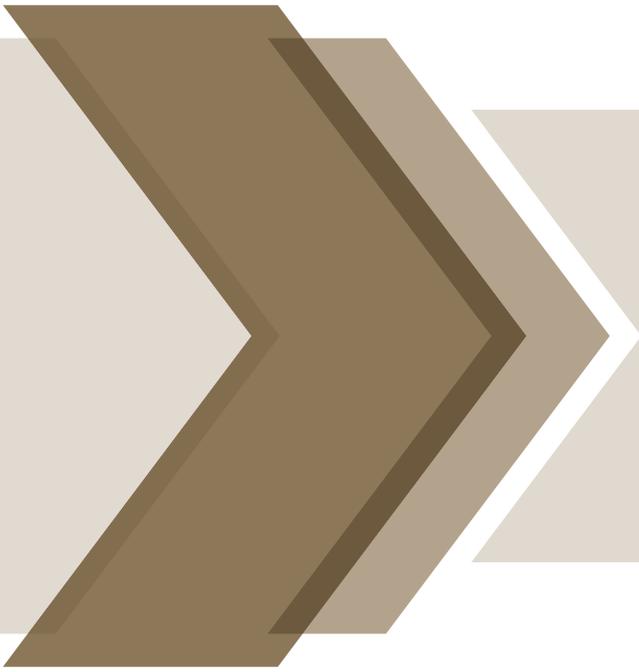




جدوى ريت الحرمين  
Jadwa REIT Al Haramain



# 2019 ANNUAL REPORT

جدوى للإستثمار  
Jadwa Investment



# بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



**His Majesty**

King Salman Bin Abdulaziz Al Saud  
Custodian Of The Two Holy Mosques



**His Royal Highness Prince**

Mohammed Bin Salman Bin Abdulaziz Al Saud  
Crown Prince, First Deputy Prime Minister

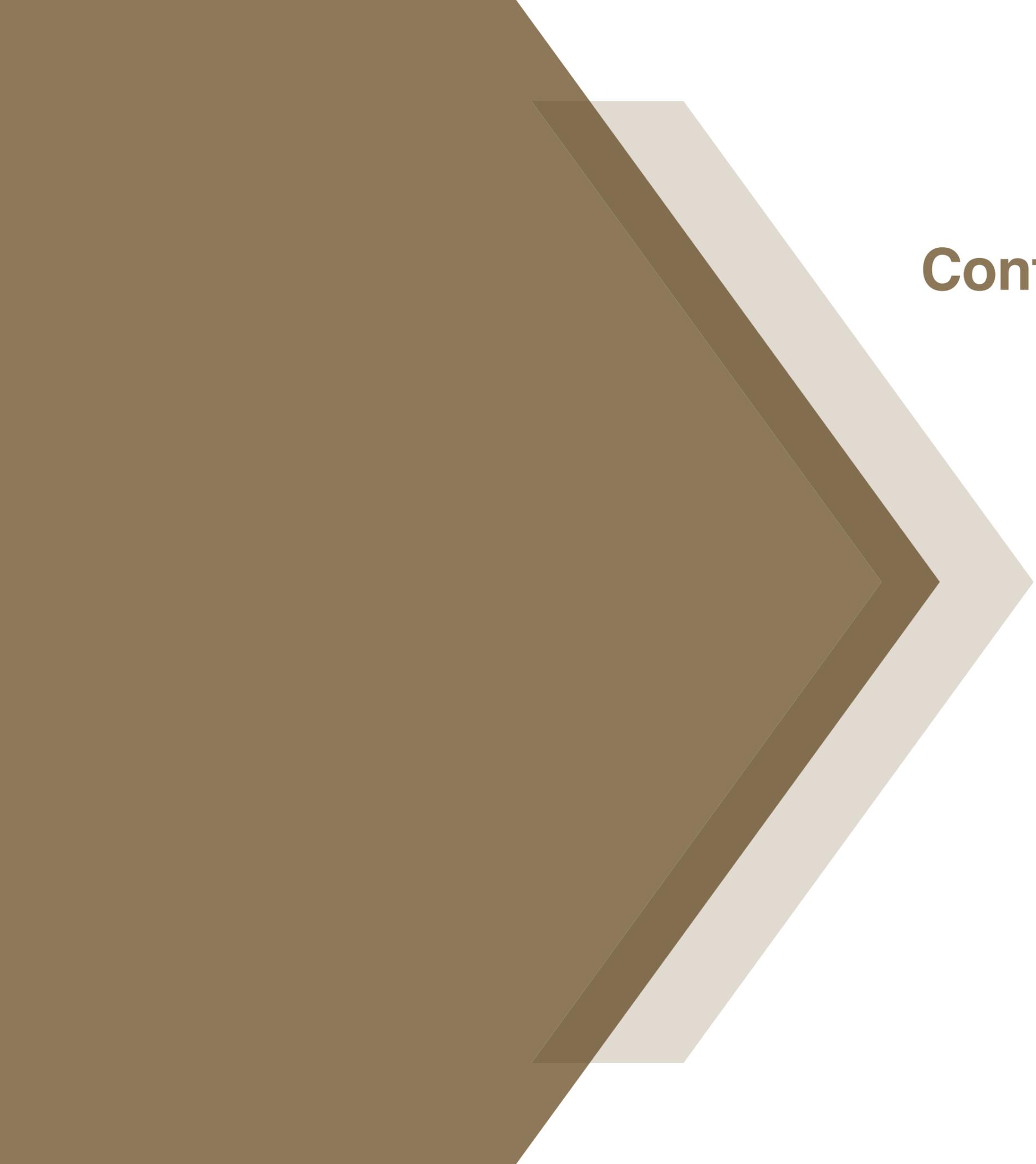
**Jadwa Investment Headquarters:**

Sky Towers, King Fahad Road  
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Kingdom of Saudi Arabia

Tel +966 011 279 1111

Fax +966 011 293 7992

[reit.jadwa.com](http://reit.jadwa.com)



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# Fund Manager's Message To Unit Holders

## Dear Unit Holders

We are pleased to present 2019 annual report of Jadwa REIT Al Haramain Fund. As we continue our march forward into a new calendar year, I would like to thank our unit holders for their continuous support for Jadwa REIT Al Haramain, as it remains to with stand headwinds and maintain to distribute stable semi-annual dividends.

Year 2019 was resilient, portfolio size remained unchanged at SAR 862 mn keeping the total number of properties at five. Since inception, the Fund distributed six semiannual cash dividends with the total amount of SAR 1.38/ unit (SAR 91 mn).

Religious tourism is a central pillar of the government's diversification strategy, providing a structural tailwind for hospitality assets in the holy cities. Thus, 2019 reported slight growth as the government various initiatives have proved to be successful drawing large numbers of pilgrims in the past two events Umarah and Hajj, with plans to continue with a significant climb in years ahead.

It is expected that government initiatives amid the vision 2030 to increase the number of Umrah and Hajj visitors along with the progress of expansion and restoration of the grand mosque in Makkah coupled with the undergoing infrastructure developments will improve the hospitality market, thus providing substantial opportunities to expand the fund in hospitality and other sectors.

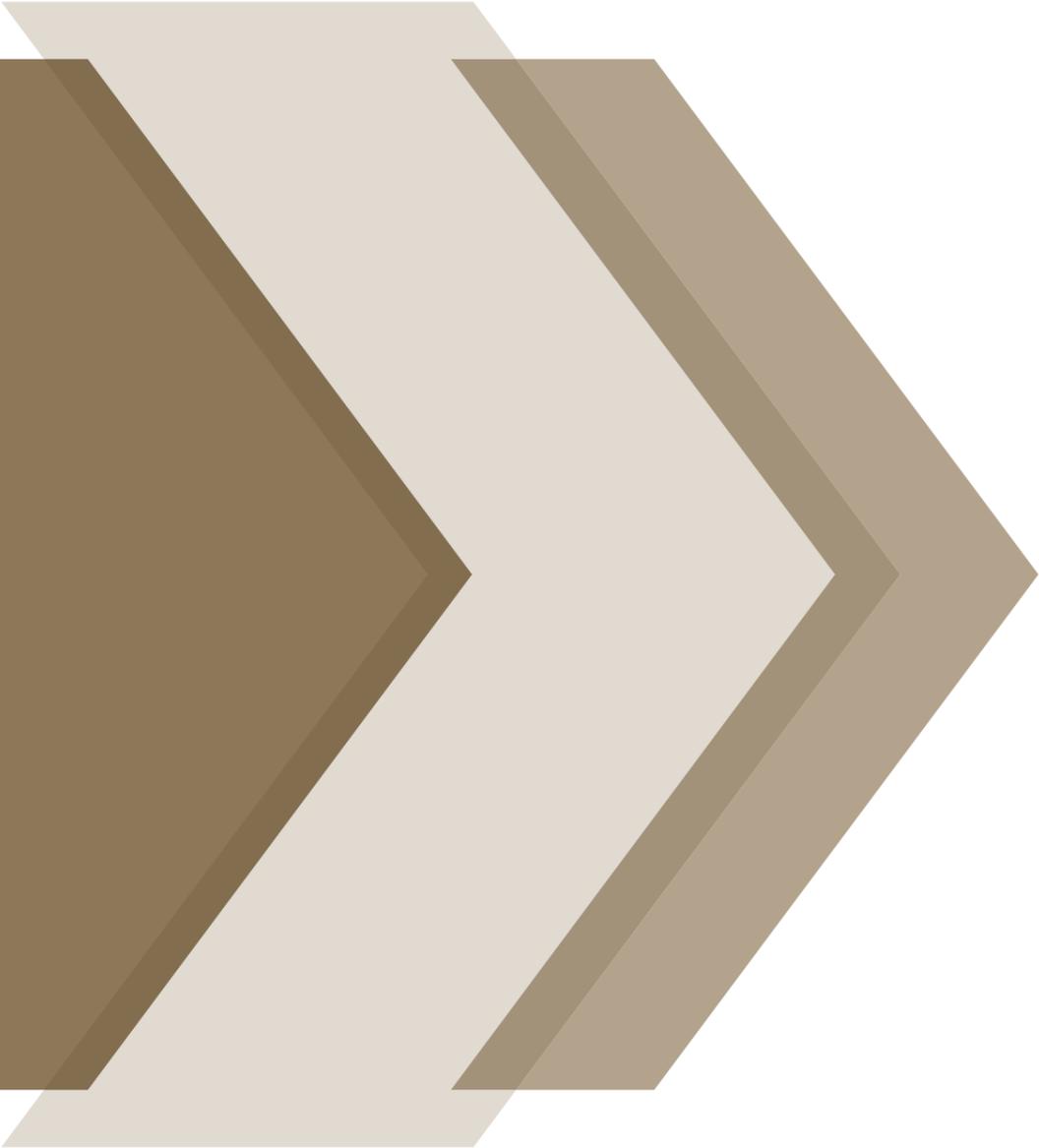
In our view, the importance of Makkah and Madinah to the Muslim community, in conjunction with favorable demographics of the global Muslim population, lead to a positive outlook for the hospitality industry in those regions. While short-term pressures are real, and we are aware of potential near-term disruptions such as those arising from the novel coronavirus outbreak (Covid-19), though we believe the underlying fundamentals are solid and with the continued economic reform and transformation in Saudi Arabia being implemented market drivers should regain momentum.

The Fund continues to enjoy a healthy balance sheet. With a steady loan to value (LTV) at 21.5%, the fund has substantial liquidity positioning it to be in a strong buying position and to take on future development projects. Certainly, expanding our portfolio for Jadwa REIT Al Haramain in the year ahead is a priority. We are focusing in positioning the fund in more diversified sectors.

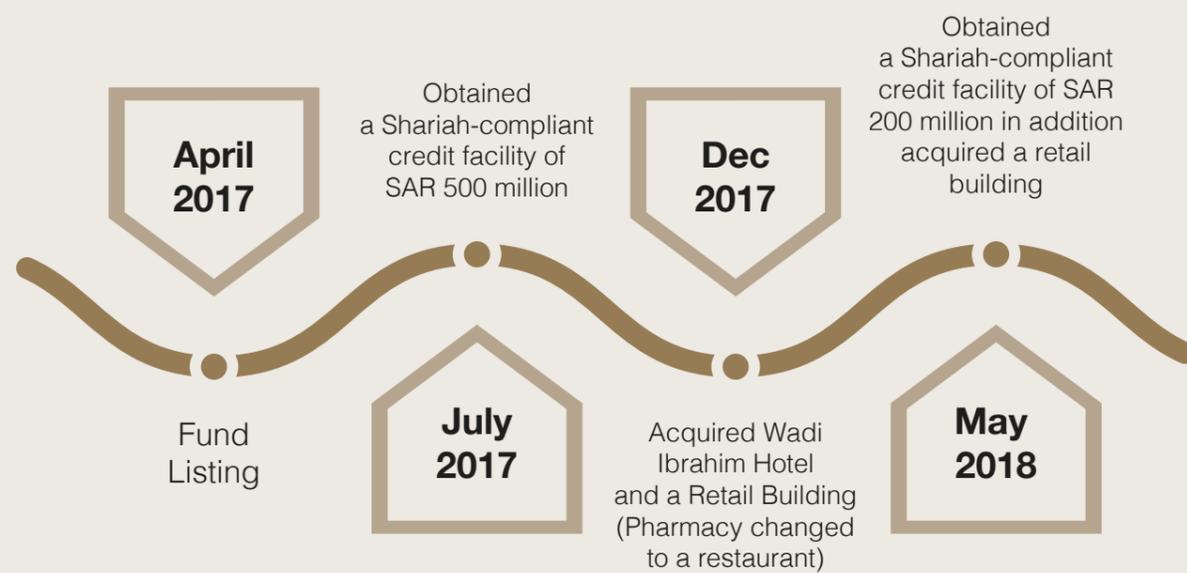
Although, this may be challenging, the fund manager is confident with the deal pipeline, a positive trajectory lays ahead. The fund with its reliant strategy, strong balance sheet, large liquidity on hand and a robust pipeline available in Makkah, this will serve as great momentum to provide risk adjusted return and a stable revenue stream for unit holders in years to come.

Section 1

# REIT AT A GLANCE



# REIT At A Glance



# Financial Performance

## Portfolio Characteristics

	2019	2018	2017
Number of properties	5	5	4
Sectors	Hospitality, Retail	Hospitality, Retail	Hospitality, Retail
Total Land area (sq. meter)	3,227	3,227	3,169
Total BUA	43,201	43,201	43,085
Portfolio Occupancy	100%	100%	100%
Number of Tenants	2	2	2
WAULT	10.28	10.34	10.34
Fair Market Value	862,000,000	861,950,000	826,600,000

## Fund's Performance

	2019	2018	2017
Net Asset Value (Cost)	629,658,424.00	646,324,682.00	658,312,336.00
Net Asset Value (Fair Value)	712,144,366.00	716,957,233.00	716,582,945.00
Fair Value NAV per unit	10.79	10.86	10.85
Highest Fair Value NAV per unit	10.81	10.87	10.85
Lowest Fair Value NAV per unit	10.68	10.72	10.63
Number of issued units	66,000,000	66,000,000	66,000,000
Distributed Dividends Per Unit	0.46	0.56	0.36
Expense Ratio	1.07%	1.06%	0.73%
Annual return	3.59%	5.25%	12.10%

## Fund's Returns profile

1-Year return	3-Years return (Since inception)
3.59%	21.70%

## Annual Fund Expenses

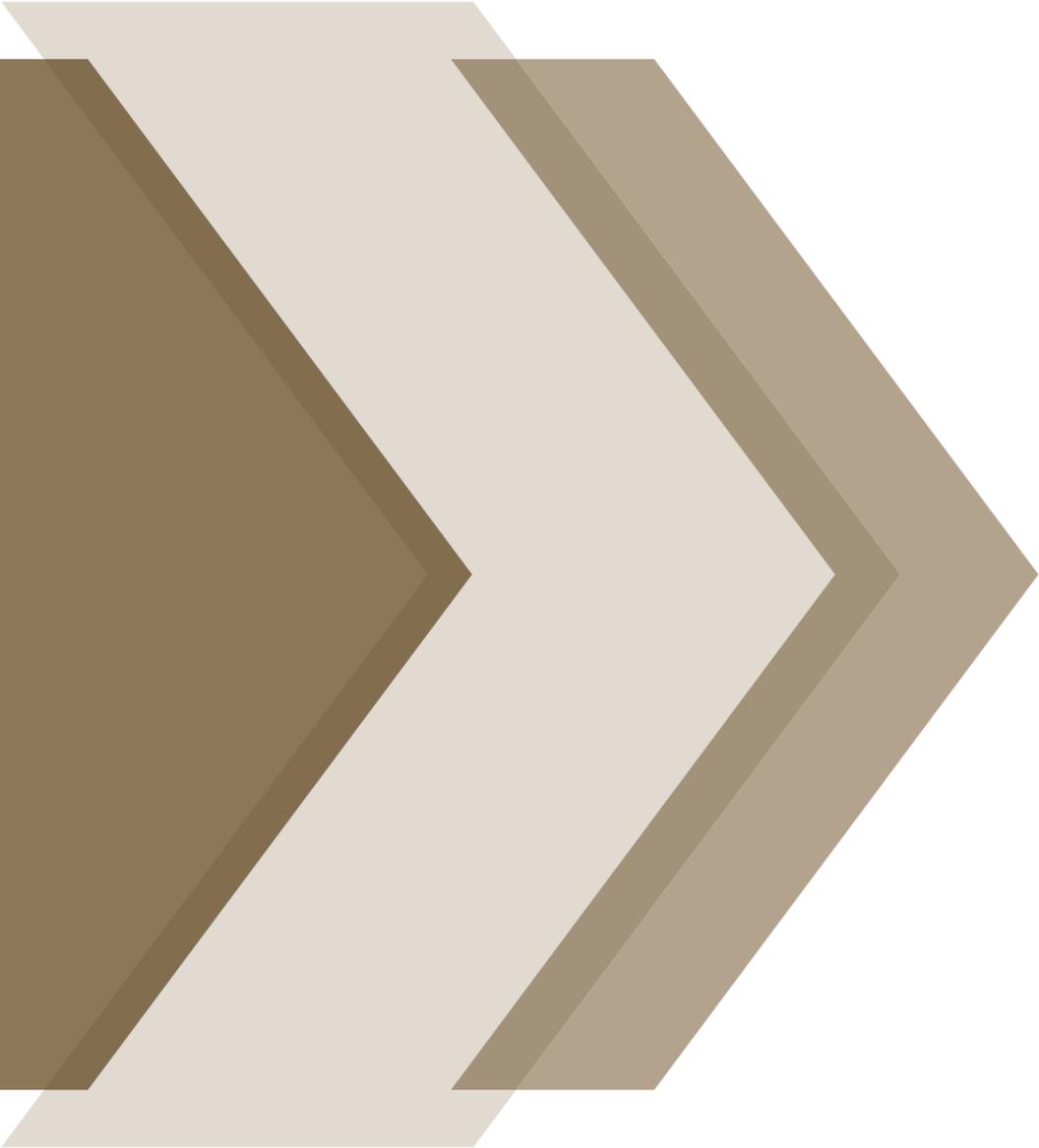
	2019
Management Fee	7,144,785
Registrar Fee	400,000
Listing Fee	156,245
Custodian Fee	159,857
Administrator Fee	108,786
Auditor Fee	40,000
Board Oversight Fee	20,000
Other Fund Fees	715,433
Grand Total	8,745,106
Expense Ratio	1.07%

## Special Commission

No special commission has been received by the Fund manager during 2019

Section 2

**PORTFOLIO  
DESCRIPTION**



# Portfolio Description

## Fund's Assets

The Fund's assets consists of 5 properties that offers the Fund exposure to the hospitality and retail sectors. The assets are:

1. Tharawat Al Andaloseya Hotel
2. Tharawat Al Taqwa Hotel
3. Tharawat Wadi Ibrahim Hotel
4. Ibrahim Al Khalil II (Restaurant Building)
5. Pharmacy Building

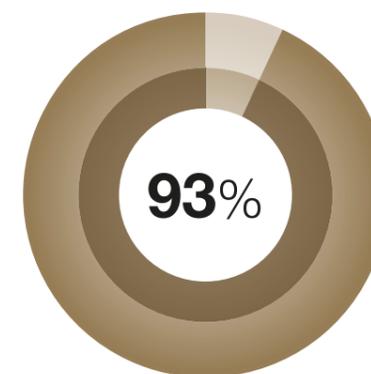
## Targeted Assets by the Fund Manager

Currently there are no active transactions, however the fund manager is constantly screening for new investments

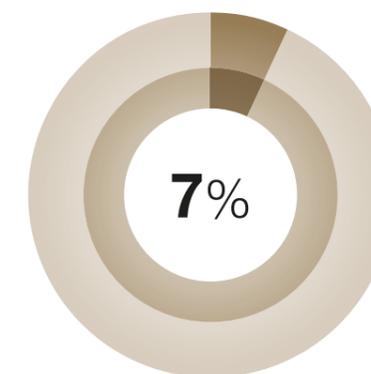
## Portfolio Occupancy

Percentage of leased assets to the total portfolio of assets	100%
Percentage of unleased assets to the total portfolio of assets	0%

## Portfolio Allocation by Sector

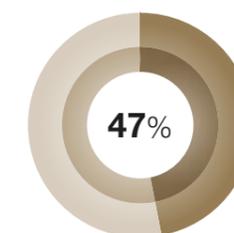


Hospitality

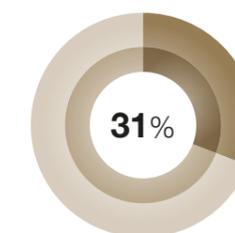


Retail

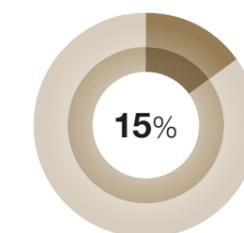
## Portfolio Allocation by Asset



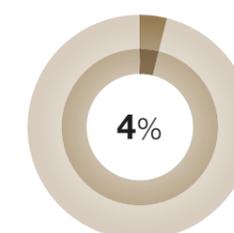
Tharawat Al Andaloseya Hotel



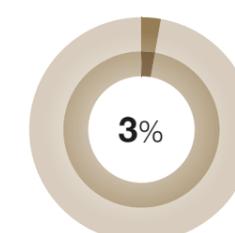
Tharawat Al Taqwa Hotel



Tharawat Wadi Ibrahim Hotel



Ibrahim Al Khalil II (Restaurant Building)



Pharmacy Building

# Tharawat Al Andalosiya

- The property is currently utilized as a four-star hotel, under the brand of 'Tharawat Al Andalo-seya Hotel'.
- 294 rooms to accommodate visitors to Makkah's holy sites throughout the year. Located within 500 meters of the Masjid Al-Haram.
- The property consists of a basement, ground level, mezzanine floor, service level, 12 upper levels and a roof.
- The ground level is internally configured to accommodate ten shops.

Location	<b>Al Mesfalah District, Makkah</b>
Acquisition Price	<b>379,000,000</b>
Net Acquisition Yield	<b>6.7%</b>
Number of tenants	<b>1</b>
Fair Value Estimation*	<b>404,165,000</b>
Occupancy Rate	<b>100%</b>
Remaining Lease Term**	<b>1.16 Years</b>
% of Portfolio Rental Value	<b>48%</b>

\*as of 31st Dec 2019

\*\*The tenant requested in 09-03-2020 to terminate the current contract at the date 26-02-2021



## Tharawat Al Taqwa

- The property is currently utilized for the accommodation of Hajj and Umrah visitors, under the brand of 'Tharawat Al Taqwa Hotel'.
- 690 rooms to accommodate visitors to Makkah's holy sites during the Hajj season and month of Ramadan. Located approximately 900 meters from Mina, the hotel can host 3,506 pilgrims.
- The property is arranged over three basement levels, a ground floor, mezzanine level, service level, restaurant level, 14 upper levels and a roof.
- The property is subject to a remaining 5.5 year rental guarantee in the form of a promissory note from the lessee.

Location	<b>Al Shishah District, Makkah</b>
Acquisition Price	<b>250,000,000</b>
Net Acquisition Yield	<b>6.8%</b>
Number of tenants	<b>1</b>
Fair Value Estimation*	<b>267,000,000</b>
Occupancy Rate	<b>100%</b>
Remaining Lease Term	<b>12.7 Years</b>
% of Portfolio Rental Value	<b>32%</b>

\*as of 31st Dec 2019



## Tharawat Wadi Ibrahim Hotel

- The property is currently utilized for the accommodation of Hajj and Umrah visitors, under the brand of 'Tharawat Wadi Ibrahim Hotel'.
- 85 rooms to accommodate visitors to Makkah's holy sites throughout the year. Located within 500 meters of the Masjid Al-Haram.
- Consists of a ground level, 11 upper levels and a roof.
- The ground level is internally configured to accommodate two shops.

Location	<b>Al Mesfalah District, Makkah</b>
Acquisition Price	<b>125,000,000</b>
Net Acquisition Yield	<b>5.5%</b>
Number of tenants**	<b>N/A</b>
Fair Value Estimation*	<b>129,000,000</b>
Occupancy Rate**	<b>N/A</b>
Remaining Lease Term**	<b>Terminated</b>
% of Portfolio Rental Value	<b>13%</b>

\*as of 31st Dec 2019

\*\* The fund terminated the lease contract to start the re-development.



## Pharmacy Building

- The property is configured to allow for two retail shops and ancillary residential.
- The building consists of a ground level, two upper levels and a roof.
- The rent is guaranteed via promissory note.

Location	<b>Al Mesyal Road, Makkah</b>
Acquisition Price	<b>23,000,000</b>
Net Acquisition Yield	<b>6.7%</b>
Number of tenants	<b>1</b>
Fair Value Estimation*	<b>25,000,000</b>
Occupancy Rate	<b>100%</b>
Remaining Lease Term	<b>3.55 Years</b>
% of Portfolio Rental Value	<b>3%</b>

\*as of 31st Dec 2019



## Restaurant Building

- The property covers a plot of land measuring 57 sq. m, incorporating an operational restaurant.
- The subject is a three-story building, consisting of a restaurant, with accommodation above, located within the central area of Makkah in close proximity to the Haram.

Location	<b>Al Mesfalah District, Makkah</b>
Acquisition Price	<b>35,000,000</b>
Net Acquisition Yield	<b>5.4%</b>
Number of tenants**	<b>N/A</b>
Fair Value Estimation*	<b>36,835,000</b>
Occupancy Rate**	<b>N/A</b>
Remaining Lease Term**	<b>Terminated</b>
% of Portfolio Rental Value	<b>4%</b>

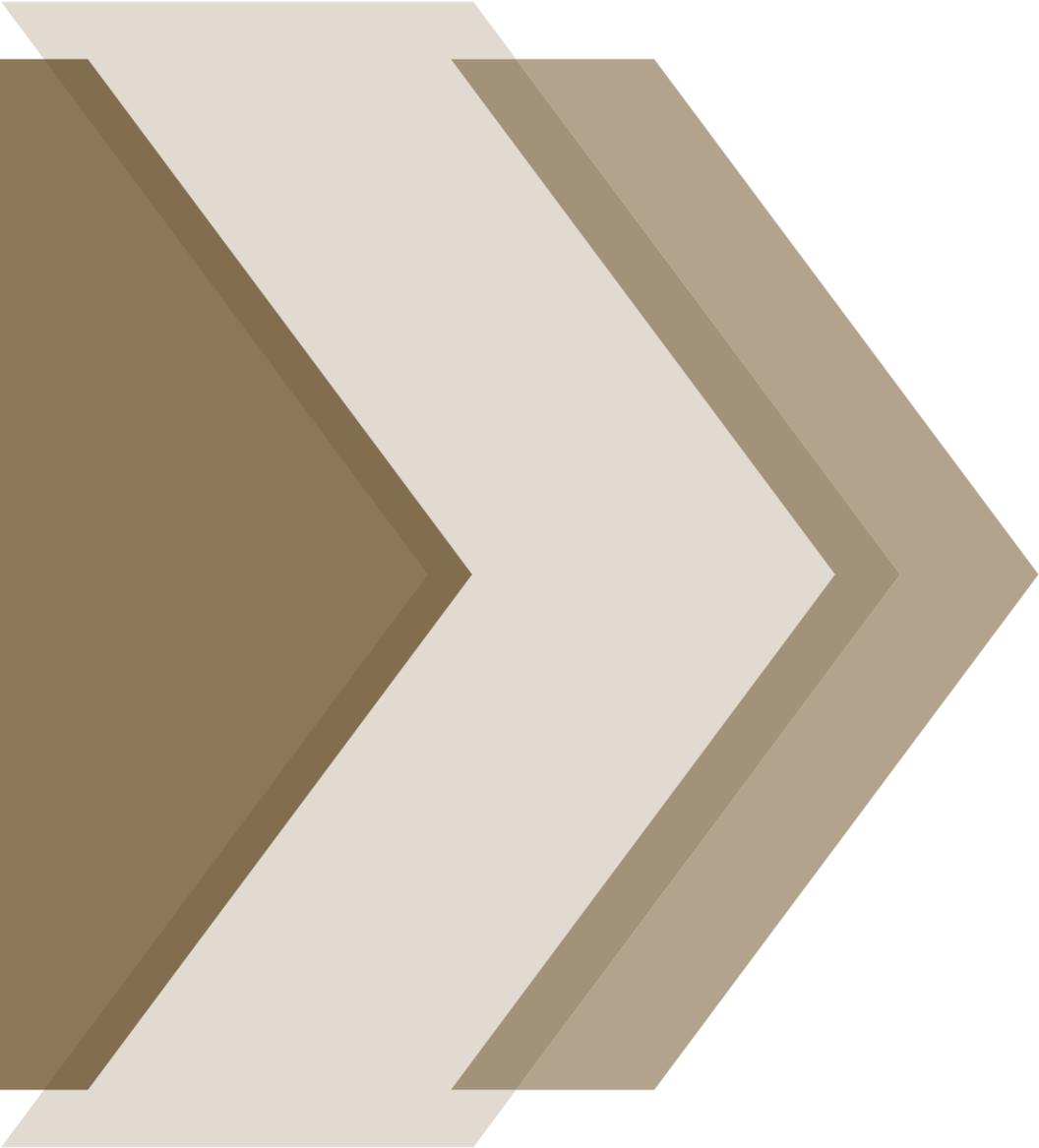
\*as of 31st Dec 2019

\*\* The fund terminated the lease contract to start the re-development.



Section 3

# RISK REPORT



# Jadwa REIT Al Haramain Fund Risk Report

## Fund Description

Fund Name	Jadwa REIT Al Haramain Fund
Fund Manager	Jadwa Investment Company
Listing Exchange	Tadawul (Saudi) Stock Exchange in April 2017
Type of Fund	Closed-ended Shariah Compliant
Authorized Capital	SAR 600,000,000
Fair Value NAV per unit	SAR 10.79 (as of 31 Dec 2019)
No. of Properties	Five

## Key Risks

Risk Type	Risk Description	Risk Mitigation
Changes in economic conditions	Changes in economic conditions, including, for example, inflation, interest rate, wage rates and other factors can affect the Fund's prospects.	Regular monitoring of macroeconomic conditions and regulatory trends in laws is being carried out by the Fund Manager. Proactive steps are taken to mitigate or minimize the impact as much as possible.
Regulatory Risk	Failure to adhere to laws, rules and regulations as stipulated by CMA can result in suspension of trading or cancellation of the Fund's listing.	Inspection of Compliance Team confirmed that the Fund is clear of any breaches and has made a smooth progress. The Fund Manager has recruited qualified personnel to manage the Fund and monitor all regulatory requirements such as compliance and risk management. All these activities from the Fund Manager are aimed at establishing and confirming the controls to avoid any raise in non-complainant practices.
Occupancy Risk	Risk when expected occupancy rates are not achieved, which affects the profitability of the Fund.	All properties acquired by the Fund have strong economic fundamentals and cash-generation characteristics, and thus providing significant margins of safety on occupancy rates. The Fund normally engages in long term leases ranging between 3 and 16 years which also mitigates the risk of not achieving the expected occupancy rates.

# Jadwa REIT Al Haramain Fund Risk Report

## Key Risks

Risk Type	Risk Description	Risk Mitigation
Development Risk	Development risks associated with real estate projects under development include: Delay in construction, costs exceeding planned allocations that may affect the profitability and / or financial feasibility of the Project.	Currently all the properties owned by the Fund are fully developed. Thereby there is no development risk exposure towards the Fund.
Default Risk	Risks relating to the inability of tenants to meet their payment obligations towards the Fund.	The Fund reviews the financial status of all current and prospective tenants and decides on the appropriate level of security required via promissory notes.
Financing Risk	Financing risk occurs when the Fund is unable to attain financing from market to continue/expand its operation.	The Fund has a committed SAR 200 million credit line facility funded by Riyad Bank. Also, the Fund has only utilized SAR 183mn out of the previous 500mn facility obtained by Banque Saudi Fransi. Given the available committed credit line with the Fund, financing risk is at a minimal.
Lease Renewal Risk	Lease renewal risk is the risk of non-renewal of existing leases or renewal at lower than current lease rate that might impact the rental income of the Fund.	The Fund enters into long-term operating lease contracts with tenants for space in its investment properties with lease terms ranging between 3 and 16 years. These operating leases provide tenant to pay the base rent with provisions for contractual increase in the rent. Given the nature of the contractual agreement, increase in rental prices is monitored and linked to market conditions, therefore the Fund faces minimum lease renewal risk.

Risk Type	Risk Description	Risk Mitigation
Risk of neglecting the property	Any adverse event leading to structural damage to properties owned by the Fund thereby risking the income generating potential from such properties may have a negative impact on income profile of the Fund.	All properties are insured by the Fund which covers for all property damages and the cost for the insurance over the lease term is borne by the lessee. These responsibilities of the lessee ensure the mitigation of property negligence risk.
Counterparty Concentration Risk	This risk arises when a single counterparty has the most concentration of leased assets, this might lead to an adverse condition if the counterparty has troubles in future.	A major portion of the Fund's leasing income is derived from Tharawat Al Mashaer Property Development and Investment Company. If, this lessee was to serve the Fund notice in the next few years, it could expose the Fund to a high cash-flow risk. This risk is being mitigated by growing the portfolio over a range of tenants.
Sector Concentration Risk	This risk arises when all assets belong to the same sector, this might lead to an adverse condition if that location has troubles in future.	Majority of the Fund's assets are hotels, which subjects the Fund to the risks inherent in the hospitality sector. The Fund continuously explores options of the diversification.
Increasing Interest Rate	Increasing interest rates would reduce the attractiveness and demand of the REIT resulting in negative pressure on market prices and financing costs for the market-based borrowing.	The Fund Manager 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 Fund.

# Jadwa REIT Al Haramain Fund Risk Report

## Key Risks

Risk Type	Risk Description	Risk Mitigation
Liquidity Risk	The risk of the Fund not being able to meet short term financial demands.	Liquidity risk is managed by regular monitoring and ensuring that sufficient funds are available to meet any future commitments. The Fund has lower current liabilities as compared to its operating income which provides an adequate comfort on the ability to service the debt.
Asset Valuation Risk	Incorrect valuation of the properties resulting in notional and reputational losses.	The Fund Manager ensures clear communication of most up to date required information to the external professional valuers for valuation of the properties to reduce the risk of inaccurate valuation. Moreover, valuations are carried out by two independent valuers accredited by Saudi Authority for Accredited Valuers (TAQEEM) and the Fund Manager uses the average of two valuations for reporting and decision making.

## Conclusion

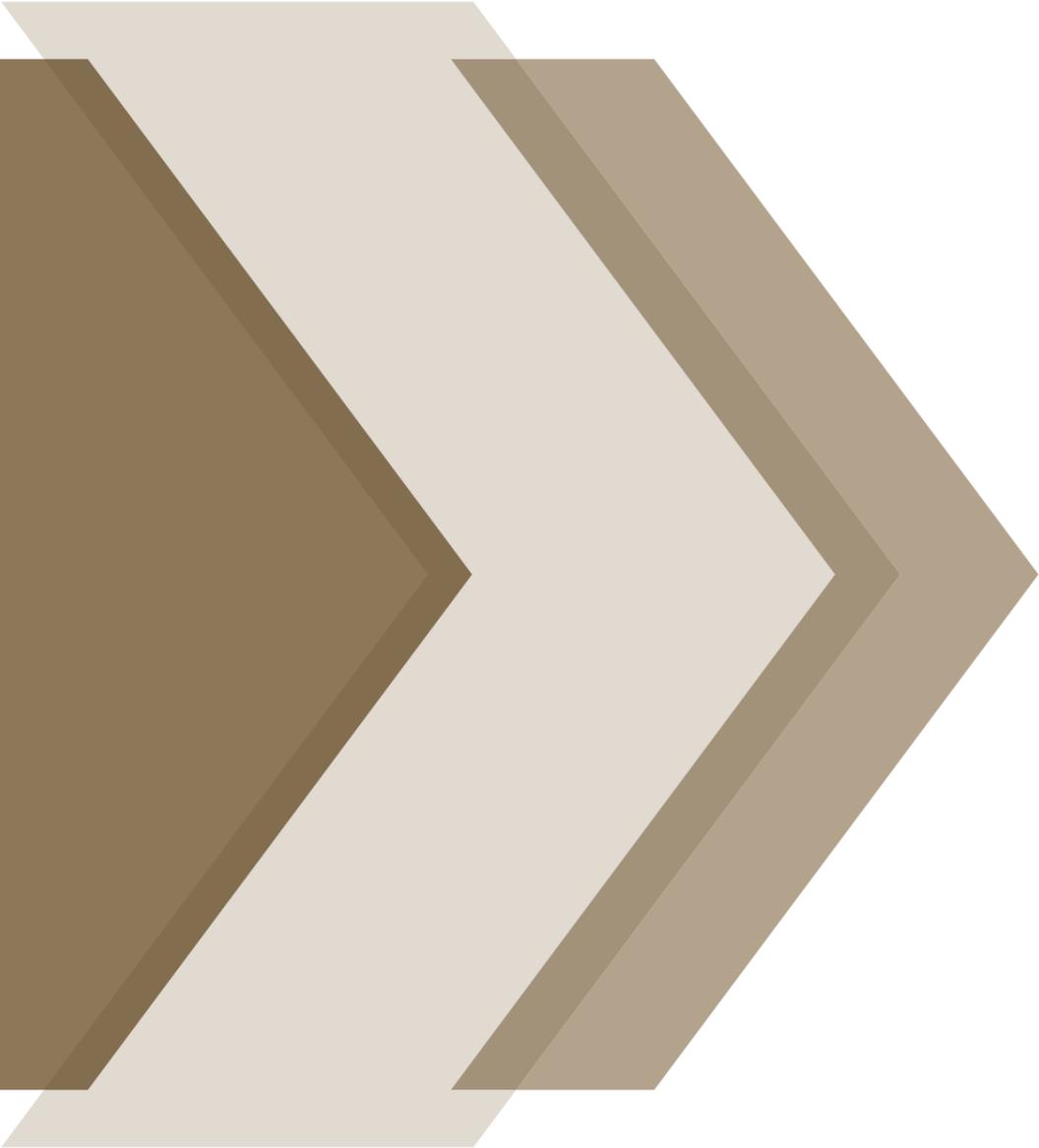
The Jadwa REIT Al Haramain Fund is exposed to various risks as identified above which may impact the performance of the REIT. These Risks have been mitigated by the actions taken by Fund manager. With the global widespread of the Corona Virus, precautionary measures such as suspension of Umrah & visiting visas, temporary suspension of Umrah for citizens and residents in the kingdom, suspension of international & domestic travels have been announced by Saudi government. The effect of widespread of COVID-19 is still unfolding and the Fund Manager is working closely with all counterparties to mitigate any risks. As the situation is variable and rapidly evolving therefore the potential impact on the Fund's results cannot be estimated. However, the Fund Manager is putting in place a rental review plan with major counterparties who are negatively affected to ensure the continuation of revenue stream to unit holders.

The fund is exposed to a concentration risk as significant portion of leasing income is derived from hotel properties. This subjects the Fund to the risks inherent in the hospitality sector. Moreover, 3 of the 5 properties are leased by the same tenant, Tharawat Al Mashaer Property Development and Investment Company which makes the Fund prone to counterparty concentration risk. Committed credit facility of a total of SAR 700 million helps the Fund maintain a flexible balance sheet for acquiring new assets swiftly and efficiently.

Based on the various identified risks and mitigations actions by the Fund Manager, overall Risk of the Fund is "Medium/Average".

Section 4

**FUND GOVERNANCE**



# Jadwa REIT Al Haramain Fund Governance

## About the REIT

The Jadwa REIT Al Haramain Fund is a closed-ended Shariah-compliant real estate investment-traded Fund that is managed by Jadwa Investment Company. The Fund operates in accordance with the Real Estate Investment Fund Regulations and the REIT Instructions issued

<b>Name</b>	Jadwa Investment Company
<b>Address</b>	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
<b>Website</b>	<a href="http://www.jadwa.com">www.jadwa.com</a>

## About Jadwa Investment Company

Jadwa Investment is the premier investment management and advisory firm in Saudi Arabia and the wider region. Headquartered in Riyadh with three regional offices, the firm has over SAR 36.7 billion in client assets under management and advisement.

Its clients include government entities, local and international institutional investors, leading family offices, and high-net-worth individuals. Jadwa Investment is licensed by the Capital Market Authority (CMA) as an authorized person, with license number 06034-37

## Delegation to Third Parties

As the Fund manager, Jadwa Investment Company is liable for the appointment of any third party (including its affiliates) and their responsibilities.

Jadwa Investment Company is also the Fund administrator. However, Jadwa has delegated certain administrative functions to Apex Fund Services (Dubai) Ltd to enhance the performance of the REIT.

# Jadwa REIT Al Haramain Fund Governance

## Custodian

<b>Name</b>	AlBilad Investment Company
<b>Address</b>	Smart Tower, First Floor, Intersection of King Fahad Road and Tahlia Road, P.O. Box 140, Kingdom of Saudi Arabia.
<b>Website</b>	www.albilad-capital.com
<b>Tel</b>	+966 11 290 6245

## Auditor

<b>Name</b>	Alluhaid & Alyahya Chartered Accountants (ACA)
<b>Address</b>	6733 Abo Bakr Al Siddiq Road, Al Taawun District. P.O. Box 85453, Riyadh 11691 Kingdom of Saudi Arabia.
<b>Tel</b>	+966 11 269 3516

## Administrator

<b>Name</b>	Jadwa Investment Company
<b>Address</b>	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
<b>Website</b>	www.jadwa.com
<b>Tel</b>	+966 11 279 1111

## Legal Advisor

<b>Name</b>	Abuhimed Alsheikh Alhagbani Law Firm (in affiliation with Clifford Chance LLP)
<b>Address</b>	The Business Gate, 15th Floor King Khaled International Airport Road, Kingdom of Saudi Arabia
<b>Tel</b>	+966 11 481 9700
<b>Website</b>	www.ashlawksa.com

## Third-Party Valuers

<b>Name</b>	White Cubes Company
<b>Address</b>	Riyadh, Kingdom of Saudi Arabia
<b>Tel</b>	+966 11 810 1765
<b>Website</b>	www.white-cubes.com

<b>Name</b>	ValuStrat Company
<b>Address</b>	6th Floor, Southern Tower, King Khalid Foundation Al Faisaliah Complex, King Fahd Road, Riyadh, Kingdom of Saudi Arabia
<b>Tel</b>	+966 11 293 5127
<b>Website</b>	www.valustrat.com

## VAT Consultant

<b>Name</b>	PricewaterhouseCoopers (PWC)
<b>Address</b>	Kingdom Tower - 21st Floor, King Fahd Highway, Riyadh, 11414, Saudi Arabia
<b>Tel</b>	+966 11 211 0400
<b>Website</b>	www.pwc.com/m1



## Jadwa REIT Al Haramain Fund Governance

### **Conflicts of Interest**

As of December 31, 2019, there are no transactions involving material conflicts of interest between Jadwa REIT Al Haramain Fund Jadwa Investment Company, its board or any third parties. To clarify, the appointed custodian Al Bilad Capital is wholly owned by Al Bilad Bank. A member of Jadwa Investment Company's board of directors is a shareholder in a founding company of Al Bilad Bank (at a percentage not representing control).

Conflicts of interest may exist or arise from time to time between the REIT, and the Jadwa Investment Company or its affiliates, subsidiaries, directors, officers, employees and agents thereof, and other Funds sponsored or managed by them. Where Jadwa Investment Company has a material conflict of interest with the Fund, Jadwa Investment Company will make full disclosure to the Fund Board as soon as practicable. Jadwa Investment Company will attempt to resolve any conflicts of interest by exercising its good faith judgment considering the interests of all affected investors and parties taken as a whole.

# Jadwa REIT Al Haramain Fund Governance

## Material Changes

- In 2019, Jadwa Investment announces a change in the board of directors of Jadwa REIT Saudi Fund due to the resignation of the Board Member Mr. Zaheeruddin Khalid (Chairman) and the resignation of the Board Member Dr. Fahad Al Turki (Dependent board member) and appointing Mr. Ghannam Al Ghannam (Chairman) and appointing Mr. Asad Khan (Dependent Board Member) and Dr. Nouf Al Sharif (Dependent Board Member) on 06/11/1440H corresponding to 09/07/2019G.
- On 3rd February 2020, a redevelopment plan was approved to merge Tharawat Wadi Ibrahim hotel and restaurant building into a hotel tower. As a result, the lease contracts were terminated.
- On 9 March 2020, the Fund received a notice to suspend the lease contract for Tharawat Al Andalusia Hotel due to the temporary suspension of Umrah due to the Corona virus outbreak. The Fund received another notice from the tenant of Tharawat Al Andalusia Hotel that the lease contract shall be terminated due to changing conditions in the hospitality sector in Makkah Al-Mukarramah, the end of the contract term will be on 24 February 2021.
- On 29 March 2020, the Fund has received a notice from the tenants of Tharawat Al Taqwa Hotel and the Pharmacy Building to suspend the lease contracts temporarily for these two properties until the authorities lift the suspension.
- On 7th April 2020, following to Jadwa investment's announcements published on 09/03/2020G and 29/03/2020G which contains the fund manager receiving letters of suspension of rents from the tenants of Jadwa REIT Al Haramain Fund properties ("the Fund"), Jadwa Investment would like to clarify that it is following current events closely, as the precautionary procedures are still effective represented by temporarily suspending Umrah and visiting visas as well as temporarily suspending Umrah for citizens and residents in the Kingdom,

in addition to suspending international and domestic flights. Therefore, the exemption of rents for all of the Fund's income-generating properties continues until the date of the announcement.

The effect of the event is expected to be negative for first half dividends of 2020, and in the absence of a specific period of these precautionary measures, it is not possible to determine the exact impact on the Fund. The fund manager will closely monitor the situation and announce any future material developments, in addition to searching for opportunities to lease the properties for alternative use

- On 18 April 2020, Jadwa Investment Company announces the temporary suspension of management fees for Jadwa REIT Al Haramain Fund, which equals to 1% of the net asset value of the Fund, due to the direct impact of the coronavirus (COVID-19) outbreak on the Fund's assets. Specifically, the precautionary COVID-19 measures included the suspension of Umrah, which led to the suspension of the Fund's rents. The suspension of management fees will be effective from the date of rent suspension for tenants, corresponding to March 1, 2020, and until the Fund resumes the collection of any rents. It is worth noting that the Fund has good levels of liquidity, supported by the Fund manager's decision to reduce the cash dividends for the second half of 2019 in response of such circumstances. In addition, the decline in the cost of financing (linked to SIBOR) has contributed to reducing the severity of the expected negative impact. The Fund manager will continuously monitor the market and assess opportunities to acquire additional, accretive income-generating properties given the Fund's low level of leverage at 21% of total fund assets as of the latest audited financial statements. The suspension of management fees will mitigate the expected negative impact on the fund. The fund manager will also monitor the situation closely and announce any future material developments.

# Jadwa REIT Al Haramain Fund Governance

## Fund's Board

The Fund Board oversees the resolution of conflicts of interests. As at December 31, 2019, the Fund Board is composed of appointees of the Fund manager.

The members of the Fund Board have fiduciary duties to the investors under the Real Estate Investment Fund Regulations and will use their best efforts to resolve all conflicts by exercising their good faith judgment.

The Fund Board is composed of five members appointed by the Fund manager, of whom two are independent. Any amendment to the composition of the Fund Board shall be notified to the Unitholders by an announcement on the Fund manager's and Tadawul's websites

## Fund Board Meeting

The Fund manager held Two Fund Board meetings during 2019

### The first meeting was held in August 2019.

The following topics have been discussed:

- A brief on the performance of Makkah real estate sector during the first half of 2019, and the strong performance and numbers of the Hajj and Umrah season
- The status and performance of the Fund during the first half of 2019
- The Fund deployment of the debt facility for acquiring new asset and future growth plans for the Fund
- The compliance of the Fund with all rules and regulations.

### The second meeting was held in December 2019.

The following topics have been discussed:

- A brief on the performance of Makkah real estate sector during the second half of 2019
- The status and performance of the Fund during the second half of 2019
- The Fund manager's plans to utilize the remaining debt facility in order to facilitate the Fund's growth plans
- The compliance of the Fund with all rules and regulations

# Jadwa REIT Al Haramain Fund Governance

## The Fund Board consists of the following members:

### **Ghannam Al Ghannam** (Chairman)

Mr. Al Ghannam is the Director, Private & Institutional Client Investments at Jadwa Investment Company. Prior to joining Jadwa, he was a Senior Investment Advisor for private clients at HSBC Saudi Arabia. Mr. Al Ghannam has over 14 years of experience in business development and wealth management. He is a certified financial planner and holds a BS degree in Business Administration from Toledo University.

### **Asad Khan** (Board Member)

Asad Khan is the Head of Economic Research at Jadwa Investment, where he covers economic and energy-related developments in Saudi Arabia and the Middle East. Prior to this, he worked at The Bank of Tokyo-Mitsubishi UFJ, in London, as an Associate Director in the Oil & Gas team, covering the EMEA region. Asad holds a BSc in Economics from the School of Oriental & African Studies (University of London) and has extensive experience in economic-related research positions within Investment Banking, Retail Banking and Real Estate sectors, in addition to working within the UK Civil Service.

### **Dr. Nouf Al Sharif** (Board Member)

Dr. Nouf is a senior economist part of the Jadwa research team. Prior to joining Jadwa Dr. Nouf was an economics lecturer at Prince Sultan University specializing and teaching Business, Micro and Macroeconomics and monetary banking. From 2009 to 2011, she worked at Riyadh Bank quickly being promoted from senior planning analyst to the bank acting chief economist from December 2007 to November 2008. Dr. Nouf holds a PHD from Sussex University department of economics from Falmer, United Kingdom, in addition to a master and bachelors from King Saud University from the college of Business administration, Riyadh, Saudi Arabia.

### **Dr. Waleed Addas** (Independent Director)

Dr. Addas is the Chief of Programs and Portfolio Monitoring Division at Islamic Development Bank. Prior to this he was Director of Finance and Administration at International Energy Forum, Riyadh. Dr. Addas holds a Doctorate in Economics from International Islamic University, Malaysia.

### **Dr. Waleed Alnumay** (Independent Director)

Dr. Alnumay is a Faculty Member at King Saud University and Chairman of the Saudi Association of Community Colleges. Over the years, he has held many administrative and supervisory positions - most notably in the field of information technology projects, such as the establishment and management of large data centers and smart schools. Dr. Waleed holds a Master's degree from Atlanta University and a Doctorate degree from Oklahoma University

# Jadwa REIT Al Haramain Fund Governance

## Sharia Board

Fund manager has appointed a Shariah Board as the Fund Shariah Advisor (the "Shariah Board"). The Shariah Board is a panel consisting of four scholars who are experts in the field of Islamic Shariah. It monitors the business, operations, investments and financings of the Fund to ensure compliance with the Islamic principles of Shariah.

The Fund manager carries out the Shariah monitoring tasks for the Fund's investments, which include the following:

- Achieve the Fund's commitment to Shariah monitoring through periodic reviews.
- Review agreements and contracts regarding the Fund's transactions.
- Follow-up with the Fund's operations, review its activities in terms of their legality, and consider the extent of its compliance with the Shariah Guidelines and the Shariah Board's directions.
- Submit the matter to the Shariah Board in case of any potential Shariah violations.
- Prepare and follow-up with the necessary endorsements for the purification amounts approved by the Shariah Board.

The Shariah Board oversees the compliance of the Fund's activities with the Shariah Guidelines and provides relevant advice.

## H.E. Sheikh Dr. Abdulla Al Mutlaq

H.E Sheikh Dr. Abdulla Al Mutlaq is a member of the Senior Ulema Board, Advisor to the Royal Court, former Chairman of the comparative Fiqh, Imam Mohammed Bin Saud Islamic University, and a member of the Shariah Board for several financial institutions in the Kingdom of Saudi Arabia.

## Sheikh Dr. Muhammad Ali bin Ibrahim Al Qari bin Eid

Sheikh Dr. Muhammad Ali Al Qari bin Eid is a professor of Islamic Economics at King Abdulaziz University in Jeddah, and an expert at the Fiqh Academy of the Organization of Islamic Conference in Jeddah.

## Sheikh Bader Abdulaziz Al Omar

Sheikh Bader Abdulaziz Al Omar has 18 years of experience in Islamic banking. Currently, he is the Head of the Shariah Group at Jadwa Investment, having worked earlier in several positions at the Shariah group within Al Rajhi bank. He is a former member of the Islamic banking committee at the Saudi Arabian Monetary Agency.

## Sheikh Ahmed Abdulrahman Al Gaidy

Sheikh Ahmed Abdulrahman Al Gaidy is our head of Shariah research and has 14 years of experience in investment banking. He has issued several pieces of Shariah research and previously worked as Shariah consultant to the Al Rajhi Bank's investment department. He was also a Shariah consultant to the Al-Jazira Bank's treasury department.

# Jadwa REIT Al Haramain Fund Governance

## **Shariah guidelines for the Fund's investment in real estate assets**

The Shariah Board believes that investments in real estate assets are permissible subject to the following guidelines:

1. The purchase-and-sale agreement for the real estate assets must be in the Shariah Board's approved form.
2. The invested real-estate asset must be accurately known with due diligence.
3. The price must be known.
4. The Fund manager must not execute any lease contracts on a real estate asset until completion of the purchase of the real estate asset;
5. The property cannot be rented from the owner for a deferred payment, and then re-leased to the owner for an amount that is less than the deferred amount.

The property must not be rented from the owner with a current payment, then re-leased to the owner for more than that price for a deferred payment.

### **In Addition:**

1. The Fund can only invest directly in the shares of listed real estate companies.
2. The Fund can only purchase units in other real estate Funds traded on the Saudi Stock Market 'Tadawul' if these are Shariah-compliant and are approved by the Shariah Board.
3. All Murabaha transactions must be in SAR.

The Fund manager is responsible for the expenses of the Shariah Board, including those related to monitoring the business, operations, investments and financings of the Fund. The Fund is not responsible for Shariah Board's expenses.

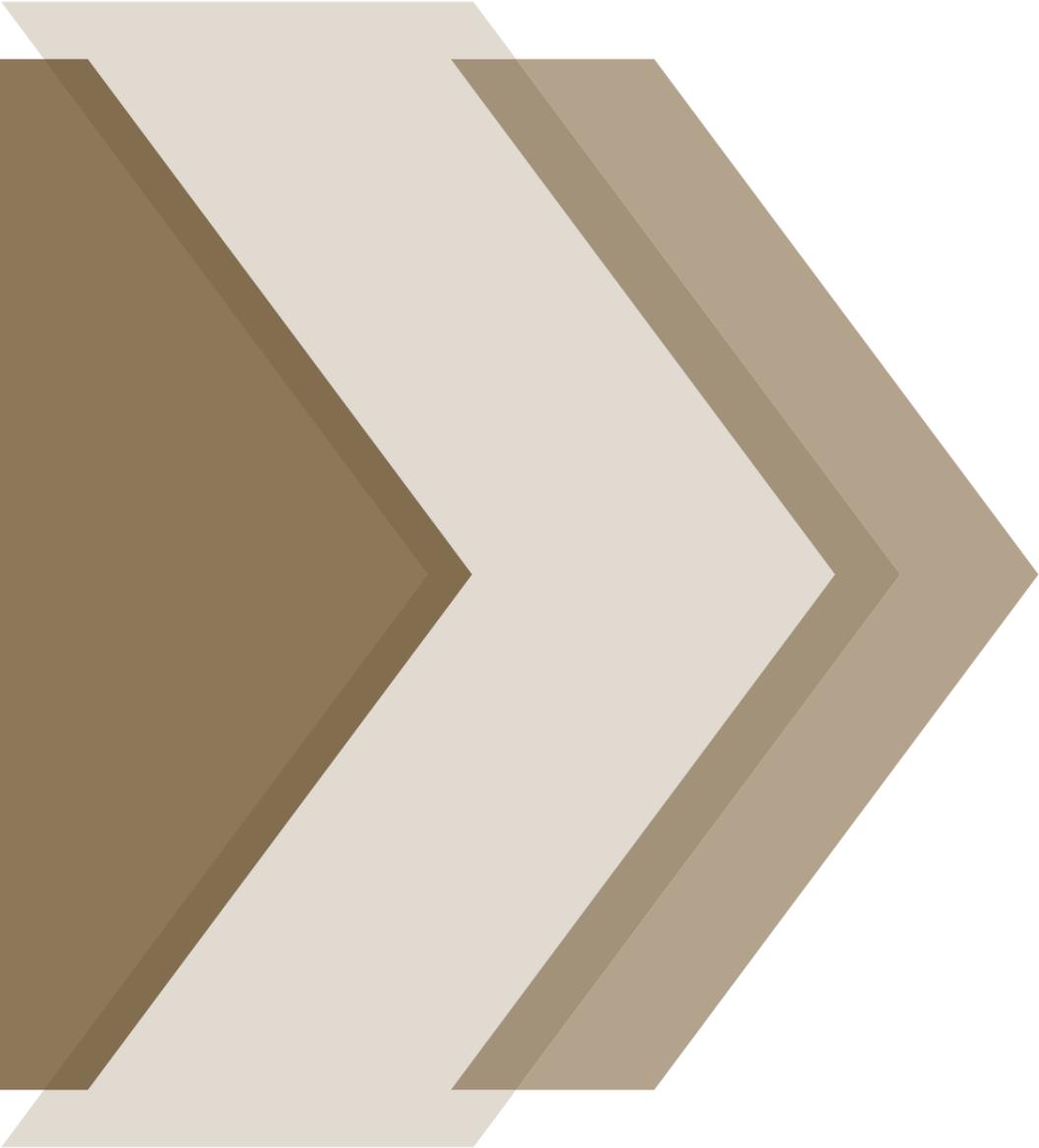
The Shariah Board has reviewed the Terms and Conditions and approved the structure of the Fund and the offering of units at the Fund's inception. The Fund shall also comply with the approved Shariah Guidelines.

If any investment proceeds or other amounts received by the Fund are not Shariah-compliant, the Fund shall arrange for such funds to be 'purified' in accordance with a procedure to be determined by the Shariah Board from time to time. The Shariah Board shall specify the relevant purification percentage or amount.

*The preceding does not support to be a complete or exhaustive explanation and summary of all the potential conflicts of interest involved in an investment in units in the Fund. It is strongly recommended that all potential investors seek independent advice from their professional advisors.*

Section 5

**REIT FUND  
FINANCIALS**





Alluhaid & Alyahya 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 statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of cash flows and statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**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.



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

**Key Audit Matters (continued)**

Key Audit Matter	How the key matter was addressed in the audit
<p>The Fund owns a portfolio of investment properties comprising of commercial buildings 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 2019 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date;</li> <li>- Based on the average fair value of the related investment properties as per the above-mentioned valuation reports, we have determined that the average fair value is higher than the carrying amount of the same; and</li> <li>- We reconciled the average fair value of the investment properties as per note 7 to the external valuers' reports.</li> </ul>



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

**Other Information**

Fund Manager is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Fund Manager 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.

Board of directors is responsible for overseeing the Fund's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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

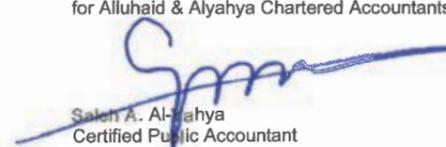
**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

As part of an audit in accordance with ISA as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Alluhaid & Alyahya Chartered Accountants

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

Riyadh: 2 Shaban 1441 H  
(26 March 2020)



# Financial Statement 31 DECEMBER 2019

## STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2019 SR	31 December 2018 Restated (note 21) SR	1 January 2018 Restated (note 21) SR
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Investment properties	6	779,514,058	791,569,234	768,620,861
Deferred charges	12	2,138,104	2,686,597	3,418,940
<b>TOTAL NON-CURRENT ASSETS</b>		<b>781,652,162</b>	794,255,831	772,039,801
<b>CURRENT ASSETS</b>				
Rent receivables	8	21,556,267	1,408,954	187,853
Accrued rental income		2,824,883	22,050,328	11,714,286
Prepayments and other assets	9	53,516	372,264	35,827
Short-term deposit	10	-	7,000,000	-
Cash and cash equivalents	11	11,425,236	7,818,401	66,642,735
<b>TOTAL CURRENT ASSETS</b>		<b>35,859,902</b>	38,649,947	78,580,701
<b>TOTAL ASSETS</b>		<b>817,512,064</b>	832,905,778	850,620,502
<b>LIABILITIES</b>				
<b>NON-CURRENT LIABILITIES</b>				
Long-term loan	12	181,422,611	180,836,508	180,794,385
<b>CURRENT LIABILITIES</b>				
Due to related parties	14	1,746,698	1,849,663	6,179,398
Accrued management fee	14	3,588,469	3,612,721	5,036,419
Accrued expenses and other liabilities	13	1,095,862	282,204	297,964
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,431,029</b>	5,744,588	11,513,781
<b>TOTAL LIABILITIES</b>		<b>187,853,640</b>	186,581,096	192,308,166
<b>NET ASSETS</b>		<b>629,658,424</b>	646,324,682	658,312,336
Units in issue		66,000,000	66,000,000	66,000,000
Per unit value		9.54	9.79	9.97
Per unit fair value	7	10.79	10.86	10.85

## STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 SR	2018 Restated (note 21) SR
<b>INCOME</b>			
Rental income from investment properties	17	52,565,599	53,984,261
Finance income		107,829	101,715
		<b>52,673,428</b>	54,085,976
<b>EXPENSES</b>			
Depreciation	6	(12,055,176)	(12,051,627)
Management fees	14	(7,144,785)	(7,204,393)
General and administrative expenses	15	(2,436,304)	(1,629,640)
Amortisation of transaction costs	12	(586,103)	(593,373)
Amortisation of deferred charges	12	(1,048,493)	(732,343)
		<b>(23,270,861)</b>	(22,211,376)
<b>OPERATING PROFIT</b>		<b>29,402,567</b>	31,874,600
Finance charges	12	(10,428,825)	(8,222,254)
<b>NET INCOME FOR THE YEAR</b>		<b>18,973,742</b>	23,652,346
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>18,973,742</b>	23,652,346

## STATEMENT OF CASH FLOWS

	Notes	2019	2018
		SR	Restated SR
<b>OPERATING ACTIVITIES</b>			
Net income for the year		<b>18,973,742</b>	23,652,346
<b>Adjustments for non-cash and other items:</b>			
Depreciation	6	<b>12,055,176</b>	12,051,627
Finance charges	12	<b>10,428,825</b>	8,222,254
Amortisation of deferred charges	12	<b>1,048,493</b>	732,343
Amortisation of transaction costs	12	<b>586,103</b>	593,373
Finance income		<b>(107,829)</b>	(101,715)
		<b>42,984,510</b>	45,150,228
<b>Changes in operating assets and liabilities:</b>			
Rent receivables		<b>(20,147,313)</b>	(1,221,101)
Accrued rental income		<b>19,225,445</b>	(10,336,042)
Prepayments and other assets		<b>282,900</b>	(300,589)
Due to related parties		<b>64,155</b>	(5,910,709)
Accrued management fee		<b>(24,252)</b>	(1,423,698)
Accrued expenses and other liabilities		<b>813,658</b>	(15,760)
		<b>43,199,103</b>	25,942,329
Finance charges paid		<b>(10,595,945)</b>	(6,641,280)
Finance income received		<b>143,677</b>	65,867
Net cash from operating activities		<b>32,746,835</b>	19,366,916
<b>INVESTING ACTIVITIES</b>			
Proceeds from short-term deposits	10	<b>7,000,000</b>	-
Payment for short term deposits	10	-	(7,000,000)
Purchase of investment properties	6	-	(35,000,000)
Net cash from (used in) investing activities		<b>7,000,000</b>	(42,000,000)
<b>FINANCING ACTIVITIES</b>			
Dividends distributed	20	<b>(35,640,000)</b>	(35,640,000)
Deferred charges	12	<b>(500,000)</b>	-
Debt structuring fee	14	-	(551,250)
Net cash used in financing activities		<b>(36,140,000)</b>	(36,191,250)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>3,606,835</b>	(58,824,334)
<b>Cash and cash equivalents at the beginning of the year</b>	11	<b>7,818,401</b>	66,642,735
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	11	<b>11,425,236</b>	7,818,401

## STATEMENT OF CHANGES IN NET ASSETS

	Notes	2019	2018
		SR	SR
Net asset value attributed to the unitholders at beginning of the year, as previously reported		<b>646,324,682</b>	658,603,806
Restatement	21	-	(291,470)
Net asset value attributed to the unitholders at beginning of the year, as restated		<b>646,324,682</b>	658,312,336
<b>Comprehensive income</b>			
Net income for the year, as previously reported		<b>18,973,742</b>	23,612,661
Restatement	21	-	39,685
Net income for the year, as restated		<b>18,973,742</b>	23,652,346
Other comprehensive income for the year		-	-
Comprehensive income for the year		<b>18,973,742</b>	23,652,346
Dividend distribution	20	<b>(35,640,000)</b>	(35,640,000)
Net asset value attributed to the unitholders at end of the year		<b>629,658,424</b>	646,324,682

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 1. GENERAL

Jadwa REIT Al Haramain Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The Fund operates in accordance with Real Estate Investment Fund Regulations ("REIFR") and Real Estate Investment Traded Funds ("REITF") Instructions issued by the Capital Market Authority ("CMA"). The Fund is listed on Saudi Stock Exchange ("Tadawul") and the units of the Fund started to be traded on Tadawul in accordance with its rules and regulations. The Capital of the Fund is SR 660,000,000 divided into 66,000,000 units of SR 10 each. The Fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of the CMA.

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

Jadwa Al Khalil Real Estate Company, a Limited Liability Company with commercial registration number 101049553, has been established and approved by the CMA as a special purpose vehicle (the

"SPV") for the beneficial interest of the Fund. The SPV owns all the assets of the Fund 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 Fund are the owners.

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

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 2. REGULATING AUTHORITY

The Fund is governed by the REIFR published by the CMA in the Kingdom of Saudi Arabia on 19 Jumada II 1427 H (corresponding to 15 July 2006) and REITF instructions published by

CMA on 23 Muharram 1438 H (corresponding to 24 October 2016), detailing requirements for all real estate funds operating within the Kingdom of Saudi Arabia.

### 3. BASIS OF PREPARATION

#### 3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

#### 3.2 Basis of measurement

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

#### 3.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals ("SR"), which is the functional currency of the Fund. All financial information has been rounded off to the nearest SR.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are reviewed and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

#### 4.1 Useful lives of investment properties

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### 4.2 Impairment of investment properties

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

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

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial assets carried at amortised cost. The Fund recognises a

loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 5. SIGNIFICANT ACCOUNTING POLICIES

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

#### 5.1 Investment properties

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

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

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

#### 5.2 Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value

may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

#### 5.3 Cash and cash equivalents

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 5.4 Financial instruments

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

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

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

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

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

Financial assets are subsequently measured at

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

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

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

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

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 5.4 Financial instruments (continued)

##### 5.4.3 Impairment of financial assets

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

As at yearend, the Fund has cash and cash equivalents, rent receivables, accrued interest receivable and short-term deposit as financial assets carried at amortised cost.

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

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 5.4 Financial instruments (continued)

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

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

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

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

#### 5.4.5 Offsetting of financial instruments

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

#### 5.5 Provision

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 5.6 Revenue recognition

Revenue includes rental income from investment properties.

Rental income from operating leases is recognised on a straight-line basis over the lease term. When the Fund provides incentives to its tenants, the cost of the incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

The contracts include fixed price and the customer pays the fixed amount based on a payment schedule. If the services rendered by the Fund exceed the payment, accrued rental income is recognised. If the payments exceed the services rendered, unearned rental income is recognised.

Revenue is measured at the transaction price agreed under the contract. Amounts disclosed as revenue are net of variable consideration and payments to customers, which are not for distinct services, this consideration may include discounts, trade allowances, rebates and amounts collected on behalf of third parties. The Fund does not have contracts where the period between the performance of the service to

the customer and the payment by the customer exceeds one year, and as a result, the Fund does not adjust transaction price for the time value of money.

A receivable is recognised when services are provided as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### 5.7 Management fees

Management fees are charged by the Fund Manager at the rate of 1.0% per annum of the Fund's net asset market value. Management fee is calculated and payable semi-annually in arrears.

#### 5.8 Expenses

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 5.9 Net assets value

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

#### 5.10 Zakat

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

#### 5.11 Dividend distribution

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

#### 5.12 Standards effective 1 January 2019

The Fund has adopted the following new standards which have been issued and effective from 1 January 2019:

##### 5.12.1 IFRS 16, Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease

payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard IAS 17 – i.e. lessors continue to classify leases as finance or operating leases.

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

The application of this standard did not have an impact on the amounts presented in these financial statements.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

##### 5.13.1 IFRS 17, Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The standard is effective for annual periods beginning on or after 1 January 2021 and earlier adoption is permitted.

The Fund is still assessing the potential impact of adopting the

new standard on the financial statements.

##### 5.13.2 Other Amendments

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

- Amendments to IFRS 3 – Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 9 and IAS 7 – Interest Rate Benchmark Reform
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 6. INVESTMENT PROPERTIES

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

31 December 2019			
Description	Cost	Accumulated depreciation	Net book value
	SR	SR	SR
Land	498,291,500	-	498,291,500
Tharawat Al Andalusia Hotel	152,000,000	18,711,476	133,288,524
Tharawat Al Taqwa Hotel	158,000,000	13,345,828	144,654,172
Ibrahim Al-Khalil I	3,408,500	344,543	3,063,957
Pharmacy Building	100,000	67,245	32,755
Ibrahim Al-Khalil II	200,000	16,850	183,150
	<b>812,000,000</b>	<b>32,485,942</b>	<b>779,514,058</b>

31 December 2018			
Description	Cost	Accumulated depreciation	Net book value
	SR	SR	SR
Land	498,291,500	-	498,291,500
Tharawat Al Andalusia Hotel	152,000,000	11,805,824	140,194,176
Tharawat Al Taqwa Hotel	158,000,000	8,410,441	149,589,559
Ibrahim Al-Khalil I	3,408,500	173,908	3,234,592
Pharmacy Building	100,000	33,942	66,058
Ibrahim Al-Khalil II	200,000	6,651	193,349
	<b>812,000,000</b>	<b>20,430,766</b>	<b>791,569,234</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 6. INVESTMENT PROPERTIES (continued)

The movement in the account during the year is as follows:

	2019 SR	2018 SR
Cost		
Balance at beginning of the year	812,000,000	777,000,000
Additions during the year	-	35,000,000
Balance at end of the year	812,000,000	812,000,000
Accumulated depreciation		
Balance at beginning of the year	20,430,766	8,379,139
Depreciation charge for the year	12,055,176	12,051,627
Balance at end of the year	32,485,942	20,430,766
Net book value	779,514,058	791,569,234

- 6.1 The useful lives of the investment properties as estimated by an independent valuator range from 22 to 32 years.
- 6.2 Freehold land comprises of the lands acquired on which the buildings are built. Freehold land along with the properties are kept in the custody of Albilad Capital. The Fund acquired properties in Makkah in different locations with an aggregate area of 3,227.2 square meter of land. The consideration for the two hotels was partly paid in cash and partly settled through issuance of 30,000,000 units of the Fund. The consideration for the other properties were fully paid in cash.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 6. INVESTMENT PROPERTIES (continued)

6.3 Brief details of the investment properties follow:

#### 6.3.1 Tharawat Al Andalusia 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, benefitting from a direct view over Ibrahim Al-Khalil Road.

#### 6.3.2 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.

#### 6.3.3 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.

#### 6.3.4 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.

#### 6.3.5 Ibrahim Al-Khalil II

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

6.4 These investment properties have been pledged with Banque Saudi Fransi ("BSF") in order to secure a debt facility obtained by the SPV for the purposes of the Fund.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

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

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

statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

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

	Appraiser 1	Appraiser 2	Average
31 December 2019	SR	SR	SR
Tharawat Al Andalusia Hotel	400,000,000	408,330,000	404,165,000
Tharawat Al Taqwa Hotel	270,000,000	264,000,000	267,000,000
Ibrahim Al-Khalil I	133,000,000	125,000,000	129,000,000
Pharmacy Building	25,000,000	25,000,000	25,000,000
Ibrahim Al-Khalil II	37,000,000	36,670,000	36,835,000
	<b>865,000,000</b>	<b>859,000,000</b>	<b>862,000,000</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

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

	Appraiser 1	Appraiser 2	Average
31 December 2018	SR	SR	SR
Tharawat Al Andalusia Hotel	400,000,000	408,300,000	404,150,000
Tharawat Al Taqwa Hotel	270,000,000	264,000,000	267,000,000
Ibrahim Al-Khalil I	133,000,000	125,000,000	129,000,000
Pharmacy Building	25,000,000	25,000,000	25,000,000
Ibrahim Al-Khalil II	37,000,000	36,600,000	36,800,000
	<b>865,000,000</b>	<b>858,900,000</b>	<b>861,950,000</b>

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

The investment properties were valued taking into consideration number of factors, including the area and type of property. Below is an analysis of the investment properties' fair value against cost:

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

	2019	2018
	SR	SR
Fair value of investments in real estate properties	<b>862,000,000</b>	861,950,000
Less: Carrying value of investments in real estate properties (note 6)	<b>779,514,058</b>	791,569,234
Unrealised gain based on fair value evaluation	<b>82,485,942</b>	70,380,766
Units in issue	<b>66,000,000</b>	66,000,000
Per unit share in unrealised gain based on fair value evaluation	<b>1.25</b>	1.07

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

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

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

	2019	2018
	SR	SR
Net asset value at cost, as presented in these financial statements	629,658,424	646,576,467
Unrealised gain based on real estate evaluations (note 7.i.)	82,485,942	70,380,766
Net asset based on fair value	712,144,366	716,957,233

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

	2019	2018
	SR	SR
Net asset value per unit, at cost as presented in these financial statements	9.54	9.79
Impact on net asset value per unit on account of unrealised gain based on fair value evaluations (note 7.i.)	1.25	1.07
Net asset value per unit at fair value	10.79	10.86

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 8. RENT RECEIVABLES

This account represents the rent receivable from the operating leases (see note 19).

Following is the ageing analysis of the receivables:

	2019	2018
	SR	SR
Less than 30 days	21,525,000	-
Between 31 to 60 days	-	-
Between 61 to 90 days	-	1,408,954
Between 91 to 120 days	-	-
More than 120 days	31,267	-
	21,556,267	1,408,954

The rent receivables are secured by promissory notes.

#### Impairment and risk exposure

Information about the impairment of rent receivables and the Fund's exposure to credit risk can be found in note 18.

### 9. PREPAID EXPENSES AND OTHER ASSETS

	2019	2018
	SR	SR
Prepaid insurance	53,516	108,090
Input value-added tax ("VAT")	-	228,326
Accrued interest receivable	-	35,848
	53,516	372,264

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 10. SHORT-TERM DEPOSIT

Short-term deposit represents the amount invested by the Fund in a Murabaha with BSF which has an original maturity period of more than three months but less than one year.

As at 31 December 2019, the Fund's short-term deposit amounted to SR nil (2018: SR 7,000,000) and yield finance income at a rate of 2.85%.

### 11. CASH AND CASH EQUIVALENTS

	2019	2018
	SR	SR
Cash in banks	11,425,236	2,818,401
Murabaha deposit	-	5,000,000
	11,425,236	7,818,401

As at 31 December 2019, four of the five bank accounts (2018: two of the four bank accounts) are maintained with Banque Saudi Fransi ("BSF") and Riyadh Bank under the name of the SPV with a total balance of SR 10,756,887 (2018: SR 162,703).

Murabaha deposit is held by BSF and yields finance income at a rate of 2.63%.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 12. LONG-TERM LOAN

	2019	2018
	SR	Restated SR
Long-term loan	183,000,000	183,000,000
Less:		
Transaction cost	2,771,250	2,771,250
Amortisation of transaction costs	(1,193,861)	(607,758)
	1,577,389	2,163,492
Long-term loan	181,422,611	180,836,508

The Fund has obtained the following Shariah-compliant facilities through the SPV:

- On 20 July 2017, BSF has extended an Islamic finance facility (Tawaruq) to the SPV amounting to SR 500,000,000 for the purposes of financing the real estate investments of the Fund. The SPV has made an arrangement with the Fund under a long-term loan agreement to lend all the loan proceeds availed by it under the Facility to the Fund on terms and conditions same as that of the facility.

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

The loan carries mark-up at the rate of Saudi Inter-Bank Offered Rate ("SAIBOR") plus 2% per annum, payable on semi-annual

basis. As at 31 December 2019, SR 183,000,000 have been drawn from the available facility.

Transaction costs related to the loan amounting to SR 2,771,250 as of 31 December 2019 and 2018 have been capitalized in the carrying amount of the loan and are being amortized over the period of the loan.

The facility is secured by promissory notes and pledge of certain coverage ratio over the current and future rights and interests in the investment properties of the Fund (see note 6).

Finance charges for the year ended 31 December 2019 amounted to SR 10,428,825 (2018: SR 8,222,254) which are reflected under the statement of comprehensive income.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 12. LONG-TERM LOAN (continued)

Fees charged by BSF for loan servicing amounting to SR 3,750,000 has been capitalised as 'Deferred charges' in the statement of financial position and is amortised over the period of the loan facility. Amortisation of deferred charges for the years ended 31 December 2019 and 2018 amounted to SR 732,343 which are reflected under the statement of comprehensive income.

- ii. On 8 May 2018, Riyad Bank has extended an Islamic finance facility to the SPV amounting to SR 200,000,000 for the purposes of financing the real estate investments of the Fund. The SPV has made an arrangement with the Fund under a long-term loan agreement to lend all the loan proceeds availed by it under the facility to the Fund on terms and conditions same as that of the facility.

The facility and correspondingly the loan is available for two years and is repayable in full on 7 February 2021. As at 31 December 2019, the Fund has not drawn any amount from the facility.

Fees charged by Riyad Bank for loan servicing amounting to 0.25% of the loan facility has been capitalised as 'Deferred charges' in the statement of financial position and is amortised over the period of the loan facility. Amortisation of deferred charges for the year ended 31 December 2019 amounted to SR 316,150 (2018: SR nil) which are reflected under the statement of comprehensive income.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2019	2018
	SR	SR
Output VAT	839,337	-
Professional fee	91,281	95,906
Custody fee	78,376	81,001
Property valuation fee	46,314	51,313
Administrator fee	30,554	53,984
Independent board member fee	10,000	-
	<b>1,095,862</b>	282,204

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 14. RELATED PARTY TRANSACTIONS AND BALANCES

#### 14.1 Related party transactions

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

Related party	Nature of relationship	Nature of transaction	2019 SR	2018 SR
Jadwa Investment Company	Fund manager	Management fee (i)	<b>7,144,785</b>	7,204,393
		Debt structuring fee (ii)	-	551,250
		Administrator fee (iii)	<b>108,786</b>	143,412
Jadwa Al-Khalil Real Estate Company	SPV	Finance charges	<b>10,428,825</b>	8,222,254

#### i. Management fee

In consideration for managing the assets of the Fund, the Fund Manager in accordance with the Terms and Conditions of the Fund charges the Fund a management fee equal to 1.0% of the net asset market value of the Fund calculated and payable semi-annually in arrears.

#### ii. Debt structuring fee

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

utilised from the drawdown amount of the Facility. This amount is recognised in the carrying amount of the loan as a transaction cost and is amortised over the period for which the loan is available.

#### iii. Administrator fee

The Administrator, in accordance with the Terms and Conditions of the Fund, charges the Fund an administrator fee equal to 0.02% of the Fund's net asset market value, payable semi-annually in arrears.

For the dividends distributed to the unitholders, please refer to note 20.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 14. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### 14.2 Related party balances

The following are the details of major related party balances at the yearend:

#### Due to related parties

	2019 SR	2018 SR
Jadwa Al-Khalil Real Estate Company	<b>1,580,074</b>	1,747,193
Unitholders - Unpaid dividends	<b>164,624</b>	100,470
Jadwa Investment Company	<b>2,000</b>	2,000
	<b>1,746,698</b>	1,849,663

#### Accrued management fee

	2019 SR	2018 SR
Jadwa Investment Company	<b>3,588,469</b>	3,612,721

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 15. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
	SR	SR
Breakup fee	835,983	-
Registration fee	400,000	400,093
Professional fee	399,369	365,667
Custody fee	159,857	162,001
Tadawul listing fee	156,245	210,657
Insurance	126,630	124,865
Administrator fee	108,786	143,412
Property valuation fee	106,810	106,761
Independent board member fee (i)	20,000	20,000
Others	122,624	96,184
	<b>2,436,304</b>	1,629,640

(i) This pertains to remuneration paid to the independent directors of the Fund's Board.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 16. FAIR VALUE MEASUREMENT

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

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

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

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

#### 16.1 Financial instruments

Financial assets consist of cash and cash equivalents, rent receivables and other assets. Financial liabilities consist of due to related parties, accrued management fees, accrued expenses and long-term loan.

Due to the short-term nature of most of the financial instruments, their carrying amount is considered to be the same as their fair values. For the long-term loan, the fair value is not materially different from its carrying amount since the interest payable on this loan is close to current market.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 16. FAIR VALUE MEASUREMENT (continued)

#### 16.2 Non-financial assets

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

31 December 2019	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR
Tharawat Al Andalusia Hotel	-	404,165,000	-	404,165,000
Tharawat Al Taqwa Hotel	-	267,000,000	-	267,000,000
Ibrahim Al-Khalil I	-	129,000,000	-	129,000,000
Pharmacy Building	-	25,000,000	-	25,000,000
Ibrahim Al-Khalil II	-	36,835,000	-	36,835,000
	-	<b>862,000,000</b>	-	<b>862,000,000</b>

31 December 2018	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR
Tharawat Al Andalusia Hotel	-	404,150,000	-	404,150,000
Tharawat Al Taqwa Hotel	-	267,000,000	-	267,000,000
Ibrahim Al-Khalil I	-	129,000,000	-	129,000,000
Pharmacy Building	-	25,000,000	-	25,000,000
Ibrahim Al-Khalil II	-	36,800,000	-	36,800,000
	-	<b>861,950,000</b>	-	<b>861,950,000</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 16. FAIR VALUE MEASUREMENT (continued)

#### 16.2 Non-financial assets (continued)

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

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

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

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 17. OPERATING LEASES

Future minimum rental commitments under the operating leases are as follows:

	2019	2018
	SR	SR
Not later than one year	43,906,780	53,944,668
Later than one year and not later than five years	145,449,153	183,382,692
Later than five years	405,903,955	421,255,408
	595,259,888	658,582,768

The Fund enters into long-term operating lease contracts with tenants for space in its investment properties. Initial lease terms are generally between three and 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. Rental income recognised by the Fund during the year is SR 52,565,599 (2018: SR 53,984,261).

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 18. FINANCIAL RISK MANAGEMENT

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

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

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

#### 18.1 Market risk

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

environment and believes that the impact of such changes is not significant to the Fund.

#### 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 Fund's interest rate risk arises from the short-term deposits and long-term loan.

This is benchmarked to SAIBOR which expose the Fund to cash flow interest rate risk.

The Fund 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 Fund.

An increase/decrease in interest rate of 1%, with all other variables held constant, would have resulted in a net increase/decrease in the Fund's total comprehensive income of SR 2,061,139 for the year ended 31 December 2019 (2018: SR 1,810,750).

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 18. FINANCIAL RISK MANAGEMENT (continued)

#### 18.2 Credit risk

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

#### 18.2 Credit risk (continued)

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

The Fund applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for rent receivables.

As at 31 December 2019 and 2018, management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised as any such impairment would be wholly insignificant to the Fund.

#### 18.3 Liquidity risk

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 18. FINANCIAL RISK MANAGEMENT (continued)

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

	On demand	Less than 3 months	3 to 12 months	More than 12 months	Total
31 December 2019	SR	SR	SR	SR	SR
Due to related parties	166,624	-	1,580,074	-	1,746,698
Accrued management fees	-	3,588,469	-	-	3,588,469
Accrued expenses and other liabilities	-	1,095,862	-	-	1,095,862
Long-term loan	-	-	-	183,000,000	183,000,000
	<b>166,624</b>	<b>4,684,331</b>	<b>1,580,074</b>	<b>183,000,000</b>	<b>189,431,029</b>

	On demand	Less than 3 months	3 to 12 months	More than 12 months	Total
31 December 2018	SR	SR	SR	SR	SR
Due to related parties	102,470	-	1,747,193	-	1,849,663
Accrued management fees	-	3,612,721	-	-	3,612,721
Accrued expenses	-	282,204	-	-	282,204
Long-term loan	-	-	-	183,000,000	183,000,000
	<b>102,470</b>	<b>3,894,925</b>	<b>1,747,193</b>	<b>183,000,000</b>	<b>188,744,588</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 18. FINANCIAL RISK MANAGEMENT (continued)

#### 18.4 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 associate property. To reduce this risk, the Fund reviews the financial status of all prospective tenants and decides on the appropriate level of security required via promissory notes.
- Concentration risk as all the investment properties of the Fund 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 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.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 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. DIVIDENDS DISTRIBUTION

On 18 February 2019, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 July 2018 to 31 December 2018 amounting to SR 18,480,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 10 July 2019, the Fund Manager approved to distribute dividends to the unit holders for the period from 1 January 2019 to 30 June 2019 amounting to SR 17,160,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 21. RESTATEMENT

The Fund restated its prior period balances with respect to the loan servicing fees for the loan facility obtained from BSF. Per loan facility agreement between the SPV and BSF, loan servicing fees amounting to SR 3,750,000 should be paid in advance upon signing the agreement. However, this amount was treated as part

of the loan transaction costs when loan has been availed and was amortised over the life of the loan using the EIR method. Per IFRS, fees that are not an integral part of the effective interest rate of a financial instrument such as the loan servicing fees paid to BSF should be amortised over the life of the facility.

	As previously reported	Restatement	As restated
	SR	SR	SR
<b>Statement of financial position</b>			
<b>As at 31 December 2018</b>			
Deferred charges	-	2,686,597	<b>2,686,597</b>
Total assets	830,219,181	2,686,597	<b>832,905,778</b>
Long-term loan	177,898,126	2,938,382	<b>180,836,508</b>
Total liabilities	183,642,714	2,938,382	<b>186,581,096</b>
Net assets	646,576,467	(251,785)	<b>646,324,682</b>
<b>As at 1 January 2018</b>			
Deferred charges	-	3,418,940	<b>3,418,940</b>
Total assets	847,201,562	3,418,940	<b>850,620,502</b>
Long-term loan	177,083,975	3,710,410	<b>180,794,385</b>
Total liabilities	188,597,756	3,710,410	<b>192,308,166</b>
Net assets	658,603,806	(291,470)	<b>658,312,336</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 21. RESTATEMENT (continued)

	As previously reported	Restatement	As restated
	SR	SR	SR
<b>Statement of comprehensive income</b>			
<b>For the year ended 31 December 2018</b>			
Amortisation of transaction costs	(1,365,401)	772,028	<b>(593,373)</b>
Amortisation of deferred charges	-	(732,343)	<b>(732,343)</b>
Total comprehensive income	23,612,661	39,685	<b>23,652,346</b>
<b>Statement of cash flows</b>			
<b>For the year ended 31 December 2018</b>			
Net income for the year	23,612,661	39,685	<b>23,652,346</b>
Amortisation of transaction costs	1,365,401	(772,028)	<b>593,373</b>
Amortisation of deferred charges	-	732,343	<b>732,343</b>
<b>Statement of changes in net assets</b>			
<b>As at 1 January 2018</b>			
Net asset value attributed to the unitholders	658,603,806	(291,470)	<b>658,312,336</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 22. SUBSEQUENT EVENTS

- I. On 4 February 2020, the Fund Board approved the redevelopment plan to merge Ibrahim Al-Khalil I and Ibrahim Al-Khalil II and redevelop them into a hotel tower. Accordingly, the lease contracts were terminated.
- II. At the beginning of the year 2020, the presence of COVID 19 virus was confirmed, which spread all over the world causing disturbance of commercial and economic activities. The management considers this event to be an event that does not require adjustments after the financial reporting period, as the situation is variable and rapidly evolving and the potential impact on the Fund's results cannot be estimated.

Accordingly, on 9 March 2020, the Fund received a notice to suspend the lease contract for Tharawat Al Andalusia Hotel due to temporary suspension of Umrah due the Corona virus outbreak.

For subsequent reporting periods, this will affect the measurement and recognition of assets and liabilities in the

Fund's financial statements. The management is still working on the impact assessment for the year 2020.

- III. Also, on 9 March 2020, the Fund received another notice from the tenant of Thrawat Al Andalusia Hotel that the lease contract shall be terminated due to changing conditions in the hospitality sector in Makkah Al-Mukarramah. Accordingly, the end of the contract term will be on 13 Rajab 1442H (corresponding to 24 February 2021) which is equivalent to a period of twelve months from the date of notice.

- IV. On 10 March 2020, the Fund manager approved to distribute dividends to the unitholders for the period from 1 July 2019 to 31 December 2019 for an amount of SR 13,200,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION (continued)

### 23. COMPARATIVE FIGURES

Following reclassification has been made in the comparative prior year financial statements to conform with the 2019 presentation:

		Amount
Reclassified from	Reclassified to	SR
Rent receivables	Accrued rental income	22,050,328

### 24. LAST VALUATION DAY

The last valuation day of the period was 31 December 2019.

### 25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 2 Shaban 1441 H (corresponding to 26 March 2020).



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