

DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)

Financial Statements and Independent Auditor's Report

**For the Period from 26 March 2018 (Listing Date) to 31
December 2018**

INDEPENDENT AUDITOR'S REPORT

**TO THE UNITHOLDERS
DERAYAH REIT FUND
MANAGED BY DERAYAH FINANCIAL COMPANY
RIYADH, KINGDOM OF SAUDI ARABIA**

Opinion

We have audited the accompanying financial statements of Derayah Reit Fund (“the Fund”), being managed by Derayah Financial Company (the “Fund Manager”), which comprise of the statement of assets and liabilities as at 31 December 2018 and the related statements of comprehensive income, changes in net assets attributable to the unitholders and cash flows for the period from 26 March 2018 to 31 December 2018 and the notes to the financial statements, comprising of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements taken as a whole, present fairly, in all material respects, the position of asset and liabilities of the Fund as at 31 December 2018 and its financial performance and cash flows for the period from 26 March 2018 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISA”) that are 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 that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other 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 AUDITORS' REPORT (CONTINUED)

**TO THE UNITHOLDERS
DERAYAH REIT FUND
MANAGED BY DERAYAH FINANCIAL COMPANY
RIYADH, KINGDOM OF SAUDI ARABIA**

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
<p>Derayah REIT Fund owns a portfolio of investment properties comprising of commercial building located in the Kingdom of Saudi Arabia.</p> <p>Investment properties, 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 manager 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 the Fund manager and the potential impact of impairment if any, 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"> - 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; - We Obtained two valuation reports from different/ independent real estate evaluators for all investment properties as at 31 December 2018 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date; - Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above-mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be higher than the carrying amount of the same except for certain properties, which had an immaterial impairment impact and thus not recorded by the Fund's management. - We reconciled the average fair value of the investment properties as per note 12 to the external valuers' reports.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

**TO THE UNITHOLDERS
DERAYAH REIT FUND
MANAGED BY DERAYAH FINANCIAL COMPANY
RIYADH, KINGDOM OF SAUDI ARABIA**

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

Funds' Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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, the Fund's 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 the management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing that are 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

**TO THE UNITHOLDERS
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RIYADH, KINGDOM OF SAUDI ARABIA**

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 audit 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 auditors' 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.

We also provide those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine the a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

For and on behalf of
Al-Bassam & Co.
Allied Accountants

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



28 February 2019
23 Jumada al Akhir 1440

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DERAYAH REIT FUND**STATEMENT OF ASSETS AND LIABILITIES**

As at 31 December 2018

(Amounts in Saudi Riyals)

	Note	31 December 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	6	21,881,009
Rental income receivable		15,273,746
Investment measured at FVPL	7	6,612,306
Prepayment and other assets	8	41,231,680
TOTAL CURRENT ASSETS		84,998,741
NON-CURRENT ASSETS		
Investment properties, net	9	1,440,504,316
Benefit contracts, net	10	46,245,165
TOTAL NON-CURRENT ASSETS		1,486,749,481
TOTAL ASSETS		1,571,748,222
LIABILITIES		
CURRENT LIABILITIES		
Deferred rental income		23,164,375
Accrued management fee	13	4,604,134
Accrued financing expenses		7,139,082
Due to related parties	13	3,132,007
Accrued expenses and other liabilities		1,957,065
TOTAL CURRENT LIABILITIES		39,996,663
NON-CURRENT LIABILITIES		
Borrowings	15	470,129,916
TOTAL NON-CURRENT LIABILITIES		470,129,916
TOTAL LIABILITIES		510,126,579
NET ASSETS VALUE		1,061,621,643
UNITS IN ISSUE (Number)		107,507,035
PER UNIT VALUE		9.87
PER UNIT FAIR VALUE	12	9.95

The accompanying notes 1 to 20 form an integral part of these financial statements.

DERAYAH REIT FUND**STATEMENT OF COMPREHENSIVE INCOME****For the period from 26 March 2018 (listing date) to 31 December 2018****(Amounts in Saudi Riyals)**

	<u>Note</u>	<u>For the period from 26 March 2018 (listing date) to 31 December 2018</u>
INCOME		
Rental income		83,923,138
Income from investment measured at FVPL	11	407,906
Income from time deposits		180,878
Total operating income		84,511,922
EXPENSES		
Management fee		(7,053,828)
Finance cost		(12,573,524)
Professional and consulting expenses		(1,298,690)
Pre operating expenses		(1,191,446)
Property management fees		(1,522,346)
Amortization of benefit contracts	10	(5,534,693)
Other expenses		(4,130,240)
Total operating expenses		(33,304,767)
Funds from operations		51,207,155
Depreciation expense on investment properties	9	(14,740,345)
Net income for the period		36,466,810
Other comprehensive income		-
Total comprehensive income for the period		36,466,810

The accompanying notes 1 to 20 form an integral part of these financial statements

DERAYAH REIT FUND**STATEMENT OF CHANGES IN NET ASSETS****For the period from 26 March 2018 (listing date) to 31 December 2018
(Amounts in Saudi Riyals)**

	Note	For the period from 26 March 2018 (listing date) to 31 December 2018
Net asset value attributable to the Unitholder at beginning of the period		-
Changes from unit transaction:		
Subscription of units – Cash		378,344,210
Subscription of units – In kind contribution		696,726,140
Asset value attributable to the Unitholder at end of the period		1,075,070,350
Dividends paid during the period	17	(49,915,517)
Total comprehensive income for the period		36,466,810
Net asset value attributable to the unitholder at end of the period		1,061,621,643

Transactions in units for the period ended are summarized as follows:

	For the period from 26 March 2018 (listing date) to 31 December 2018
Number of units at the beginning of the period	-
Subscription of units – Cash	37,834,421
Subscription of units – In kind contribution	69,672,614
Number of units at the end of the period	107,507,035

The accompanying notes 1 to 20 form an integral part of these financial statements

DERAYAH REIT FUND**STATEMENT OF CASH FLOWS****For the period from 26 March 2018 (listing date) to 31 December 2018
(Amounts in Saudi Riyals)**

	For the period from 26 March 2018 (listing date) to 31 December 2018
OPERATING ACTIVITY	
Net income for the period	36,466,810
<i>Adjustment to reconcile net income to net cash from operating activities:</i>	
Unrealized gain from investments measured at FVPL	(362,306)
Depreciation expense on Investment properties	14,740,345
Amortization of benefit contracts	5,534,693
	<u>56,379,542</u>
Changes in operating assets:	
Rental income receivable	(15,273,746)
Prepayment and other assets	(41,231,680)
Changes in operating liabilities:	
Deferred rental income	23,164,375
Accrued Management fee	4,604,134
Accrued financing expenses	7,139,082
Due to related parties	3,132,007
Accrued expenses and other liabilities	1,957,065
Net cash from operating activity	<u>39,870,779</u>
INVESTING ACTIVITY	
Purchase of investment properties	(1,309,744,662)
Purchase of benefit contracts	(41,275,164)
Purchase investment measured at FVPL	(6,250,000)
Net cash used in investing activity	<u>(1,357,269,826)</u>
FINANCING ACTIVITY	
Subscription of units	1,015,995,307
Dividends paid	(49,915,517)
Borrowings	373,200,266
Net cash from financing activity	<u>1,339,280,056</u>
Change in cash and cash equivalents during the period	21,881,009
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	<u>21,881,009</u>
Non-cash transactions	
Purchase of investment through subscription of units in REIT	145,500,000
Benefit contracts	10,504,694
Borrowings	<u>96,929,650</u>

The accompanying notes 1 to 20 form an integral part of these financial statements

DERAYAH REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

Derayah REIT Fund (the “REIT” or the “Fund”) is a closed-ended Shariah compliant real estate investment traded fund. The listing date of the Fund is 26 March 2018.

The REIT is managed by Derayah Financial Company (the “Fund Manager”), a Saudi Joint Stock Company, under commercial registration No. 1010266977 dated 04/05/1430H. A legal entity licensed to engage in dealing, custody, advisory and asset management activities and registered that is registered by CMA under the requirements of the Licensed Persons Regulations, No. 08109 - 27 dated 29/04/2009.

The REIT is listed on Tadawul and the units of the REIT shall be traded on Tadawul in accordance with its rules and regulations. The subscribed units of the REIT amounts to SAR 1,075,070,350. The REIT has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of CMA.

The Fund aims to invest in real estate assets that are capable of achieving periodic rental income within the Kingdom of Saudi Arabia and in accordance with the Fund's investment strategy and to distribute quarterly profits of at least 90% of the net profit of the Fund in accordance with the provisions of the real estate investment funds.

In accordance with the terms and conditions of the Fund, investment properties amounting to SR 145,500,000 were transferred and a contract benefits amounting to SR 10,504,694 was received. This amount includes loans amounting to SR 96,929,650 from Derayah Real Estate Income Fund to the Fund on the date of listing. The transactions mentioned in the Fund's Units were executed by the owners of Derayah Real Estate Income Units.

2. REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the “Regulations”) and REIT instructions published by CMA, detailing requirements for real estate funds and traded real estate funds 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) that are endorsed in Kingdom of Saudi Arabia.

3.2 *Basis of measurement and functional and presentation currency*

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting except for investment measured at fair value through profit and loss (“FVPL”) and are expressed in Saudi Arabian Riyals (SAR), which is REITs functional and operational currency.

3.3 *Critical accounting judgments, estimates and assumption*

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

3. BASIS OF PREPARATION (CONTINUED)

3.3 Critical accounting judgments, estimates and assumption (Continued)

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

Going Concern

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

Impairment of non-financial assets

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

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

Residual and useful lives of investment properties

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

Expected credit loss

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

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

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

DERAYAH REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

Cash and cash equivalents consist of bank balances with a local Bank. Cash and cash equivalents are carried at amortized cost within the statement of assets and liabilities

Receivables

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

Investment properties

Investment properties is a Real estate that are held for capital appreciation and/or rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund is 40 years.

Residual values and useful lives of investment property are subject to review and adjustment, as necessary, when an asset carrying exceeds its recoverable amount; it has to be written down immediately to its recoverable amount. Capital gains result from disposal, arises when selling value of an asset exceeds its carrying value, recorded in net basis in the statement of income.

Benefit contracts

Benefit contracts are recorded at cost less accumulated amortization and any impairment losses. Depreciation is calculated using the straight-line method over the year of the contract.

Impairment of non-current assets

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

Accrued expenses and other liabilities

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

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

Revenue recognition

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

Investment transactions

Investments transactions are accounted for as of the trade date.

DERAYAH REIT FUND
NOTES TO THE FINANCIAL STATEMENTS
31 December 2018
(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management fees and other expenses

Management fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the REIT. Management fees are charged and paid on a semi-annual basis.⁴

Zakat

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

Net assets value

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

Dividend distribution

The Fund's policy is to distribute and pay at least 90% of net income as annual distributions on a quarterly basis. Does not include the profit from the sale of any real estate investment and depreciation period.

Financial instruments

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IFRS 9 are compared as follows:

IFRS 9		
	Measurement category	Carrying amount
Financial assets		
Cash and cash equivalents	Amortized cost	21,881,009
Rental income receivable	Amortized cost	15,273,746
Investment measured at FVPL	Fair value	6,612,306
Due from related party	Amortized cost	41,231,680
Total financial assets		84,998,741

Rental income receivable is classified at amortised cost. An allowance for impairment over these receivables was not recognised in the financial statements as the amount was not material.

Impairment of financial assets

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

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

DERAYAH REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition

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

Financial liabilities

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

Offsetting

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

5. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

MANAGEMENT FEE, OTHER EXPENSES

On a semi-annual basis, the Fund Manager receives an administrative fee of 0.85% per annum of the net asset value of the Fund. The Fund Manager shall also recover from the Fund any other expenses incurred on behalf of the Fund such as audit fees, legal fees, directors' compensation, and other similar charges.

TRANSACTION FEE

Further, the Fund Manager charges the Fund, one-time acquisition fee at the rate of 1% on the acquisition or sale price of the real estate assets.

6. Cash and cash equivalents

	<u>31 December 2018</u>
Cash in Bank	5,881,009
Short Time Deposits	16,000,000
	<u>21,881,009</u>

7. INVESTMENT MEASURED AT FVPL

	<u>Fund manager</u>	<u>Number of units</u>	<u>Cost</u>	<u>Market Value</u>
Al Rajhi Commodity Trading Fund	Al Rajhi Capital	42,797	6,250,000	6,612,306

8. Prepayment and other assets

	<u>31 December 2018</u>
Prepaid rent	343,562
Value added tax receivables	37,710,511
Advance payments for purchasing investments	3,132,007
Accrued deposited income	45,600
	<u>41,231,680</u>

DERAYAH REIT FUND
NOTES TO THE FINANCIAL STATEMENTS
31 December 2018
(Amounts in Saudi Riyals)

9. INVESTMENT PROPERTIES

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>Cost</u>				
Balance at the beginning of the period		-	-	-
Additions during the period		684,654,418	770,590,243	1,455,244,661
Balance at the end of the period		684,654,418	770,590,243	1,455,244,661
<u>Accumulated Depreciation</u>				
Balance at the beginning of the period		-	-	-
Charge for the period	7.1	-	(14,740,345)	(14,740,345)
Balance at the end of the period		-	(14,740,345)	(14,740,345)
<u>Book Value:</u>				
as of 31 December, 2018		684,654,418	755,849,898	1,440,504,316

These investment properties represent 20 properties; namely:

- Smart Tower Tower: Office & Retail in Al-Olaya District, Riyadh.
- Jubail Views: A residential complex closed in Rawdah Al Khalidiya in Jubail.
- Warehouses: Three warehouses (administrative and service offices) in Al-Mina area in Dammam.
- City Life Plaza: A commercial property in the Monceya in Riyadh.
- Meton Towers: A hotel property located in Al- Olaya in Riyadh.
- Al-Fanar Commercial Complex: Commercial real estate in Al-Raka in Al-Khobar.
- The Grand A Residential Complex: An integrated residential property located in the Anwar of Dammam.
- Warehouses Al-Wadi: represents a warehouse and a residential building and is located in the valley district in Jeddah.
- 60th Commercial Center: Commercial-Office Property in Al-Zubat District in Riyadh.
- The Grand B Commercial Complex: An educational property located in the Anwar of Dammam.
- Residential buildings for employees: Four residential buildings located in three close areas in the north of Jubail.
- Residential Buildings for Workers (Dammam): Two residential buildings for workers located in the port area of Dammam.
- Residential building for workers (Al-Khobar): A residential building for workers in Al-Thaqbah in Al-Khobar.
- Khaljeh Business Building: A commercial and office building located in the Al Rawabi of Al Khobar.
- Global Education and Skills School: An educational building located in Al-Deraiya governorate in Riyadh.
- Rasil Medical Center: A medical center building located in Khanshilila district in Riyadh.
- Jeddah Office Tower: An administrative and office building located in the Zahra of Jeddah.
- Al-Soli Warehouses: A collection of walled warehouses located in Al-Soli in Riyadh.
- Al Khalidiya Warehouses: Two warehouses located in the northern Khalidiya district of Dammam.
- Residential buildings in Dammam: Three residential buildings in Al-Mina district in Dammam.

DERAYAH REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in Saudi Riyals)

9. INVESTMENT PROPERTIES (CONTINUED)

9-1 The Fund has the policy of charging depreciation on building over 40 years. The depreciation is charged on depreciable amount i.e. cost less residual value.

9-2 All properties are registered in the name of the company "Hefz Al Derayah Al Aqariya" ("the SPV"), except for the real estate secured by obtaining loans (see note 15). Companies retain these properties for ownership of the use of the Fund and do not own any controlling interests and do not pose any risk to the real estate.

9-3 The Fund manager on a periodic basis reviews its investment properties for impairment. An impairment loss is considered by the amount of which the carrying value exceeds the investment properties recoverable amount, which is the higher of an assets fair value less cost to sell and the value in use. In accordance with the periodic evaluation reports furnished by the Fund's independent appraisers, the impairment loss on investment properties was not recognized in the financial statements as the amount was not material.

10. Benefit contracts, net

	<u>31 December 2018</u>
<u>Cost</u>	
Balance at the beginning of the period	-
Additions during the period	51,779,858
Balance at the end of the period	<u>51,779,858</u>
<u>Accumulated Depreciation</u>	
Balance at the beginning of the period	-
Charge for the period	(5,534,693)
Balance at the end of the period	<u>(5,534,693)</u>
<u>Book Value:</u>	
as of 31 December, 2018	<u><u>46,245,165</u></u>

Benefit contracts consist of two properties:

- The Valley Mall: Shopping centre in Al Ahsa.
- The right to benefit of the City Wok Commercial Complex: Commercial complex in the Gulf in Riyadh.

11. INCOME FROM INVESTMENT MEASURED AT FVPL

	<u>31 December 2018</u>
Realized gain from investments measured at FVPL	362,306
Unrealized gain from investments measured at FVPL	45,600
Total	<u><u>407,906</u></u>

DERAYAH REIT FUND**NOTES TO THE FINANCIAL STATEMENTS****31 December 2018****(Amounts in Saudi Riyals)****12. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED**

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared are based on the market value obtained. However, in accordance with IAS 40, investment property is stated at cost less accumulated depreciation and impairment, if any, in these financial statements. Accordingly, fair value is disclosed below for the purpose of obtaining information and is not accounted for in the books of the Fund.

The fair value of real estate investments and benefit contracts is determined by valuers of each asset, namely Value Expert, Century 21 Saudi Arabia, and Tanouf (2 valuers for each property). The following is an assessment of real estate investments and benefit contracts as at 31 December 2018:

31 December 2018	First Appraiser	Second Appraiser	Average
Investment properties	1,477,673,225	1,417,555,270	1,447,614,248
Benefit contracts	48,860,021	47,367,899	48,113,960
Total	1,526,533,246	1,464,923,169	1,495,728,208

The average management used the valuations for the purpose of disclosing the fair value of investment properties and utility contracts.

The investment properties were valued taking into consideration number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the financial & fragmentation plot analysis, the income method, and residual value method. Below is an analysis of the investment properties fair value versus cost:

	31 December 2018
Estimated fair value of investment properties based on the average of the two valuers used	1,495,728,208
Less:	
The carrying value of investment property	(1,440,504,316)
Benefit contracts	(46,245,165)
Increase in estimated fair value of book value	8,978,727
Units in issue (numbers)	107,507,035
The additional share of the unit of estimated fair value	0.08

Net asset to unitholders:

	31 December 2018
Net assets attributable to unitholders as per the financial statements before fair value adjustment	1,061,621,643
Increase in estimated fair value of book value	8,978,727
Net value of assets attributable to unit holders on the basis of fair value of investment property and benefit contracts	1,070,600,370

DERAYAH REIT FUND**NOTES TO THE FINANCIAL STATEMENTS****31 December 2018****(Amounts in Saudi Riyals)****12. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)***Net asset attributable to each unit:*

	<u>31 December 2018</u>
Book value per unit as per the financial statements before fair value adjustment	9.87
The unit value is based on fair value	0.08
Net assets attributable to each unit	<u>9.95</u>

All properties are registered in the name of the company "Hefz Alderayah Alaqaruya" ("the companies"), except for the real estate secured by obtaining loans (see note 15). Companies retain these properties for ownership of the use of the Fund and do not own any controlling interests and do not pose any risk to the real estate.

13. TRANSACTIONS WITH RELATED PARTIES

Related parties to the Fund include Derayah Finance (Fund Manager) and Al Inma Investment Company (Custodian). The REIT deals in the normal course of business with related parties. Related party transactions are governed by the regulations issued by the Capital Market Authority. All transactions with related parties are approved by the Board of Directors of the Fund.

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

Related Party	Nature of transaction	Amount of transaction 31 December 2018	Balance 31 December 2018
Deraya Financial	Management fee	7,053,828	(4,604,134)
Deraya Financial	Commissions	22,046,598	(1,100,000)
Deraya Financial	Transaction fee	13,445,495	(440,000)
Deraya Financial	Financing fee	5,491,504	(1,592,006)
Inma Investment	Custodial fees	120,000	(60,000)

DERAYAH REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial instruments carried in these financial statements principally include cash and cash equivalents, rental income receivable, Investment measured at FVPL, Due from related parties, accrued management fee, accrued expenses, Due to related parties and Borrowing. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Market risk

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

Credit risk

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

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

DERAYAH REIT FUND**NOTES TO THE FINANCIAL STATEMENTS****31 December 2018****(Amounts in Saudi Riyals)****14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)*****Liquidity risk***

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

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through increase the fund size or by taking short term loans from the Fund Manager.

Maturity Profiles

	31 December 2018		
	Less than 1 year	More than one year	Total
Cash and cash equivalents	21,881,009	-	21,881,009
Rental income receivable	15,273,746	-	15,273,746
Investment measured at FVPL	6,612,306	-	6,612,306
Prepayment and other assets	41,231,680	-	41,231,680
Investment properties	-	1,440,504,316	1,440,504,316
Benefit contracts	-	46,245,165	46,245,165
TOTAL ASSETS	84,998,741	1,486,749,481	1,571,748,222
Deferred rental income	23,164,375	-	23,164,375
Accrued Management fee	4,604,134	-	4,604,134
Due to related parties	3,132,007	-	3,132,007
Accrued financing expenses	7,139,082	-	7,139,082
Accrued expenses and other liabilities	1,957,065	-	1,957,065
Borrowing	-	470,129,916	470,129,916
TOTAL LIABILITIES	39,996,663	470,129,916	510,126,579

Operational risk

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

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

DERAYAH REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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15. LOANS

The Fund received a loan of SAR 96.9 million from the Derayah Real Estate Fund, which was transferred to the Fund through a contribution in kind (see Note 1). The loan was obtained on behalf of Save the Real Estate Company, a special purpose company for Derayah Real Estate Income Fund for a period of five years, which can be extended for an additional two years, from the date of withdrawal on 13 June 2016. The (SPV) Hefz Al Derayah Al Aqariya is a company with a special purpose fund is still the party committed to the loan. The loan is guaranteed to mortgage Jubail Fuse.

The loan is subject to a variable commission at the rate of SAIBOR + 2.5%. The commission is payable over the term of the loan on an annual basis. The special commission payable for the period ended 31 December 2018 is recognized on a pro rata basis from the date on which contributions in kind are transferred to Derayah REIT and shown in liabilities.

The Fund also received a SAR 373.2 million loan from Riyadh Bank for seven years. The loan is subject to a variable commission of SAIBOR + 2%. The commission is payable over the term of the loan on a semi-annual basis. The loan is secured by real estate mortgage (Gulf Business Building, International Education and Skills School, Rasil Medical Center, Jeddah Office Tower, Al Sali Stores). The special commission for the period ended 31 December 2018 is recognized and recognized in the liability.

16. SUBSEQUENT PERIODS

On January 17, 2019, Derayah Finance Company ("Fund Manager") announced the completion of the pledge of ownership of the Smart Tower property in Riyadh for Al Rajhi Banking Investment Company ("the Bank") in order to guarantee the Islamic Sharia'a compliant credit facilities provided by the Bank to the Fund.

17. DIVIDENDS DISTRIBUTION

- On March 29, 2018, the Fund Manager approved a dividend distribution for the period ended 31 March 2018 amounting to SR 0.1023 per unit totalling SR 10,997,970 for the holders of its units.
- On 2 July 2018, the Fund Manager approved a dividend distribution for the period ended 30 June 2018 amounting to SR 0.181 per unit for a total of SR 19,458,773 for its unit holders.
- On 12 September 2018, the Fund Manager approved the distribution of dividends to shareholders for the period ended 30 September 2018 amounting to SR 0.181 per unit totalling SR 19,406,800 for the holders of its units.
- On 4 December 2018, the Fund Manager approved the distribution of dividends to shareholders for the period ended 31 December 2018 amounting to SR 0.187 per unit totalling SR 20,103,816 for the holders of its units.

In accordance with the terms and conditions of the Fund (see Note 1), the Fund aims to distribute quarterly dividends of at least 90% of the net profit of the Fund. The Fund Manager distributes profits on the basis of cash generated from operations where the cash generated from operations is calculated by adding the cost of depreciation to net profit as stated in the statement of comprehensive income for the period. During the period until 30 September 2018, the Fund Manager has distributed a profit of SAR 49 million for the period ended 30 September 2018. Accordingly, the dividend of SR 20 million as announced on 4 December 2018 will be considered as part of the dividends for 2019.

DERAYAH REIT FUND

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18. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases

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

19. LAST VALUATION DAY

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

20. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the REIT's Board on 28 February 2019 corresponding to 23 Jamada Al Thani 1440.