

**RIYAD REIT FUND**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**For the period ended 30 June 2018**  
together with the  
**Independent Auditor's Report to the Unitholders**

INDEPENDENT AUDITOR'S REVIEW REPORT

THE UNITHOLDERS  
RIYAD REIT FUND  
KINGDOM OF SAUDI ARABIA

**Introduction:**

We have reviewed the accompanying interim balance sheet of Riyadh REIT Fund ("the Fund") managed by Riyadh Capital (the "Fund Manager") as at 30 June 2018 and the related interim statements of income, changes in net assets attributable to Unitholders and statement of cash flows for the six month period then ended and the accompanying notes which form an integral part of these interim condensed financial statements. The Fund's management is responsible for the preparation and fair presentation of these interim condensed financial in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

**Scope of Review:**

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

**Conclusion:**

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

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

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



1 August 2018  
19 Dhual Qadah 1439

**RIYAD REIT FUND**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**INTERIM STATEMENT OF ASSETS AND LIABILITIES**  
**As at 30 June 2018**  
**(Amounts in SAR)**

	<u>Notes</u>	<u>30 June</u> <u>2018</u>	<u>31 December</u> <u>2017</u>	<u>1 January</u> <u>2017</u>
<b><u>ASSETS</u></b>				
<b>Current assets</b>				
Cash and cash equivalents		6,678,058	21,940,840	22,017,540
Rent receivable, net		17,942,338	9,352,894	2,672,925
Other receivable		4,163,775	4,632,315	248,707
Advances to sub-contractors		494,032	984,429	1,507,080
<b>TOTAL CURRENT ASSETS</b>		<b>29,278,203</b>	<b>36,910,478</b>	<b>26,446,252</b>
<b>NON-CURRENT ASSETS</b>				
Properties under development	7	211,440,112	92,614,163	65,653,828
Investment properties	8	1,484,445,909	588,160,884	412,583,915
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,695,886,021</b>	<b>680,775,047</b>	<b>478,237,743</b>
<b>TOTAL ASSETS</b>		<b>1,725,164,224</b>	<b>717,685,525</b>	<b>504,683,995</b>
<b><u>LIABILITIES</u></b>				
Tawaruq facility	13	44,000,000	194,923,371	-
Accrued expenses	9	15,470,863	18,627,357	11,880,119
Unearned rental income		7,189,049	5,924,727	6,185,634
Transaction fee payable	9	4,422,707	5,878,540	4,102,333
Other payable	12	23,070,592	3,360,965	611,771
<b>TOTAL LIABILITIES</b>		<b>94,153,211</b>	<b>228,714,960</b>	<b>22,779,857</b>
<b>Net assets attributable to the Unitholders</b>		<b>1,631,011,013</b>	<b>488,970,565</b>	<b>481,904,138</b>
Units in issue ( <i>numbers</i> )		171,697,101	50,000,000	50,000,000
<b>Book value attributable to each unit</b>		<b>9.50</b>	<b>9.78</b>	<b>9.64</b>
<b>Fair value attributable to each unit</b>	11	<b>9.80</b>	<b>10.5</b>	<b>10.01</b>

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed By Riyad Capital)**  
**INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
For the six month period ended 30 June 2018  
(Amounts in SAR)

	<i>Notes</i>	<u>For the period ended 30 June 2018</u>	<u>For the period ended 30 June 2017</u>
Rental revenue		33,967,310	16,830,258
Realized gain from sales of investments measured at FVPL		-	74,695
<b>Total Income</b>		<b>33,967,310</b>	<b>16,904,953</b>
Properties management expenses	10	(615,466)	(670,745)
Fund management fee	9	(3,227,395)	(2,898,681)
Custodial fee	9	(50,000)	(50,000)
Other expenses	11	(732,788)	(274,817)
<b>Funds From Operations</b>		<b>29,341,661</b>	<b>13,010,710</b>
Investment properties depreciation	8	(5,301,223)	(3,479,980)
<b>Net income for the period</b>		<b>24,040,438</b>	<b>9,530,730</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>24,040,438</b>	<b>9,530,730</b>

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE**  
**TO THE UNITHOLDERS**  
For the six month period ended 30 June 2018  
(Amounts in SAR)

	<u>Note</u>	<u>For the period ended 30 June 2018</u>	<u>For the period ended 30 June 2017</u>
<b>Net assets value attributable to the Unitholders at the beginning of the period</b>		488,970,565	481,904,138
<b>Changes from unit transaction during the period:</b>			
Subscription of units – Cash		264,127,586	-
Subscription of units – In kind contribution		868,872,424	-
<b>Total comprehensive income for the period</b>		24,040,438	9,530,730
<b>Prior year adjustment</b>		-	(141,898)
<b>Dividends paid during the period</b>	14	(15,000,000)	(13,000,000)
<b>Net assets value attributable to the Unitholders at the end of the period</b>		<u>1,631,011,013</u>	<u>478,292,970</u>

Transactions in units for the period are summarized as follows:

	<u>For the period ended 30 June 2018</u>	<u>For the period ended 30 June 2017</u>
<b>Number of units at the beginning of the period</b>	50,000,000	50,000,000
Subscription of units – Cash	28,370,310	-
Subscription of units – In kind contribution	93,326,791	-
<b>Number of units at the end of the period</b>	<u>171,697,101</u>	<u>50,000,000</u>

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**INTERIM STATEMENT OF CASH FLOWS**  
For the six month period ended 30 June 2018  
(Amounts in SAR)

	For the period ended 30 June 2018	For the period ended 30 June 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	24,040,438	9,530,730
<i>Adjustments to reconcile net income to net cash used in operating activities:</i>		
Realized gain from sales of investments measured at FVPL	-	(74,695)
Prior year adjustment	-	(141,898)
Investment properties depreciation	5,301,223	3,479,980
	29,341,661	12,794,117
<b>Changes in operating assets and liabilities</b>		
Purchase of investments measured at FVPL	-	(20,000,000)
Proceeds from investments measured at FVPL	-	20,074,695
Rent Receivable, net	(8,589,444)	(3,716,003)
Other receivables	468,540	(444,209)
Advances to sub-contractor	490,398	-
Purchase of investment properties	(122,686,459)	(179,571,949)
Properties under development	(28,853,314)	(8,518,852)
Accrued expenses	(3,156,494)	40,903,763
Unearned rental income	1,264,322	3,119,093
Transaction fee payable	(1,455,833)	410,000
Other payables	19,709,626	57,068
<b>Net cash used in operating activities</b>	<b>(113,466,997)</b>	<b>(134,892,277)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Tawaruq facility	(150,923,371)	114,977,000
Dividends paid	(15,000,000)	-
Subscription of units	264,127,586	-
<b>Net cash from financing activities</b>	<b>98,204,215</b>	<b>114,977,000</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(15,262,782)</b>	<b>(19,915,277)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>21,940,840</b>	<b>22,017,540</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>6,678,058</b>	<b>2,102,263</b>
<b>Supplemental non-cash transactions</b>		
Purchase of investment through subscription of units in REIT	<b>93,326,791</b>	<b>-</b>

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
For the period ended 30 June 2018  
(Amount in SAR)

**1. THE FUND AND ITS ACTIVITIES**

Riyad REIT (the “REIT” or the “Fund”) 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 1,633,000,010 [31 December 2017 : 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.

The REIT is managed by Riyadh 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.

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 8/11/2016).

During the period ended 30 June 2018, the Fund through subscription of its unit raised SAR 1.6 billion.

**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 Riyad Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**3. BASIS OF PRESENTATION**

***3.1 Statement of compliance***

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

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

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

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

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

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

**Going Concern**

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

**Impairment of non-financial assets**

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

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



**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued)**  
For the period ended June 30, 2018  
(Amount in SAR)

**3. BASIS OF PRESENTATION (Continued)**

***3.3 Critical accounting judgments, estimates and assumption (continued)***

**Residual and useful lives of investment properties**

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

***3.4 Expected credit loss***

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

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

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

**4. SIGNIFICANT ACCOUNTING POLICIES**

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

***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. Cash and cash equivalents are carried at amortized cost within the interim statement of assets and liabilities

***Rent receivable***

***Policy applicable before 1 January 2018***

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.

***Policy applicable from 1 January 2018***

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

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Properties 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.

*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.

*Impairment of non-current assets*

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

*Accrued expenses and other liabilities*

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

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

*Revenue recognition*

*Rental Revenue*

Rental revenue on investment property is recognized on accrual basis.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued)**  
For the period ended June 30, 2018  
(Amount in SAR)

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Expenses*

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

*Zakat*

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

*Dividend distribution*

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

**Financial instruments**

*Change in accounting policies*

The Fund has adopted IFRS 9 'Financial Instruments' as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies, the Fund elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition, if any, were recognized in the opening retained earnings of the current period.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Fund. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous SOCPA compliant accounting policies applied in the comparative periods) are described in more detail in below notes.

*Classification and measurement of financial instruments*

The measurement category and the carrying amount of financial assets and liabilities in accordance with previous accounting policies under SOCPA and IFRS 9 as at 1 January 2018 are compared as follows:

	<b>SOCPA</b>		<b>IFRS 9</b>	
	<b>Measurement category</b>	<b>Carrying amount</b>	<b>Measurement category</b>	<b>Carrying amount</b>
<b>Financial assets</b>				
Cash and cash equivalents	Amortised cost (Loans and receivables)	21,940,840	Amortised cost	21,940,840
Rent receivable, net	Amortised cost (Loans and receivables)	9,352,894	Amortised cost	9,352,894
Other receivable	Amortised cost (Loans and receivables)	4,632,315	Amortised cost	4,632,315
Advances to sub-contractors	Amortised cost (Loans and receivables)	984,429	Amortised cost	984,429
<b>Total financial assets</b>		<b>36,910,478</b>		<b>36,910,478</b>

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued)**  
For the period ended June 30, 2018  
(Amount in SAR)

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (Continued)**

*Reconciliation of statement of financial position balances from SOCPA to IFRS 9*

The Fund performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with SOCPA to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	<b>SOCPA amount 31 December 2017</b>	<b>Reclassifications</b>	<b>Remeasurements</b>	<b>IFRS 9 amount 1 January 2018</b>
<b>Amortised cost</b>				
Cash and cash equivalents	21,940,840	-	-	21,940,840
Rent receivable, net	9,352,894	-	-	9,352,894
Other receivable	4,632,315	-	-	4,632,315
Advances to sub-contractors	984,429	-	-	984,429
	<b>36,910,478</b>	<b>-</b>	<b>-</b>	<b>36,910,478</b>

Rental income receivable is classified at amortized cost. The fund manager performed an analysis of ECL required under IFRS9, and allowances for impairment over these receivables was not recognized in the interim condensed financial statements as the amount was not material

*Impairment of financial assets*

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

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

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued)**  
For the period ended June 30, 2018  
(Amount in SAR)

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (Continued)**

***Derecognition***

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

***Financial liabilities***

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

***Offsetting***

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

**5. FIRST-TIME ADOPTION OF IFRS**

The interim condensed financial statements for the period ended 30 June 2018 are the first financial statements of the Fund prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia. For periods up to and including the period ended 31 December 2017, the Fund prepared its interim condensed financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

Accordingly, the Fund has prepared the interim condensed financial statements that comply with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia. Applicable as at 30 June 2018, together with the comparative periods as at 1 January 2017 and as at 31 December 2017. This note explains the principal adjustments made by the Fund in restating its previous statements of statements of assets and liabilities as at 1 January 2017 and 31 December 2017 which had been prepared in accordance with the requirements of SOCPA.

***Exemptions applied***

IFRS 1 'First-time Adoption of International Financial Reporting Standards' allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Fund has applied the following exemption:

The Fund has adopted IFRS 9 as issued by International Accounting Standards Board in July 2014 with a date of transition of 1 January 2018, which resulted in adjustments to the amounts previously recognized in the financial statements.

As permitted by the transitional provisions of IFRS 9, the Fund elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition, if any, were recognized in the opening retained earnings (1 January 2018) and other reserves of current period. Accordingly, the information presented in comparative periods reflect the requirements under SOCPA and therefore is not comparable to the information presented under the requirements of IFRS 9 for the period ended 30 June 2018.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**5. FIRST-TIME ADOPTION OF IFRS (CONTINUED)**

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period.

The following assessment have been made on the basis of the facts and circumstances that existed at the date of transition to IFRS 9:

- Determination of the business model within which a financial asset is held;
- Designation and revocation of previous designations of certain financial assets as measured at fair value through profit or loss.

*Estimates*

The estimates at 1 January 2017 and at 31 December 2017 are consistent with those made for the same dates in accordance with SOCPA.

*The reconciliation of statement of assets and liabilities of the Fund for the period ended 30 June 2018*

	Effect of transition to IFRS		Balance as of	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	-	-	6,678,058	21,940,840
Rent receivable, net	-	-	17,942,338	9,352,894
Other receivable	-	-	4,163,775	4,632,315
Advances to sub-contractors	-	-	494,032	984,429
<b>TOTAL CURRENT ASSETS</b>			<b>29,278,203</b>	<b>36,910,478</b>
<b>NON-CURRENT ASSETS</b>				
Properties under development	-	-	211,440,112	92,614,163
Investment properties	-	-	1,484,445,909	588,160,884
<b>TOTAL NON-CURRENT ASSETS</b>			<b>1,695,886,021</b>	<b>680,775,047</b>
<b>TOTAL ASSETS</b>	<b>-</b>	<b>-</b>	<b>1,725,164,224</b>	<b>717,685,525</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Tawaruq facility	-	-	44,000,000	194,923,371
Accrued expenses	-	-	15,470,863	18,627,357
Unearned rental income	-	-	7,189,049	5,924,727
Transaction fee payable	-	-	4,422,707	5,878,540
Other payable	-	-	23,070,592	3,360,965
<b>TOTAL LIABILITIES</b>			<b>94,153,211</b>	<b>228,714,960</b>
<b>Net assets attributable to the Unitholders</b>	<b>-</b>	<b>-</b>	<b>1,631,011,013</b>	<b>488,970,565</b>

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**6. 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 % 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 % on the acquisition or sale price of the real estate assets.

**7. PROPERTY UNDER DEVELOPMENT**

<u>Property under development</u>	<u>Note</u>	30 June 2018		<u>Total</u>
		<u>Erad Tower</u>	<u>Barira hotel</u>	
Balance as of December 31, 2017		92,614,163	-	92,614,163
Development Cost incurred during the period		23,286,885	5,566,429	28,853,314
Transferred from investments property	8.2	-	89,972,635	89,972,635
<b>Balance as of 30 June 2018</b>		<b>115,901,048</b>	<b>95,539,064</b>	<b>211,440,112.21</b>

<u>Property under development</u>	31 December 2017	
	<u>Erad Tower</u>	<u>Total</u>
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

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount 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 31 December 2017		335,655,970	239,372,120	27,126,809	602,154,899
Additions		385,182,081	568,427,623	37,949,179	991,558,883
Transferred	8.2	(50,000,000)	(35,910,787)	(4,061,848)	(89,972,635)
<b>Balance as of 30 June 2018</b>		<b>670,838,051</b>	<b>771,888,956</b>	<b>61,014,140</b>	<b>1,503,741,147</b>
<b><u>Accumulated Depreciation</u></b>					
Balance as of 31 December 2017		-	10,915,062	3,078,953	13,994,015
Charge for the period	8.1	-	4,349,711	951,512	5,301,223
Transferred		-	-	-	-
<b>Balance as of 30 June 2018</b>		<b>-</b>	<b>15,264,773</b>	<b>4,030,465</b>	<b>19,295,238</b>
<b>Book Value :</b>					
<b>as of 30 June 2018</b>		<b>670,838,051</b>	<b>756,624,183</b>	<b>56,983,675</b>	<b>1,484,445,909</b>
as of 31 December 2017		335,655,970	228,457,058	24,047,856	588,160,884

This represents ten 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.
  - Saudi Electronic University: represents a university located Muraba district,. The property is located in Riyadh
  - Aumniah Center: represents a commercial property located on Saud Al Faisal Road. The property is located in Jeddah.
  - Kimpenski: commercial property located in King Fahad 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.
- 8.2 The Fund has transferred a part of Residence property to property under development since the fund is going to restructure Part of the land on which the project is based.



**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Related parties of the Fund include “Riyad 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.

Riyad Bank acts as a banker of the Fund and as at June 30, 2018 SAR. 2,865,746 (2017: SAR 21,940,840) were held in current accounts of the Fund maintained therewith.

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

Related Party	Nature of transactions	Amount of transactions		Closing balances Receivable/ (Payable)	
		30 June 2018	30 June 2017	30 June 2018	31 December 2017
Riyad Capital	Fund management fee*	3,227,395	2,898,681	(11,675,712)	(17,783,439)
	Transaction fee*	9,825,960	1,795,719	(4,422,707)	(5,878,540)
	Cash in investment account	-	-	3,792,311	-
Riyad Bank	Tawaruq facility**	-	-	(44,000,000)	(194,923,371)
	Commission expenses	-	101,753	-	-
	Cash margin against letter of credit***	-	-	(2,700,118)	(3,900,000)

\*Fund management fee and Transaction fee payable is included in the statement of assets and liabilities under accrued expenses.

\*\* Tawaruq facility includes commission being capitalized and included in the statement of assets and liabilities under Property under development and Investment properties.

\*\*\* Cash margin against letter of credit is included in the statement of assets and liabilities under other receivable.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

Financial instruments carried in these financial statements principally include cash and cash equivalents, other receivables, accrued liabilities and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

***Market risk***

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

***Credit risk***

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to due from related parties an obligation. The Fund is exposed to credit risk for its rental receivables, due from related parties and bank balances.

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

***Liquidity risk***

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

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

***Operational risk***

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

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

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyad Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued)**  
For the period ended June 30, 2018  
(Amount in SAR)

**11. 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 International accounting standards 40 ("IAS 40"), 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 each of the 9 properties i.e. **Barcode Company Limited**, **Century 21 International** and **Valustrat Company**. As of 30 September the valuation of the investment and development properties are as follows:

<u>30 June 2018</u>	<u>First Appraiser</u>	<u>Second Appraisers</u>	<u>Average</u>
Investment properties	1,549,768,002	1,523,330,924	1,536,549,463
Property under development	201,078,848	221,154,594	211,116,721
<b>Total</b>	<b>1,750,846,850</b>	<b>1,744,485,518</b>	<b>1,747,666,184</b>

<u>31 December 2017</u>	<u>First Appraiser</u>	<u>Second Appraisers</u>	<u>Average</u>
Investment properties	632,149,794	621,002,154	626,575,974
Property under development	92,102,275	88,480,000	90,291,138
<b>Total</b>	<b>724,252,069</b>	<b>709,482,154</b>	<b>716,867,112</b>

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**11. 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>30 June 2018</u>	<u>31 December 2017</u>
Estimated fair value of investment and development properties based on the average of the two valuers used	1,747,666,184	716,867,112
Less: the carrying value of investment property	(1,484,445,909)	(588,160,884)
development property	(211,440,112)	(92,614,163)
Estimated fair value in excess of book value	<u>51,780,163</u>	<u>36,092,065</u>
Units in issue (numbers)	<u>171,697,101</u>	<u>50,000,000</u>
Additional value per unit based on fair value	<u>0.30</u>	<u>0.72</u>

*Net asset attributable to unitholders:*

	<u>30 June 2018</u>	<u>31 December 2017</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	1,631,011,013	488,970,565
Estimated fair value in excess of book value	<u>51,780,163</u>	<u>36,092,065</u>
Net assets attributable to unitholders based on fair valuation of investment and development properties	<u>1,682,791,176</u>	<u>525,062,630</u>

*Net asset attributable to each unit:*

	<u>30 June 2018</u>	<u>31 December 2017</u>
Book value per unit as per the financial statements before fair value adjustment	9.50	9.78
Additional value per unit based on fair value	<u>0.30</u>	<u>0.72</u>
Net assets attributable to each unit based on fair valuation	<u>9.80</u>	<u>10.50</u>

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.

**RIYAD REIT**  
**A Real Estate Investment Traded Fund**  
**Closed Ended Fund**  
**(Managed by Riyadh Capital)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Continued )**  
For the period ended June 30, 2018  
(Amount in SAR)

**12. OTHER PAYABLE**

Other payables include an amount of SR 22 million representing the remaining amount of the purchase price of an investment property (Kimpenski). The outstanding amount was paid in the subsequent period.

**13. TAWARUQ FACILITY**

During the period ended 30 June 2018, the Fund has obtained a Tawaruq facility (Shari'ah compliant), whereby the outstanding balance as of 30 June 2018 is 44,000,000 (31 December 2017: SR 194,923,371), from Riyadh Bank through Riyadh Capital. The facility carries a floating special commission rate of SIBOR+ 1%. The maturity date of the tawaruq facility will be due during the period ending 25 September 2018.

**14. DIVIDENDS DISTRIBUTION**

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 million to its unit holders.

**15. 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 Riyadh 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.

**16. CAPITAL COMMITMENTS AND CONTINGENCIES**

As at 30 June 2018, the Fund has outstanding letters of credit of SR 3.9 million (31 December 2017: SR 3.9 million), being issued by Riyadh Bank, against which a cash margin, being included in the interim statement of assets and liabilities under other receivable of the same amount is blocked thereby.

**17. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

**IFRS 16 Leases**

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

**18. LAST VALUATION DAY**

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

**19. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Fund's Board of Directors on 31 July 2018 corresponding to 19 Dhual-Qa'dah 1439H.