instruments**

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets. It contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing categories of held to maturity, loans and receivables and available for sale. Based on its assessment, the Fund believes that the new classification requirements have no impact on its accounting for financial assets.

IFRS 9 replaces the incurred loss model with a forward-looking ECL model. This requires considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost. Based on its assessment, the Fund believes that there is no material impact on the financial statements from adopting IFRS 9 in respect of ECLs.

**5.12.2 IFRS 15, Revenue from Contracts with Customers**

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under the standard, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The application of this standard did not have an impact on the amounts presented in these financial statements.

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.13 Standards and interpretations issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

**5.13.1 IFRS 16, Leases**

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

IFRS 16 replaces existing leases guidance, including 'IAS 17 Leases', 'IFRIC 4 Determining whether an Arrangement contains a Lease', 'SIC 15 Operating Leases – Incentives' and 'SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted.

The Fund is still assessing the potential impact of adopting the new standard on the financial statements.

**5.13.2 Annual Improvements to IFRSs 2015-2017 Cycle**

- IFRS 3, *Business Combinations* and IFRS 11, *Joint Arrangements* clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.
  - If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
  - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
- IAS 12, *Income Taxes*, clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.
- IAS 23, *Borrowing Costs*, clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any nonqualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

**5.13.3 Other Amendments**

The following new or amendments to standards are not yet effective and neither expected to have a significant impact on the Fund's financial statements:

- IFRS 9, *Financial Instruments, Prepayment Features with Negative Compensation*
- IAS 19, *Employee Benefits, Plan Amendments, Curtailment or Settlement*
- IAS 28, *Investments in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures*
- IFRIC 23, *Uncertainty over Income Tax Treatments*

Jadwa REIT Saudi Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**6 INVESTMENT PROPERTIES**

The composition of the investment properties as of the reporting date is summarized below:

<i>Description</i>	<i>Cost</i> <i>SR</i>	<i>Accumulated depreciation</i> <i>SR</i>	<i>Net book value</i> <i>SR</i>
Land	456,472,011	-	456,472,011
Alyaum Newspaper Tower	160,173,955	3,046,812	157,127,143
Almaarefa College	97,439,857	2,810,765	94,629,092
Al-Sulay Warehouse	147,534,425	5,529,142	142,005,283
Marvela Residential Compound	492,696,838	17,799,530	474,897,308
Al Fanar Residential & Commercial Compound	205,902,564	6,638,184	199,264,380
	<u>1,560,219,650</u>	<u>35,824,433</u>	<u>1,524,395,217</u>

6.1 The useful lives of the investment properties as estimated by an independent valuator range from 30 to 50 years.

6.2 Freehold land comprises of the lands acquired on which the buildings are built. The Fund acquired properties in Riyadh, Al Khobar and Dammam with an aggregate area of 377,502.39 square meter of land. The consideration for the properties was partly paid in cash and partly settled through issuance of 101,655,300 units of the Fund.

6.3 Brief details of the investment properties follow:

**6.3.1 Alyaum Newspaper Tower**

This property is a 16-storey with 3- level basement, office building located in Al Hussam District, Dammam City.

**6.3.2 Almaarefa College**

This property is a fully constructed educational facility located in Al Diriah District, Riyadh.

**6.3.3 Al-Sulay Warehouse**

This property is an industrial compound located at the east corner of Haroon Al Rashid Road and Alsafa Street, within Al Sulay District, Riyadh.

**6.3.4 Marvela Residential Compound**

This property is a residential compound located along the southeast side of King Abdullah Road, within King Faisal District, Riyadh.

**6.3.5 Al Fanar Residential & Commercial Compound**

This property is a mixed-use project composed of residential and retail units located at the southwest corner of King Faisal Road and 1 Street, within Ar Rawabi District, Al Khobar.

**7 EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED**

In accordance with Article 21 of the REIFR issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's real estate assets based on two evaluations prepared by independent evaluators. However, in accordance with the requirement in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less 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.



Jadwa REIT Saudi Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**7 EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED (continued)**

The fair value of the investment properties is determined by two selected appraisers, i.e. ValuStrat and White Cubes. As at period end, the valuation of investment properties are as follows:

	<i>Appraiser 1</i> <i>SR</i>	<i>Appraiser 2</i> <i>SR</i>	<i>Average</i> <i>SR</i>
Alyaum Newspaper Tower	318,000,000	288,900,000	303,450,000
Almaarefa College	228,500,000	220,700,000	224,600,000
Al-Sulay Warehouse	276,000,000	235,300,000	255,650,000
Marvela Residential Compound	645,000,000	645,200,000	645,100,000
Al Fanar Residential & Commercial Compound	268,300,000	259,700,000	264,000,000
	<u>1,735,800,000</u>	<u>1,649,800,000</u>	<u>1,692,800,000</u>

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. Below is an analysis of the investment properties' fair value against cost:

7.1 The unrealised gain on investment properties based on fair value evaluation is set out below:

	<i>SR</i>
Fair value of investments in real estate properties	<b>1,692,800,000</b>
Less: Carrying value of investments in real estate properties (note 6)	<b>1,524,395,217</b>
Unrealised gain based on fair value evaluation	<u>168,404,783</u>
Units in issue	<u>158,000,000</u>
Per unit share in unrealised gain based on fair value evaluation	<u>1.06</u>

7.2 The net asset value using the fair values of the real estate properties is set out below:

	<i>SR</i>
Net asset value at cost, as presented in these financial statements	<b>1,574,808,862</b>
Unrealised gain based on real estate evaluations (note 7.1)	<b>168,404,783</b>
Net asset based on fair value	<u>1,743,213,645</u>

7.3 The net asset value per unit, using the fair values of the real estate properties is set out below:

	<i>SR</i>
Net asset value per unit, at cost as presented in these financial statements	<b>9.97</b>
Impact on net asset value per unit on account of unrealised gain based on fair value evaluations (note 7.1)	<b>1.06</b>
Net asset value per unit at fair value	<u>11.03</u>

Jadwa REIT Saudi Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**8 RENT RECEIVABLES**

This account represents the rent receivable from the operating leases (see note 18).

Following is the ageing analysis of the receivables:

	<b>SR</b>
Less than 30 days	<b>25,963,238</b>
Between 31 to 60 days	-
Between 61 to 90 days	-
Between 91 to 120 days	<b>619,452</b>
More than 120 days	-
	<hr/> <b>26,582,690</b> <hr/>

No provision has been booked on the above receivables, as the Fund expects the receivable to be fully recoverable. The receivables are secured by promissory notes and/or pledge of units in the Fund.

**9 PREPAYMENTS AND VALUE-ADDED TAX**

	<b>SR</b>
Input value-added tax	<b>10,240,609</b>
Prepaid expenses	<b>105,507</b>
	<hr/> <b>10,346,116</b> <hr/>

**10 BANK BALANCES**

As of 31 December 2018, two of the four bank accounts are maintained with Banque Saudi Fransi ("BSF") under the name of the SPVs with a total balance of SR 14,284,521.

**11 ACCRUED EXPENSES**

	<b>SR</b>
Professional fees	<b>166,403</b>
Custody fee	<b>80,658</b>
Property valuation fees	<b>48,934</b>
	<hr/> <b>295,995</b> <hr/>

Jadwa REIT Saudi Fund  
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 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 31 December 2018

**12 RELATED PARTY TRANSACTIONS AND BALANCES**

The following are the details of the significant transactions with related parties during the current period:

<i>Related party</i>	<i>Nature of relationship</i>	<i>Nature of transaction</i>	<i>Amount of transaction SR</i>
Jadwa Investment Company	Fund Manager	Paid on behalf of the Fund Management fee (note 12.1)	34,021 (12,301,877)
AbdulKadir Al Muhaidib & Sons Co.	Unitholder	Rental revenue from investment properties	81,482,877
Almareefa College for Science & Technology	Unitholder	Rental revenue from investment properties	14,465,754

**12.1 Management fee**

In consideration for managing the assets of the Fund, the Fund Manager in accordance with the Terms and Conditions of the Fund charges the Fund a management fee equal to 0.75% of the net asset market value of the Fund calculated and payable semi-annually in arrears.

For the dividends distributed to the unitholders, please refer to note 21.

The following are the details of related party balances at period end:

**Amounts due to related parties**

	<b>SR</b>
Jadwa Investment Company	34,021
Unitholders - Unpaid dividends	25,420
	<u>59,441</u>

**Accrued management fee**

	<b>SR</b>
Jadwa Investment Company	6,619,153

**13 REMUNERATION TO INDEPENDENT DIRECTORS**

During the period ended 31 December 2018, the following expense in relation to the independent directors is included in the general and administrative expenses:

	<b>SR</b>
Board oversight fee	<u>20,000</u>

**Jadwa REIT Saudi Fund  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2018

**14 UNIT TRANSACTION**

Transaction in units of the Fund for the period is summarised as follows:

	<b>30 June 2018</b> <b>In numbers</b>
Units issued during the period for consideration in cash (note 14.1)	<b>56,344,700</b>
Units issued during the period for consideration other than cash (note 14.2)	<b>101,655,300</b>
Units at the end of the period	<b>158,000,000</b>

**14.1** During the period, the Fund issued 56,344,700 units for SAR 563,447,000 to the general public.

**14.2** During the period, the Fund issued 101,655,300 units as a consideration for the purchase of investment properties (note 6).

**15 TERM LOAN**

On 1 October 2018, BSF has extended an Islamic finance facility to one of the SPVs, Real Estate Development Areas Company, amounting to SR 1,000,000,000 for the purposes of financing the real estate investments of the Fund. The SPV has made an arrangement with the Fund under a long-term loan agreement to lend all the loan proceeds availed by it under the facility to the Fund on terms and conditions same as that of the facility.

The facility and correspondingly the loan is available till 1 October 2021 and is repayable in full on 31 July 2023. As at 31 December 2018, the Fund has not drawn any amount from the facility.

The facility is secured by promissory notes and pledge over the current and future rights and interests in the investment properties of the Fund.

**16 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>SR</b>
Registration fee	<b>450,382</b>
Professional fees	<b>439,472</b>
Custody fee	<b>323,946</b>
Listing fee	<b>320,822</b>
Administration fee	<b>121,225</b>
Property valuation fees	<b>97,994</b>
Legal fee	<b>78,442</b>
Board oversight fee (note 13)	<b>20,000</b>
Others	<b>94,297</b>
	<b>1,946,580</b>

**17 FAIR VALUE MEASUREMENT**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

Jadwa REIT Saudi Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

**17 FAIR VALUE MEASUREMENT (continued)**

Assets and liabilities for which fair value is recognised or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

**17.1 Financial instruments**

Financial assets consist of bank balances, rent receivables and due from a related party. Financial liabilities consist of due to related parties, accrued management fee and accrued expenses. The fair values of financial assets and financial liabilities are not materially different from their carrying values.

**17.2 Non-financial assets**

The following table shows the fair value of investment properties disclosed as at period end:

	<b>Level 1 SR</b>	<b>Level 2 SR</b>	<b>Level 3 SR</b>	<b>Total SR</b>
Alyaum Newspaper Tower	-	303,450,000	-	303,450,000
Almaarefa College	-	224,600,000	-	224,600,000
Al-Sulay Warehouse	-	255,650,000	-	255,650,000
Marvela Residential Compound	-	645,100,000	-	645,100,000
Al Fanar Residential & Commercial Compound	-	264,000,000	-	264,000,000
	-	<b>1,692,800,000</b>	-	<b>1,692,800,000</b>

When the fair value of items disclosed in these financial statements cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk, correlation and volatility.

Changes in assumptions about these factors could affect the fair value of items disclosed in these financial statements and the level where the items are disclosed in the fair value hierarchy.

The fair values of investment properties were assessed by ValuStrat and White Cubes as disclosed in note 7. They are accredited independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

The valuation models have been applied in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards, in addition to recently published International Valuation Standards issued by International Valuation Standards Council (IVSC) and applied by Saudi Authority for Accredited Valuers (TAQEEM). These models comprise both the income capitalisation approach and depreciated replacement cost (DRC).

Jadwa REIT Saudi Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2018

**18 OPERATING LEASES**

Future rental commitments under the operating leases are as follows:

	<b>SR</b>
Not later than one year	<b>127,255,674</b>
Later than one year and not later than five years	<b>414,246,569</b>
Later than five years	<b>262,025,744</b>
	<hr/> <b>803,527,987</b> <hr/>

The Fund enters into long-term operating lease contracts with tenants for space in its investment properties. Initial lease terms are generally between three and 20 years. Leases generally provide for the tenant to pay the base rent, with provisions for contractual increases in base rent over the term of the lease. Responsibility for repair and maintenance of the property, and its insurance over the lease term lies with the lessee.

**19 FINANCIAL RISK MANAGEMENT**

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

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

The Fund has its Terms and Conditions document that sets out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

**19.1 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 in the kingdom, interest rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The Fund 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 Fund.

**19.2 Credit risk**

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Bank balances are placed with banks having sound credit ratings. The Fund seeks to limit its credit risk with respect to counterparties by setting credit limits for individual counterparties and by monitoring outstanding receivables.

The maximum exposure to credit risk applicable to the Fund approximates to the carrying value of the financial assets as disclosed in these financial statements.

**19.3 Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

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31 December 2018

19 FINANCIAL RISK MANAGEMENT (continued)

19.3 Liquidity risk (continued)

The table below summarises the maturity profile of the Fund's financial liabilities based on contractual undiscounted payments:

31 December 2018	On demand SR	Less than 3 months SR	Total SR
Due to related parties	59,441	-	59,441
Accrued management fees	-	6,619,153	6,619,153
Accrued expenses	-	295,995	295,995
	<u>59,441</u>	<u>6,915,148</u>	<u>6,974,589</u>

19.4 Property risk

Property risk is the risk related to the investment properties of the Fund. The Fund's management has identified the risk that a tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associate property. To reduce this risk, the Fund reviews the financial status of all prospective tenants and decides on the appropriate level of security required via promissory notes.

20 OPERATING SEGMENT

The Fund is organised into one operating segment. All of the Fund's activities are interrelated and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the fund as one segment.

21 DIVIDENDS DISTRIBUTION

On 16 April 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 11 February 2018 to 31 March 2018 for an amount of SR 15,800,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 23 July 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 April 2018 to 30 June 2018 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 22 October 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 July 2018 to 30 September 2018 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

22 SUBSEQUENT EVENTS

On 27 January 2019, the Fund acquired an educational property along Prince Abdulaziz Bin Thunayan Street, Nakheel District, Riyadh at a total value of SR 25,650,000 which was financed through the existing credit facility obtained from BSF (see note 15).

On 12 February 2019, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 October 2018 to 31 December 2018 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2018

**23 LAST VALUATION DAY**

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

**24 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Fund's Board on 21 Jumada Al-Thani 1440 H (corresponding to 27 February 2019).