

**JADWA REIT AL HARAMAIN FUND  
(MANAGED BY JADWA INVESTMENT COMPANY)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

**Alliance Chartered Accountants**

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**INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF  
JADWA REIT AL HARAMAIN FUND (MANAGED BY JADWA INVESTMENT COMPANY)**

**Opinion**

We have audited the accompanying financial statements of Jadwa REIT Al Haramain Fund (the "Fund") being managed by Jadwa Investment Company, which comprise the Balance Sheet as at 31 December 2017, the statement of comprehensive income, statement of cash flows, statement of changes in Net Assets, 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 Balance Sheet of the Fund as at 31 December 2017, and its financial performance and its cash flows for the period then ended 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 AL HARAMAIN FUND (MANAGED BY JADWA INVESTMENT COMPANY)**

<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 2017 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 14 to the external valuers' reports.</li></ul>



**INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF  
JADWA REIT AL HARAMAIN FUND (MANAGED BY JADWA INVESTMENT COMPANY)**

**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 International Standards on Auditing 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 International Standards on Auditing 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



**INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF  
JADWA REIT AL HARAMAIN FUND (MANAGED BY JADWA INVESTMENT COMPANY)**

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Alliance Chartered Accountants

Turki A. Alluhaid  
Certified Public Accountant  
Registration No. 438

Riyadh 9 Jummad Thani 1439H  
(25 February 2018)



# JADWA REIT AL HARAMAIN FUND

## BALANCE SHEET

As at 31 December 2017

	<i>Note</i>	<i>SR</i>
<b>ASSETS</b>		
<b>NON-CURRENT ASSET</b>		
Investment properties	5	768,620,861
<b>CURRENT ASSETS</b>		
Prepayments and rental income receivable	7	11,937,966
Bank balances		66,642,735
<b>TOTAL CURRENT ASSETS</b>		<b>78,580,701</b>
<b>TOTAL ASSETS</b>		<b>847,201,562</b>
<b>LIABILITIES</b>		
<b>NON-CURRENT LIABILITY</b>		
Long term loan	8	177,083,975
<b>CURRENT LIABILITIES</b>		
Due to related parties	9	6,013,179
Accrued Management fee	14	5,036,419
Accrued liabilities	10	464,183
<b>TOTAL CURRENT LIABILITIES</b>		<b>11,513,781</b>
<b>TOTAL LIABILITIES</b>		<b>188,597,756</b>
<b>NET ASSETS</b>		<b>658,603,806</b>
<b>Units in issue</b>	11	<b>66,000,000</b>
<b>Per unit value</b>		<b>9.98</b>
<b>Per unit fair value</b>	6	<b>10.86</b>

The accompanying notes 1 to 23 form an integral part of these financial statements.

## JADWA REIT AL HARAMAIN FUND

### STATEMENT OF COMPREHENSIVE INCOME

For the period from 16 April 2017 to 31 December 2017

	<i>Note</i>	<i>SR</i>
Rental revenue from investment properties	12	29,876,715
<b>EXPENSES</b>		
General & administrative expenses	13	(9,516,296)
Management fee	14	(5,036,419)
Finance cost		(166,219)
Amortization of transaction cost		(53,975)
		<u>(14,772,909)</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u><b>15,103,806</b></u>

The accompanying notes 1 to 23 form an integral part of these financial statements.

# JADWA REIT AL HARAMAIN FUND

## STATEMENT OF CASH FLOWS

For the period from 16 April 2017 to 31 December 2017

	SR
<b>OPERATING ACTIVITIES</b>	
Comprehensive income for the period	15,103,806
<i>Adjustment for non-cash and other items:</i>	
Depreciation on investment properties	8,379,139
Amortisation of transaction cost	53,975
	<u>23,536,920</u>
<b>Changes in operating assets and liabilities:</b>	
Prepayments and rental income receivable	(11,937,966)
Due to related parties	6,013,179
Accrued Management fee	5,036,419
Accrued liabilities	464,183
Net cash from operating activities	<u>23,112,735</u>
<b>INVESTING ACTIVITY</b>	
Purchase of investment properties	(477,000,000)
Net cash used in investing activity	<u>(477,000,000)</u>
<b>FINANCING ACTIVITIES</b>	
Proceeds from units sold	360,000,000
Proceeds from Long term loan	177,030,000
Dividend distribution	(6,600,000)
Equity structuring fee	(9,900,000)
Net cash from financing activities	<u>520,530,000</u>
<b>INCREASE IN BANK BALANCES</b>	<u>66,642,735</u>
Bank balances at the beginning of the period	-
<b>BANK BALANCES AT THE END OF THE PERIOD</b>	<u>66,642,735</u>
<b>NON-CASH TRANSACTIONS</b>	
Investment properties (compensated against sale of units)	<u>300,000,000</u>

The accompanying notes 1 to 23 form an integral part of these financial statements.

# JADWA REIT AL HARAMAIN FUND

## STATEMENT OF CHANGES IN NET ASSETS

For the period from 16 April 2017 to 31 December 2017

	REIT units SR	Cumulative income SR	Total unitholders' net assets SR
<i>During the period:</i>			
Issuance of units			
- for cash	360,000,000	-	360,000,000
- for consideration other than cash	300,000,000	-	300,000,000
	660,000,000	-	660,000,000
Equity structuring fee	(9,900,000)	-	(9,900,000)
Comprehensive income	-	15,103,806	15,103,806
Dividend distribution (note 21)	-	(6,600,000)	(6,600,000)
<b>Net asset value attributable to the Unitholders at the end of the period</b>	<b>650,100,000</b>	<b>8,503,806</b>	<b>658,603,806</b>

The accompanying notes 1 to 23 form an integral part of these financial statements.

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

### 1. GENERAL

Jadwa REIT Al Haramain Fund (the "REIT" or "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The REIT 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 REIT is listed on Tadawul and the units of the REIT shall be traded on Tadawul in accordance with its rules and regulations. The Capital of the REIT is SR 660,000,000 divided into 66,000,000 units of SR 10 each. The REIT 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 no. 1010228782, and an Authorized Person licensed by the CMA under license no. 06034-37 (the "Fund Manager").

Jadwa Al-Khail Real Estate Company, a Limited Liability Company with commercial registration no. 1010495553, has been established and approved by the Saudi Capital Market Authority as a special purpose vehicle (the "SPV") for the beneficial interest of the REIT. The SPV owns all the assets of the REIT and its contractual obligations. The SPV has not been consolidated in these financial statements as the same is being consolidated with the ultimate parent in which the unitholders of the REIT are the owners.

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

While the REIT 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 REIT's total asset value with the aim of achieving an increase in value per unit; 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 shall not invest in White Land.

### 2. REGULATING AUTHORITY

The REIT 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 *Use of estimates*

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

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

#### 3.4 *Functional and presentation currency*

These financial statements have been presented in Saudi Riyals, which is the functional currency of the REIT.

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES

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

#### ***Investment properties***

Investment properties comprises completed property that is held to earn rentals or for capital appreciation or both. Investment property is measured at cost including transaction costs less accumulated depreciation. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment and reviewed at every balance sheet date for any decline in the value of the investment. The estimated useful lives of the investment properties are given in note 5.1.

The fair value of investment properties is disclosed in note 6.

#### ***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 statement of comprehensive income.

#### ***Cash and cash equivalents***

Cash and cash equivalents consists of bank balances, cash on hand, and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

#### ***Revenue recognition***

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

#### ***Management fees and other expenses***

Management fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the REIT. Management fee is calculated and payable semi-annually in arrears.

#### ***Zakat***

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

#### ***Net assets value***

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

#### ***Financial instruments***

Financial assets and liabilities are recognised at the time when the REIT becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of financial assets and financial liabilities is taken directly to the statement of comprehensive income.

#### ***Dividend distribution***

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

#### ***Expenses***

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

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# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Standards, amendments and interpretations issued but not yet Effective**

The REIT has chosen not to early adopt the following new standards which have been issued but not yet effective for the REIT's accounting year beginning on or after 1 January 2018 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 1, 2018:

Effective for annual periods	Standard, amendment or interpretation	Summary of requirements
1 January 2019	(2015-2017 annual improvements cycle) IFRS 3, IAS 12 and IAS 23	The standards affected under the 2015-2017 annual improvements cycle, and the subjects of the amendments are: - IFRS 3 business combinations and IFRS 11 Joint arrangements – previously held interest in a joint operation. - IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity. - IAS 23 Borrowing Costs - borrowing costs eligible for capitalisation. However, the management believes there will not be an impact on the financial statements of the REIT.
1 January 2019	IFRS 16	IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.  Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The management believes there will be no impact as the REIT does not have any arrangement in which it is a lessee.
1 January 2018	Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions.  The REIT does not have any share based Payment Transaction, accordingly the amendment will have no impact on the REIT's financial statements.
1 January 2018	IFRS 15	IFRS 15 Revenue from contracts with customers provides a framework that replaces the existing revenue recognition model under IAS 18. Entities applying IFRS 15 would need to apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. The REIT is in the process of evaluating how the new revenue recognition model will impact its revenue generating arrangements.

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

1 January 2018	Amendment to IAS 40	<p>The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property.</p> <p>A mere change in management's intentions for the use of a property does not provide evidence of a change in use.</p> <p>The REIT's management believes that it will not have an impact on the financial statements.</p>
1 January 2018	IFRIC 22	<p>The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration.</p> <p>The REIT's management believes that it will not have an impact on the financial statements.</p>
1 January 2018	Amendments to IAS 28	<p>IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice.</p> <p>The mentioned standard is not applicable to the REIT as at the period end and the management believes it will continue to remain not applicable in 2018.</p>
1 January 2019	Amendments to IAS 28	<p>The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).</p> <p>The mentioned standard is not applicable to the REIT as at the period end and the management believes it will continue to remain not applicable in 2018.</p>
1 January 2019	Amendments to IFRS 9	<p>Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstances that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.</p>

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 5. INVESTMENT PROPERTIES

The composition of the investment properties on the balance sheet date is summarized below:

<i>Description</i>	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Net book value</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>
Land (note 5.2)	463,491,500	-	463,491,500
Tharawat Al Alandaloseya Hotel (note 5.2)	152,000,000	4,900,174	147,099,826
Tharawat Al Taqwa Hotel (note 5.2)	158,000,000	3,475,053	154,524,947
Ibrahim Al-Khalil I (note 5.2)	3,408,500	3,273	3,405,227
Pharmacy Building (note 5.2)	100,000	639	99,361
	<u>777,000,000</u>	<u>8,379,139</u>	<u>768,620,861</u>

#### 5.1 Useful life

Useful life of the investment properties as estimated by an independent valuator to be between 22 to 32 years.

#### 5.2 Freehold land comprises of the lands acquired on which the three hotels are built and a land with a fully depreciated building. Freehold land along with the hotels are kept in the custody of Al Bilad Investment Company (the "Custodian").

The REIT acquired properties in Makkah in different locations with an aggregate area of 3,169.21 square meter of land. The consideration for the first two properties was partly paid in cash and partly settled through issuance of 30,000,000 units of the REIT.

##### ***Tharawat Alandaloseya Hotel:***

This property is a fully constructed and operated hotel located in Al Misfalah District, being situated approximately 0.5 km away from Al Haram, benefiting from a direct view over Ibrahim Al-Khalil Road.

##### ***Tharawat Al Taqwa Hotel:***

This property is a fully constructed pilgrim accommodation hotel located in Shisha District north of the intersection between the major Al Hajj Road and King Fahad Road.

##### ***Ibrahim Al-Khalil I:***

This property is a fully constructed hospitality tower located in Al Misfalah District, with a direct view on Ibrahim Al-Khalil Road, and is 350m away from the Holy Mosque.

##### ***Pharmacy Building:***

The property was acquired as a retail property. It is located in Al Misfalah District, with a direct view on Misyal Road, and is 500m away from the Holy Mosque. The property in its current state is fully leased.

#### 5.3 These investment properties have been pledged with the Bank in order to secure a debt facility obtained by the SPV for the purposes of the REIT. In accordance with the debt facility agreement signed by the SPV with the Bank, the title deed of the investment properties shall be transferred to the SPV formed by the Bank. However, as at the period end the bank has not yet established any special purpose vehicle to take the transfer of title deeds.

#### 5.4 Title deeds of the investment properties are registered in the name of the SPV.

#### 5.5 Rental revenue from these properties are disclosed in note 12.

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 6. EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED

In accordance with Article 21 of the Real Estate Investment Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the REIT's real estate assets based on two evaluations prepared by independent evaluators. However, in accordance with accounting standards as endorsed in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the REIT's books.

The fair value of the investment properties is determined by two selected appraisers i.e. Valu Strat and White Cubes. As of 31 December, the valuation of investment properties are as follows:

	<u>Appraiser 1</u>	<u>Appraiser 2</u>	<u>Average</u>
Tharawat Al Aandaloseya Hotel	400,000,000	410,000,000	405,000,000
Tharawat Al Taqwa Hotel	270,000,000	267,200,000	268,600,000
Ibrahim Al Khalil I Hotel	133,000,000	125,000,000	129,000,000
Pharmacy Building	25,000,000	23,000,000	24,000,000
	<u>828,000,000</u>	<u>825,200,000</u>	<u>826,600,000</u>

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties. Based on the assessment by the management and by comparing the fair value of the investment properties with the book value, there are no indicators of impairment as at the period end.

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 versus cost:

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

	<i>31 December 2017 SR</i>
Fair value of investment in real estate properties	826,600,000
Less: Cost of investment in real estate properties (refer note 5)	768,620,861
Unrealised gain based on fair value evaluation	57,979,139
Units in issue	66,000,000
Per unit share in unrealised gain based on fair value evaluation	0.88

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

	<i>31 December 2017 SR</i>
Net asset value at cost, as presented in these financial statements	658,603,806
Unrealised gain based on real estate evaluations (note (i))	57,979,139
Net asset based on fair value	716,582,945

## JADWA REIT AL HARAMAIN FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

#### 6. EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED (continued)

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

	31 December 2017 SR
Net asset value per unit, at cost as presented in these financial statements	9.98
Impact on net asset value per unit on account of unrealised gain based on fair value evaluations (note (i))	0.88
Net asset value per unit at fair value	<u>10.86</u>

#### 7. PREPAYMENTS AND RENTAL INCOME RECEIVABLE

	31 December 2017 SR
Rental income receivable (note 7.1)	11,902,139
Prepaid insurance	35,827
Prepayments and rental income receivable	<u>11,937,966</u>

7.1 This amount represents the rental income receivable from the operating leases. Following is the ageing analysis of the receivable:

	31 December 2017 SR
Less than 30 days	187,853
Between 31 to 60 days	-
Between 61 to 90 days	10,565,827
Between 91 to 120 days	1,148,459
More than 120 days	-
	<u>11,902,139</u>

No provision has been booked on the above receivables, as the REIT expects the receivable to be fully recoverable. It is not the practice of the REIT to obtain collateral over receivables and are, therefore, unsecured.

#### 8. LONG TERM LOAN

	31 December 2017 SR
Long term loan (note 8.1)	183,000,000
Less:	
Transaction cost (note 8.2)	5,970,000
Amortization of transaction cost	(53,975)
	<u>5,916,025</u>
Long term loan	<u>177,083,975</u>

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 8. LONG TERM LOAN (continued)

- 8.1 On 20 July 2017, Banque Saudi Fransi (the "Bank") has extended an Islamic finance facility (Tawaruq) (the "Facility") to the SPV amounting to SR 500,000,000 for the purposes of financing the real estate investments of the REIT. The SPV has made an arrangement with the REIT under a Long term loan arrangement (the "Loan") to extend all the loan proceeds availed by it under the Facility to the REIT on terms and conditions same as that of the Facility.

The Facility and correspondingly the Loan is available till 20 July 2020 and is repayable in full on 31 August 2022.

The Loan carries mark-up at the rate of SIBOR as announced by the Bank plus 2% per annum, payable on semi-annual basis. As at 31 December 2017, SR 183,000,000 have been drawn from the available Facility.

- 8.2 Transaction cost related to the Loan have been capitalized in the carrying amount of the Loan and are being amortized over the period of the Loan.
- 8.3 The Facility is secured by a pledge over all the current and future rights and interests in the current investment properties of the REIT (please refer to note 9 for more details).

### 9. DUE TO RELATED PARTIES

31 December  
2017  
SR

*Due to Jadwa Al-Khaili Real Estate Company:*

- Loan arrangement fee (note 9.1) 3,750,000
- Debt structuring fee (note 9.2) 2,220,000

*Due to Jadwa Investment Company:*

- SPV legal expenses 23,710

*Due to unitholders:*

- Unpaid dividend 19,469

**6,013,179**

- 9.1 This amounts pertains to the arrangement fee paid upon signing the arrangement for obtaining the Loan. The arrangement fee is recognised in the carrying amount of the Loan as a transaction cost and is amortised on a straight line basis over the period for which the Loan is available.
- 9.2 The Fund Manager charges the Fund a debt structuring fee equal to 1.5% of the amount drawn pursuant to any debt financing obtained by the Fund. The debt structuring fee is calculated on the amount utilized from the draw down amount of the Facility. This amount is recognised in the carrying amount of the Loan as a transaction cost and is amortised on a straight line basis over the period for which the Loan is available.

### 10. ACCRUED LIABILITIES

31 December  
2017  
SR

Finance cost accrued	166,219
Property valuation fee	140,000
Custodian fee (note 10.1)	82,466
Administrator fee (note 14.2)	31,409
Auditor fee	17,500
Legal and professional fee	16,589
Board oversight fee (note 15)	10,000

**Accrued liabilities 464,183**

## JADWA REIT AL HARAMAIN FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

#### 10. ACCRUED LIABILITIES (continued)

- 10.1 The Custodian charges the Fund an annual custody fee equal to 0.025% of the Net Asset Value, payable semi-annually.

#### 11. UNIT TRANSACTION

Transaction in units of the REIT for the period is summarized as follows:

	31 December 2017 In numbers
Units issued during the period for consideration in cash (note 11.2)	36,000,000
Units issued during the period for consideration other than cash (note 11.2)	30,000,000
Units at the end of the period	66,000,000

- 11.1 During the period the REIT issued 36,000,000 units for SAR 360,000,000 to the general public. Equity Structuring Fee (transaction costs) incurred for issuance of the units amounted to SAR 9,900,000.

- 11.2 During the period the REIT issued 30,000,000 units as a consideration for the purchase of investment properties.

#### 12. RENTAL REVENUE FROM INVESTMENT PROPERTIES

	31 December 2017 SR
Rental revenue (note 12.1)	29,876,715
	29,876,715

- 12.1 The REIT enters into long-term operating lease contracts with tenants for space in its investment properties. Initial lease terms are generally between three and 16 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.

- 12.2 Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017 SR
Not later than 1 year	51,705,000
Later than 1 year and not later than 5 years	277,754,391
Later than 5 years	376,055,137
	705,514,528

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 13. GENERAL & ADMINISTRATIVE EXPENSES

Depreciation expense	8,379,139
Registrar fee	282,740
Listing fee	225,806
Property valuation fee	170,000
Custodian fee	116,370
Administrator fee	98,197
Insurance premium	85,922
Tadawul registration fee	53,628
Auditor fee	35,000
Board oversight fee	20,000
Loan processing fee	9,150
Others	40,344
<b>General &amp; administrative expenses</b>	<b>9,516,296</b>

### 14. TRANSACTIONS WITH RELATED PARTIES

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

<i>Related Party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	<i>Balance</i>
Jadwa Investment	Equity structuring fee (note 11.1)	9,900,000	-
	Management fee (note 14.1)	5,036,419	5,036,419
	Debt structuring fee (note 9.2)	2,220,000	2,220,000
	Administrator fee (note 14.2)	98,197	31,409
	SPV legal expenses	23,710	23,710

#### 14.1 Management fee

In consideration for managing the assets of the Fund, the Fund Manager in accordance with the Terms and Conditions of the REIT charges the Fund a management fee equal to 1% of the total Net Asset Value of the Fund calculated and payable semi-annually in arrears.

#### 14.2 Administrator fee

The Administrator in accordance with the Terms and Conditions of the REIT charges the Fund an administrator fee equal to 0.02% of the Fund's Net Asset Value, payable semi-annually in arrears.

### 15. REMUNERATION TO INDEPENDENT DIRECTORS

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

	31 December 2017 SR
Board oversight fee	20,000

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 16. FINANCIAL INSTRUMENTS BY CATEGORY

#### 16.1 Financial assets as per balance sheet

Loans and receivables	
Rental income receivable	11,902,139
Bank balances	66,642,735
	<u>78,544,874</u>

#### 16.2 Financial liabilities as per balance sheet

Financial liabilities measured at amortized cost	
Long term loan	177,083,975
Due to related parties	6,013,179
Accrued Management fee	5,036,419
Accrued liabilities	464,183
	<u>11,513,781</u>

### 17. FINANCIAL 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.

#### **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.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's interest rate risk arises from the Long term loan. This is benchmarked to SAIBOR which expose the REIT to cash flow interest rate risk.

The REIT analyses its interest rate exposure on a regular basis by monitoring interest rate trends and believes that the impact of such changes is not significant to the REIT.

As at 31 December 2017, if interest rates on REIT's borrowings had been 1% higher / lower with all other variables held constant, total comprehensive income for the period would have been lower / higher by SR 45,000 as a result of interest exposure on the Long term loan.

## JADWA REIT AL HARAMAIN FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

#### 17. FINANCIAL RISK MANAGEMENT (continued)

##### *Interest rate risk (continued)*

The Fund's exposure to interest rate risk on its financial assets and liabilities as at the balance sheet date is analysed in the following table and categorised by their maturity dates:

As at 31 December 2017	Maturity up to one year SR	Maturity after one year SR	Total SR
<b>Assets</b>			
Rental income receivable	11,902,139	-	11,902,139
Bank balances	66,642,735	-	66,642,735
<b>Total assets</b>	<b>78,544,874</b>	<b>-</b>	<b>78,544,874</b>
<b>Variable rate liabilities</b>			
Long term loan	-	177,083,975	177,083,975
<b>Liabilities</b>			
Due to related parties	6,013,179	-	6,013,179
Accrued Management fee	5,036,419	-	5,036,419
Accrued liabilities	464,183	-	464,183
<b>Total liabilities</b>	<b>11,513,781</b>	<b>177,083,975</b>	<b>188,597,756</b>

##### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The maximum exposure to credit risk applicable to the REIT approximates to the carrying value of the financial assets as disclosed in these financial statements. Cash is placed with a reputable bank having sound credit rating.

##### *Liquidity risk*

Liquidity risk is the risk that the REIT 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.

##### *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The REIT does not have any significant exposure to currency risk as all its monetary assets and monetary liabilities are denominated in Saudi Riyals.

##### *Property risk*

Property risk is the risk related to the investment properties of the Fund. The Fund's management has identified the following risks related to its investment properties:

- A tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associated 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.
- Concentration risk as all the Fund's investment properties are located in the vicinity of the Holy Mosque in Makkah. This causes changes in economic, political or other conditions to similarly affect all the Fund's properties at the same time. The Fund's management regularly assess the changes in the market indicators and diversifies its investment in different areas within the macro location, as this is a premium location with high level of demand for hospitality units.

# JADWA REIT AL HARAMAIN FUND

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

### 18. FAIR VALUE OF ASSETS AND LIABILITIES

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. As the accompanying financial statements are prepared under the historical cost convention, difference may arise between the book values and the fair value estimates. Management believes that the fair values of the REIT's financial assets and liabilities, other than investment properties, are not materially different from their carrying values.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **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; and
- **Level 3:** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows the fair value of investment properties disclosed:

Financial assets	As at 31 December 2017			Total SR
	Level 1 SR	Level 2 SR	Level 3 SR	
<b>Investment properties (note 6)</b>				
Tharawat Al Alandaloseya Hotel	-	405,000,000	-	405,000,000
Tharawat Al Taqwa Hotel	-	268,600,000	-	268,600,000
Ibrahim Al Khalil I Hotel	-	129,000,000	-	129,000,000
Pharmacy Building	-	24,000,000	-	24,000,000
	-	826,600,000	-	826,600,000

#### **Valuation technique**

When the fair values 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 statement and the level where the items are disclosed in the fair value hierarchy.

#### **Investment property**

The fair value of investment properties was assessed by Valu Strat and White Cubes as disclosed in note 6. 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 IVSC (International Valuation Standards Council) and applied by TAQEEM (Saudi Authority for Accredited Valuers). These models comprise both the discounted cash flow (DCF) method and income capitalisation method.

## JADWA REIT AL HARAMAIN FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

#### 19. 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.

#### 20. LAST VALUATION DAY

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

#### 21. DIVIDEND DISTRIBUTION

21.1 On 20 August 2017, the Fund's board of directors approved to distribute dividends to the unitholders for the period from 16 April 2017 to 30 June 2017 amounting to SR 6,600,000 in accordance with the initial terms and conditions of the fund which was 90% of the Fund's net profits.

21.2 Subsequently, on 2 January 2018, the Fund's board of directors approved to distribute dividends to the unitholders for the period from 1 July 2017 to 31 December 2017 amounting to SR 17,160,000 in accordance with the initial terms and conditions of the fund which was 90% of the Fund's net profits.

#### 22. COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies as at the period end.

#### 23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the REIT's Board on 9 Jummad Thani 1439H (Corresponding to 25 February 2018).

