MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019
AND INDEPENDENT AUDITOR'S REVIEW REPORT

BAKER TILLY
MKM & CO. Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

To the unit holders

Musharaka REIT Fund

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Musharaka REIT fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager") as at 30 June 2019, and the related interim condensed statements of profit or loss and other comprehensive income, changes in net assets attributable to unit holders and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Fund Manager is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with IAS 34 '*Interim Financial Reporting*' as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on the interim condensed financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

BAKER TILLY MKM & CO.
Certified Public Accountants

Majid Muneer Alnemer
License number 381

Al-Khobar 07 Dhu-Al-Ḥijja 1440H
08 August 2019

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	***30 June 2019 (Unaudited)***	*31 December 2018 (Audited)*
		SR	*SR*
ASSETS			
Investment properties	6	**974,098,096**	843,727,725
Prepaid right of use		**-**	145,422,566
Net investment in finance leases	7	**214,693,178**	-
Lease receivables		**7,250,401**	2,671,655
Prepayments and other assets	8	**6,676,877**	5,715,843
Short term deposits	9	**53,000,000**	25,000,000
Cash and cash equivalents		**106,603,060**	35,127,521
TOTAL ASSETS		**1,362,321,612**	1,057,665,310
LIABILITIES			
Borrowings	10	**260,201,311**	159,792,309
Lease liabilities	11	**164,417,072**	-
Unearned rental revenue		**8,737,232**	14,297,549
Accrued management fees	16	**6,574,083**	6,428,194
Other liabilities		**1,656,092**	3,876,097
Dividend payable	12	**30,800,000**	24,640,000
TOTAL LIABILITIES		**472,385,790**	209,034,149
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		**889,935,822**	848,631,161
Units in issue		**88,000,000**	88,000,000
Per unit value		**10.11**	9.64

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	Note	***For the Six-month period ended 30 June 2019 (Unaudited)***	*For the period from 17 July 2017 to 30 June 2018 (Unaudited)*
		SR	*SR*
Revenue			
Rental revenue	16	**47,522,626**	65,470,293
Expenses			
Depreciation	6	**(11,911,241)**	(13,023,142)
Fund management fee	16	**(6,574,083)**	(9,399,122)
Other operating expenses	13	**(4,122,610)**	(1,267,578)
		(22,607,934)	(23,689,842)
Operating profit		**24,914,692**	41,780,451
Finance income	14	**5,693,505**	777,555
Finance costs	15	**(7,811,385)**	(95,551)
Profit for the period		**22,796,812**	42,462,455
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**22,796,812**	42,462,455
Weighted average number of units outstanding		**88,000,000**	88,000,000
Basic and diluted earnings per unit	17	**0.26**	0.48

INTERIM CONDENSED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	SR
For the six month period ended 30 June 2019	
As at 1 January 2019 (Audited)	848,631,161
Impact of applying IFRS 16 (note 3)	49,307,849
As at 1 January 2019 (restated)	897,939,010
Profit for the period	**22,796,812**
Other comprehensive income	**-**
Total comprehensive income for the period	**22,796,812**
Dividends declared	**(30,800,000)**
As at 30 June 2019 (Unaudited)	**889,935,822**
For the period from 17 July 2017 to 30 June 2018	
Units issued	880,000,000
Profit for the period	42,462,455
Other comprehensive income	-
Total comprehensive income for the period	42,462,455
Dividends declared	(30,800,000)
As at 30 June 2018 (Unaudited)	891,662,455

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	For the Six-month period ended 30 June 2019 (Unaudited)	*For the period from 17 July 2017 to 30 June 2018 (Unaudited)*
	SR	*SR*
OPERATING ACTIVITIES		
Profit for the period	**22,796,812**	42,462,455
Adjustments for:		
Depreciation	**11,911,241**	13,023,142
Finance costs	**7,811,385**	95,551
Finance income	**(5,693,505)**	(777,555)
Changes in operating assets and liabilities:		
Lease receivables	**(3,189,046)**	-
Prepayments and other assets	**(837,854)**	(725,097)
Unearned rental revenue	**(5,560,317)**	10,070,567
Accrued management fees	**145,889**	9,399,122
Other liabilities	**(203,422)**	584,330
Net cash from operating activities	**27,181,183**	74,132,515
INVESTING ACTIVITIES		
Proceeds from investment in finance leases	**9,783,434**	-
Acquisition of investment properties	**-**	(376,525,000)
Investment in short - term deposits	**(28,000,000)**	(40,000,000)
Interest received on short term deposits	**236,529**	600,000
Net cash used in investing activities	**(17,980,037)**	(415,925,000)
FINANCING ACTIVITIES		
Proceeds from units issue	**-**	377,100,000
Net change in lease liability	**(5,809,827)**	-
Net Proceeds from long - term loan	**-**	160,672,750
Proceeds from short - term loan	**100,000,000**	-
Finance costs paid	**(7,275,780)**	-
Dividends paid	**(24,640,000)**	(30,800,000)
Net cash generated from financing activities	**62,274,393**	506,972,750
Net change in cash and cash equivalents	**71,475,539**	165,180,265
Cash and cash equivalents at the beginning of the period	**35,127,521**	-
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	**106,603,060**	165,180,265
Non-cash transaction:		
Acquisition of investment properties against units issued	**-**	502,900,000
Loan deferred transaction costs charged	**409,002**	53,300
Over all Impact of IFRS 16 adoption (note 3)	**49,307,849**	-
Dividend declared but not paid	**30,800,000**	-

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

1 - GENERAL

Musharaka REIT (the "Fund") is a closed-ended real estate investment fund incorporated in the Kingdom of Saudi Arabia in compliance with the real estate investment funds regulations and real estate investment traded funds instructions issued by board of the Capital Market Authority (CMA). The Fund is listed and traded in the Saudi Stock Exchange ("Tadawul") and is in compliance with Shari'a Committee requirements. The Fund is managed by Musharaka Capital Company (the "Fund Manager").

The offering of the units of the Fund has been approved by the CMA on 23/10/1438H (corresponding to 17 July 2017) and started its operations on 17 August 2017. The Fund's term is 99 years extendable for additional two years at the discretion of the Fund Manager after obtaining CMA approval.

The primary investment objective of the Fund is to invest in developed properties that are qualified to generate periodic rental income and distribute at least 90% of the Fund's net profit as cash dividends to the unit holders annually.

The financial statements should be read in conjunction with the annual audited financial statements of the Fund. The interim results may not be an indicator of the annual results of the Fund. The comparative figure presented in the statement of profit or loss and other comprehensive income covers the period since inception (July 17, 2018) to 30 June 2018 as the first financial year of the fund is for period from 17 July 2017 to 31 December 2018 which may effect the comparability of the accompanying financial statements.

2 - BASIS OF PREPARATION

The interim condensed financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with IAS 34 '*Interim Financial Reporting*' that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants (SOCPA).

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund's annual financial statements as at 31 December 2018.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Saudi Riyals which is also the functional currency of the Fund and all values are rounded to the nearest Saudi Riyal (SR), except when otherwise indicated.

As per CMA instructions, the Fund has adopted the cost model for investment properties. Accordingly, investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses.

3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE FUND

Except as described below, the accounting policies applied in these interim condensed financial statements are the same as those applied in the last annual financial statements.

The changes in the accounting policies are also expected to be reflected in the Fund's financial statements as at and for the year ending 31 December 2019.

The Fund has applied IFRS 16 effective from 1 January 2019. The nature and effect of changes as a result of adoption of this new accounting standard are described below.

IFRS 16 Leases

The International Accounting Standard Board (IASB) published the new standard on leases, IFRS 16 'Leases' on 13 January 2016. The rules and definitions of IFRS 16 supersede 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE FUND (continued)

IFRS 16 Leases (continued)

The Fund has adopted IFRS 16 Leases from 1 January 2019. The Fund has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in net assets attributable to unitholders at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported in the last annual audited financial statements for the year ended 31 December 2018, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Fund determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement contains a Lease'. The Fund now assesses whether a contract is, or contains, a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

On transition to IFRS 16, the Fund elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Fund allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Fund has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) Fund as a lessee

The Fund leases properties. As a lessee, the Fund previously classified leases as operating or finance leases based on its assessments of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Fund. Under IFRS 16, the Fund recognises right-of-use assets and lease liabilities for most leases i.e. these leases are on the statement of financial position.

Significant accounting policies

The Fund recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is included under investment property.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in assessments of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Fund depreciates right of use assets on straight-line basis over the lease term.

3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE FUND (continued)

IFRS 16 Leases(continued)

(b) Fund as a lessee(continued)

Transition

Previously, the Fund classified property leases as operating leases under IAS 17. These include land and commercial shops and malls. At transition, for leases classified as operating leases under IAS 17, lease liabilities have been measured at the present value of the remaining lease payments discounted at the Fund's incremental borrowing rate as at 1 January 2019. Right-of-use assets have been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

At transition, the Fund used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) Fund as a lessor

Except where Fund acts as an intermediate lessor, the Fund is not required to make any adjustments on transition for leases in which it is a lessor. The Fund has classified these leases as operating leases. The accounting policies applicable to the Fund as a lessor are not different from those under IAS 17. The Fund shall account for those leases applying this Standard from the date of initial application.

A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

(d) Fund as an intermediate lessor

The Fund is also acting as an intermediate lessor for right of use assets obtained which were already leased to the tenants.

Significant accounting policies

At the commencement date of the lease, the Fund has recognised assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

The Fund uses the interest rate implicit in the lease to measure the net investment in the lease. If the interest rate implicit in the sublease cannot be readily determined, Fund may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease. If both rates cannot be readily determined, the Fund's incremental borrowing rate is used. Generally, the Fund uses its incremental borrowing rate as the discount rate.

Transition

The Fund has reassessed subleases that were classified as operating leases under IAS 17 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or as a finance lease under IFRS 16. On the basis of the remaining contractual terms and conditions of the head lease and sublease. At that date the Fund has classified some subleases as finance leases.

3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE FUND (continued)

IFRS 16 Leases(continued)

***(e)* Impact of adoption of IFRS 16 'Leases' on interim condensed statement of financial position as at 1 January 2019 (Date of transition to IFRS):**

	Note	**Adjustment**
		SR
Impact on assets increase (decrease)		
Investment properties (a)	6	142,281,612
Prepaid right of use (a)		(145,422,566)
Net investment in finance leases (b)	7	219,142,816
Lease receivables (c)		1,389,700
		217,391,562
Impact on liabilities increase (decrease)		
Lease liabilities (b)		170,226,899
Other liabilities (c)		(2,143,186)
		168,083,713
Net effect on net assets attributable to unit holders		49,307,849

(a) Under IAS 17, land rent and prepaid right of use asset were accounted for as operating leases, Under IFRS 16, land lease is accounted for as a right of use asset using the present value of minimum lease payments payable over the term of land lease agreement. As for prepaid right of use asset, such amount was reclassified to investment properties without discounting due to the fact that they were prepaid.

(b) The Fund accounted for the sublease contracts under IAS 17 as operating lease, upon adoption of IFRS 16, the Fund has assessed the sublease contracts to determine whether they are finance leases or not and has identified seven contracts over which the sublease period form substantial term of the head lease agreements and thus accounted for these agreements finance leases and accordingly, de-recognised these properties and presented the present value of the minimum lease payments receivable as net investment in finance lease in accordance with IFRS 16. The Fund has also recognised lease liability at the present value of minimum lease payments for land. The difference between the cost of the derecognised properties and the net investment in finance lease recognised was accounted for as an adjustment to the opening net assets attributable to unitholders.

(c) Lease receivables and lease liabilities include amounts due to be received or paid but not settled at the transition date.

4 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The key judgments, estimates and assumptions that have a significant impact on the financial statements of the Fund are discussed below:

4 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

4.1 Judgements

Classification of leases as operating or finance leases

Fund as a lessor

The Fund has entered into commercial and residential property leases on its investment property portfolio. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and as such accounts for the contracts as operating leases.

Determining the lease term for lease contracts

The Fund has applied judgement to determine the lease term for those lease contracts in which it is a lessee that include renewal options. The assessment of whether the Fund is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

4.2 Estimates and assumptions

Valuation of investment properties

The Fund hires the services of third party to obtain estimates of the market value of investment properties using recognised valuation techniques for the purposes of their impairment review and disclosures in the financial statements.

Useful lives of investment properties

The Fund's management determines the estimated useful lives of its investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The fund's manager periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

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.

5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investment properties

Investment property is the property which is held (by owner or lessee under finance lease) either to earn rental income or for capital appreciation or for both. Investment property is initially measured at cost and are stated subsequently at cost less accumulated depreciation and impairment in value, if any. Freehold land is not depreciated. The cost of investment property is depreciated on a straight-line basis over estimated useful lives of the assets.

The estimated useful lives of the principal classes of investment properties are as follows:

	Years
Buildings	40
Furniture, fixture and equipment	10

5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Rental revenue

Rental income arising from operating leases on investment properties is recognised, net of discount, in accordance with the terms of lease contracts over the lease term on a straight-line basis over the non-cancellable period of lease.

5.3 Cash and cash equivalents

Cash and cash equivalents in the interim condensed statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

5.4 Provisions

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

5.5 Finance income

Finance income is recognised as the interest accrues using the effective interest method.

5.6 Net assets value per unit

The net assets value (NAV) per unit as disclosed on the interim condensed statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at the period end.

5.7 Earnings per unit

Earnings per unit (EPU) is calculated by dividing the profit or loss attributable to unit holders of the Fund by the weighted average number of units outstanding during the period.

5.8 Dividend

Dividend distribution to the unit holders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Fund's Board.

5.9 Zakat

Zakat and income tax are the unit holders obligations and are not provided for in these financial statements.

5.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

5.11 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.11 Impairment of non-financial assets (continued)

Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

5.12 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund’s financial assets at amortised cost includes rent receivables, short term deposits and cash and cash equivalents.

Derecognition

A financial asset is primarily derecognised when:

The rights to receive cash flows from the asset have expired, or

The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Impairment of financial assets

The Fund recognises an allowance for expected credit losses (ECLs).

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For rent receivables , the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the tenants and the economic environment.

5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.13 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

Loans, borrowings and payables

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well through the EIR amortisation process.

Transaction costs are amortised using the EIR method from the date at which the loan is recognised over the repayment term.

Derecognition

A financial liability is derecognised when the obligation is discharged, cancelled or expires.

5.14 Fair value measurement

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level I - Fair value measurements are those derived from quoted prices in an active market (that are unadjusted) for identical assets or liabilities.
- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level I that are observable for the asset or liability either directly (i.e. as prices) or indirectly observable.
- Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

6 - INVESTMENT PROPERTIES

	30 June 2019 (Unaudited)	*31 December 2018 (Audited)*
	SR	*SR*
Owned investment properties (a)	**836,326,810**	843,727,725
Right of use assets (b)	**137,771,286**	-
	974,098,096	843,727,725

(a) Owned investment properties

	Land	***Buildings***	***Furniture, fixture and equipment***	***Total***
	SR	***SR***	***SR***	***SR***
Cost:				
1 January 2019	437,037,270	388,708,950	52,678,780	878,425,000
30 June 2019	**437,037,270**	**388,708,950**	**52,678,780**	**878,425,000**
Accumulated depreciation and impairment				
1 January 2019	7,082,415	20,408,682	7,206,178	34,697,275
Charge for the period	**-**	**4,766,970**	**2,633,945**	**7,400,915**
30 June 2019	**-**	**25,175,652**	**9,840,123**	**42,098,190**
Net book value				
30 June 2019	**437,037,270**	**363,533,298**	**42,838,657**	**836,326,810**
31 December 2018	429,954,855	368,300,268	45,472,602	843,727,725

Owned investment properties represent the Fund's investments in various residential compounds, warehousing facilities and hotel apartments located within the Kingdom of Saudi Arabia.

Investment properties at 30 June 2019 with a net book value of SR 836.33 million (31 December 2018: SR 843.73 million are pledged as security against bank borrowings (note 10).

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on valuations prepared by two independent evaluators. In accordance with CMA instructions, investment properties are carried at cost less accumulated depreciation and impairment loss if any.

The fair values of the properties are based on valuations performed by Olaat Valuation Company and Remax Real Estate, both are independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 30 June 2019, the average valuation of the above investment properties amounted to SR 847,060,450 (31 December 2018: 847,418,209). Key assumptions used for the valuation of investment properties include discount rate at 9% and income yield rate ranging from 7% to 9% (31 December 2018: 7.4% to 9%).

Fair value hierarchy

The fair value of investment properties is classified in the third level of fair value hierarchy.

Any significant movement in the assumptions used for fair valuation of investment properties such as discount rates, yield, rental growth, vacancy rate etc. would result in significantly lower/higher fair value of those assets.

6 - INVESTMENT PROPERTIES(Continued)

(b) Right of use assets

	Land	*Buildings*	*Total*
	SR	*SR*	*SR*
Cost:			
1 January 2019	-	-	-
Impact of IFRS 16	71,956,338	74,612,563	146,568,901
1 January 2019 (adjusted)	71,956,338	74,612,563	146,568,901
30 June 2019	**71,956,338**	**74,612,563**	**146,568,901**
Accumulated Amortization:			
1 January 2019	-	-	-
Impact of IFRS 16	2,108,487	2,178,802	4,287,289
1 January 2019 (adjusted)	2,108,487	2,178,802	4,287,289
Charge for the period	**2,218,177**	**2,292,149**	**4,510,326**
30 June 2019	**4,326,664**	**4,470,951**	**8,797,615**
Net book value			
30 June 2019	**67,629,674**	**70,141,612**	**137,771,286**
31 December 2018	-	-	-

The Fund has acquired right of use assets ("ROU") of certain commercial properties, i.e. land and building for term ranging from 15.5 to 16.5 years.

The fair values of the ROU are based on valuations performed by Olaat Valuation Company and Remax Real Estate both are, independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 30 June 2019, the average valuation of the buildings amounted to SR 79,159,619 calculated by allocating the overall average valuation of the acquired right of use buildings amounted to SR 158,716,210 to the remaining area after the derecognition of the portion of buildings that was derecognised on finance lease arrangements. The valuation is determined as an average value of the valuation reports made by two independent valuers. Key assumptions used for the valuation of the ROU include discount rate ranging between 10.5% to 12% (31 December 2018: 11% to 12%).

7 - NET INVESTMENT IN FINANCE LEASES

Net investment in finance leases consists of:

	30 June 2019 (Unaudited)	*31 December 2018 (Audited)*
	SR	***SR***
Gross investment in finance lease	**304,786,178**	-
Less: Unearned finance income	**(90,093,000)**	-
	214,693,178	-

Fund has investment in subleaes against right of use assets (note 6). These subleases have lease term more than 85% of the head lease. Hence, the Fund derecognised the related right of use assets at the date of application of IFRS 16 and recognised these subleases as investment in finance leases. Impact on interim condensed statment of financial position is disclosed in note 3(e). Interest income earned from investment in finance leases is recognised as finance income (note 14).

8 - PREPAYMENTS AND OTHER ASSETS

	30 June 2019 (Unaudited)	*31 December 2018 (Audited)*
	SR	*SR*
Deferred loan arrangement fee	**4,697,000**	4,697,000
Prepaid expenses	**522,390**	258,268
Accrued interest income	**272,243**	149,063
VAT receivable	**1,185,244**	611,512
	6,676,877	5,715,843

Defered loan arragmenet fee constitutes administartive and consultancy fee on the unavailed loan facility amounting to SR 234.85 million (note10).

9 - SHORT TERM DEPOSITS

Short term deposits represent the amount invested by the Fund in a Murahaba deposit with a local commercial bank, which is in compliance with Sharia Committee standards, has an original maturity of more than 3 months for the purpose of yielding finance income at commercial rates.

Deposits earn interest at rate ranging between 2% to 2.65%.

Profit for the period amounting to SR 359,709 (30 June 2018: SR 777,555) generated from short term deposits is recognised as finance income.

10 - BORROWINGS

	June 2019 (Unaudited)	*31 December 2018 (Audited)*
	SR	*SR*
Long term loan (a)	**160,201,311**	159,792,309
Short term loan (b)	**100,000,000**	-
	260,201,311	159,792,309

(a) Long term Loan

Long term loan	**165,150,000**	165,150,000
Less: transaction costs	**(4,948,689)**	(5,357,691)
	160,201,311	159,792,309

The Fund entered into a bank facility agreement, which is in compliance with Sharia Committee standards, with Al Rajhi bank in the form of long term loans with an overall withdrawing limit of SR 400 million to finance the acquisition of income generating assets. These facilities carry interest at SIBOR (6 months) plus a margin of 1.85%.

The Fund has withdrawn SR 165.15 million for the purpose of acquiring certain rights of use. The loan is repayable on a single lumpsum payment after seven years from the date of withdrawal (28 June 2018). Interest is payable on a semi-annual basis.

The loan is secured by a mortgage of the Fund's investment properties, promissory note and assignment of rental income.

(b) Short term loan

During the period, the Fund has withdrawn its short term borrowing limit. These facilities carry interest at SIBOR (6 months) plus a margin of 1.85%.

11 - LEASE LIABILITIES

	30 June 2019 (Unaudited)	*31 December 2018 (Audited)*
	SR	*SR*
Gross lease liability	**241,576,280**	-
Less: deferred interest	**(77,159,208)**	-
	164,417,072	-

Lease liability represents present value of minimum lease payments for lease of land.

12 - DIVIDEND PAYABLE

During the period, the Fund declared dividends of SR 30.80 million (2018:30.80 million) out of which nothing is paid in this period (30 June 2018: SR 30.80 million were paid). As per the terms and conditions of the Fund, it aims to distribute cash dividend, at least once annually, not less than 90% of the net profit.

13 - OTHER OPERATING EXPENSES

	For the Six-month period ended 30 June 2019 (Unaudited)	*For the period from 17 July 2017 to 30 June 2018 (Unaudited)*
	SR	*SR*
Right of use property manager fee	**1,342,064**	-
Utilities	**638,321**	-
Fees and subscriptions	**571,463**	1,037,050
Valuation fee	**122,000**	133,000
Advertising and branding	**46,950**	52,553
Board of director's fee	**30,000**	40,000
Others	**1,371,812**	4,975
	4,122,610	1,267,578

14 - FINANCE INCOME

	For the Six-month period ended 30 June 2019 (Unaudited)	*For the period from 17 July 2017 to 30 June 2018 (Unaudited)*
	SR	*SR*
Interest income on short - term deposits (note 9)	**359,709**	777,555
Interest income from investment in finance lease (note7)	**5,333,796**	-
	5,693,505	777,555

15 - FINANCE COSTS

	For the Six-month period ended 30 June 2019 (Unaudited)	*For the period from 17 July 2017 to 30 June 2018 (Unaudited)*
	SR	*SR*
Interest expense on borrowings (note 10)	**4,262,210**	42,251
Amortization of loan arrangement fee	**409,002**	53,300
Interset expense on lease liabilities (note 11)	**3,140,173**	-
	7,811,385	95,551

16 - RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent Musharaka Capital Company (Fund Manager), Alinma Bank (Custodian), the unit holders, the Fund Board and the Fund Sharia Committee.

The following table provides the total amount of transactions that have been entered into with related parties during the period and their related balances:

Related party	**Nature of transaction**	*For the Six-month period ended 30 June 2019 (Unaudited)*	*For the period from 17 July 2017 to 30 June 2018 (Unaudited)*
		SR	*SR*
Fund Manager	Management fees	**6,574,083**	9,399,122
Fund Board	Board of Directors remunerations	**30,000**	40,000
Sharia Committee	Sharia Committee remunerations	**16,500**	16,500
Custodian	Custody fee	**50,000**	91,667
Unit holder	Rental revenue	**15,830,542**	27,449,603

The Fund Manager's investment in the Fund at 30 June 2019 is 4.64 million units (31 December 2018 is 4 million units).

Balances with related parties as at 30 June 2019 are as follows:

	30 June 2019 (Unaudited)	*31 December 2018 (Audited)*
	SR	*SR*
Fund Manager *	**6,574,083**	6,428,194
Custodian **	**50,000**	141,667
	6,624,083	6,569,861

* Presented under accrued management fee
** Presented under accrued expenses

16 - RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

The basis and term of payment for fees payable to related parties are as per terms and conditions of the Fund approved by CMA as follows:

Type of fee	Basis and rate	Payment term
Management fees	1.2% of the total assets	Every six (6) months
Board of directors remunerations	SR 5,000 per meeting only payable to the independent members, maximum up to SR 80,000 per annum for all members.	After the meeting of the Board of Directors
Sharia Committee remunerations	SR 33,000 per annum	Every six (6) months
Custody fees	SR 100,000 per annum	Annually

17 - EARNINGS PER UNIT

The calculation of basic earnings per unit is based on the profit attributable to unit holders and the weighted average number of units outstanding.

	month period ended 30 June 2019 (Unaudited)	*For the period from 17 July 2017 to 30 June 2018*
	SR	*SR*
Profit for the period attributable to the unit	**22,796,812**	42,462,455
Weighted average number	**88,000,000**	88,000,000
Basic and diluted earnings	**0.26**	0.48

18 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Investment properties, net investment in finance leases, long term loan and lease liabilities are expected to be realised after twelve (12) months from the reporting date. All other assets and liabilities are of a current nature.

19 - APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Fund's Board of Directors on 08 August 2019.