



# Musharaka REIT Fund Annual Report 2022

## Summary of the fund events

### Summary Of the Fundamental and Non-Fundamental Changes

- **23 January 2022:** The Fund announces its dividends of SAR 0.3 per unit for the second half of 2021.
- **13 March 2022:** The Fund announces an agreement to acquire Verdun Tower in Riyadh
- **09 June 2022:** The Fund announces the signing of a binding lease contract for Al Baraka warehouses for a period of 5 years' worth SAR 32,400,000 for the entire period.
- **17 July 2022:** : The Fund announces its dividends of SAR 0.3 per unit for the first half of 2022.
- **1 August 2022:** The Fund announces the renewal of the Fund's banking facilities with a reduction in the fixed part of the financing cost by 24%, and the reduction in coverage margin and fees for financing studies.
- **08 August 2022:** The Fund announces a non-fundamental change represented by the appointment of United Accountants Professional Consultants (RSM) as the Fund's chartered accountant. The change will reduce fees from 115,000 riyals to 75,000 riyals.
- **18 August 2022:** The Fund announces the imminent expiry of the contracts of the main tenants and the start of self-operation of the properties through operators specialized in the field of operation and management of real estate immediately after the end of the contracts with the tenants.
- **13 November 2022:** The Fund announces the signing of a forward banking facilities agreement with Bank AL Jazira with a maximum value of SAR 1,000,000,000 for a period of 7 years.
- **13 November 2022:** The Fund announces the approval of the Fund Manager to reduce the management fees by 50% on new properties that will be acquired through available banking facilities.
- **23 January 2023:** The Fund announces its dividends of SAR 0.2 per unit for the second half of 2022.



# Musharaka REIT Fund Underlying Assets



## First Ajzala Residential Complex

Location:	Al-Khobar
Land Area:	29,486.73 sq. m.
Sector:	Residential
Property Age:	19 years
*Annual Income:	SAR 10,836,808
Occupancy Rate:	80%
Number of Lease Agreements:	Multiple leases
Average Lease Term:	5 Years Unbreakable, secured by Promissory Notes
Property Manager:	Banet Operation and Maintenance Company
Average Valuation:	SAR 151,699,646

The Compound is located in the City of Al-Khobar, on King Saudi Road (Qishla), linking King Fahad Road to Dhahran City Center. It is comprised of 101 villas with all the amenities required by the residents of the Compound, including a health center and gym, recreational center, playgrounds, multi-purpose hall, nursery, swimming pool and a shopping center to cater to the needs of the residents. It is strategically located on one of the most important roads in Al-Khobar, in proximity to Al-Khobar's major shopping malls, such as Al Rashed Mall and Dhahran Mall.

\*\*Annual income is based on two periods (the first period is the previous main lease contract ending on 21/08/2022, and the second period is the self-operating period from 22/08/2022 onwards).



<b>Location:</b>	Al-Khobar
<b>Land Area:</b>	22,500 sq. m.
<b>Sector:</b>	Residential
<b>Property Age:</b>	10 years
<b>*Annual Net Income:</b>	SAR 24,874,535
<b>Occupancy Rate:</b>	80%
<b>Number of Lease Agreements:</b>	Multiple leases
<b>Average Lease Term:</b>	5 Years Unbreakable, secured by Promissory Notes
<b>Property Manager:</b>	Ryadah Al-Bunyan Company for Real Estate Development and Investment
<b>Average Valuation:</b>	SAR 346,331,729

\*Annual income is based on two periods (the first period is the previous main lease contract ending on 21/08/2022, and the second period is the self-operating period from 22/08/2022 onwards).

## Pearl Residential Complex

The Compound is located in the strategic Al-Rakah District in Al-Khobar, a few meters away from King Fahd Road, which connects the City of Dammam to Al-Khobar. It is comprised of 233 housing units of different designs and areas. The Compound is one of the newest and most efficient residential compounds, equipped with best state of the art protection systems. It provides many services, amenities, and integrated facilities, including a health spa with two separate sections for men and women, an outdoor swimming pool, and a multi-purpose hall.



<b>Location:</b>	Al-Khobar
<b>Land Area:</b>	38,121.50 sq. m.
<b>Sector:</b>	Residential
<b>Property Age:</b>	5 years
<b>*Annual Income:</b>	SAR 10,450,063
<b>Occupancy Rate:</b>	60%
<b>Number of Lease Agreements:</b>	Multiple leases
<b>Average Lease Term:</b>	One year
<b>Property Manager:</b>	Banet Operation and Maintenance Company
<b>Average Valuation:</b>	SAR 138,832,057

\*Annual income is based on two periods (the first period is the previous main lease contract ending on 31/08/2022, and the second period is the self-operating period from 1/09/2022 onwards).

## Sea Shore Residential Complex

The Compound is located in Al-Aziziyah District in Al- Khobar, in close proximity to Al-Khobar's main tourist sites, such as: Al-Khobar Corniche and King Fahd Causeway connecting Saudi Arabia to Bahrain. It is comprised of 112 fully furnished and fully equipped housing units. It includes several recreational facilities and amenities for residents, such as swimming pools, health spas and gyms for men and health spas and gyms for women, and a luxurious restaurant.



<b>Location:</b>	Al-Khobar
<b>Land Area:</b>	3,798.08 sq. m.
<b>Sector:</b>	Hospitality
<b>Property Age:</b>	6 years
<b>*Annual Income:</b>	SAR 8,099,369
<b>Occupancy Rate:</b>	80%
<b>Property's Operator:</b>	Rezidor company (Radisson Blu)
<b>Average Valuation:</b>	SAR 90,097,537

\*Annual income is based on two periods (the first period is the previous main lease contract ending on 31/08/2022, and the second period is the self-operating period from 1/09/2022 onwards).

## Radisson Blu Hotel Apartments

Radisson BLU Hotel Apartments are located in the Olaya District of Al-Khobar. The complex is comprised of four interconnected and closed buildings, with 92 hotel apartments of three different design styles and areas. They are fully equipped with all guest services, including room service, business center, reception hall and health spa and gym. The Apartments have a primary location adjacent to key major areas, such as Al-Dhahran Mall, which is a main attraction to the area, in addition to Al-Rashed Mall and King Fahad University of Petroleum and Minerals



<b>Location:</b>	Riyadh
<b>Land Area:</b>	29,955.20 sq. m.
<b>Sector:</b>	Industrial
<b>Property Age:</b>	7 years
<b>Annual Income:</b>	6,000,000
<b>Occupancy:</b>	100%
<b>Tenant:</b>	Damco Saudi Arabia company
<b>Annual Income:</b>	SAR 6,000,000
<b>Lease Term:</b>	5 Years
<b>Average Valuation:</b>	SAR 88,375,000

## Al Barakah Warehouses

The warehouses are located in the Sulay District of Riyadh. They are comprised of warehouses built to the highest standards for use as central storage warehouses. The warehouses are easily accessible from Riyadh City Center and connected to several main highways linking them to the various districts of the City of Riyadh. The warehouse has been completely renovated with the highest standards and the latest technology.





<b>Location:</b>	Riyadh
<b>Land Area:</b>	19,212.22 sq. m.
<b>Leasable Area:</b>	11,082 sq. m.
<b>Sector:</b>	Commercial
<b>Property Age:</b>	5 years
<b>Annual Net Income:</b>	SAR 12,249,864
<b>Occupancy Rate:</b>	96%
<b>Main Tenants / Lease Agreements Expiry Dates:</b>	<ul style="list-style-type: none"><li>▪ Hyper Panda – 11.05.2036</li><li>▪ Al-Baik Restaurants – 26.03.2036</li></ul>
<b>Property Manager:</b>	Unified Asset and Property Management Co.
<b>Average Valuation:</b>	SAR: 45,870,583

## Al Orouba Square Complex

The Complex is located in Riyadh at the intersection of Al-Orouba Road with Prince Turkey bin Abdulaziz Al-Awal Road in Um Al Hamam Al-Gharbi District. It is comprised of 19 outlets, including restaurants, coffee shops and supermarket.



<b>Location:</b>	Al-Kharj
<b>Land Area:</b>	16,095.97 sq. m.
<b>Leasable Area:</b>	9,404 sq. m.
<b>Sector:</b>	Commercial
<b>Property Age:</b>	8 years
<b>Annual Net Income:</b>	SAR 5,283,441
<b>Occupancy Rate based on Leasable Area:</b>	95%
<b>Main Tenants / Lease Agreements Expiry Dates:</b>	<ul style="list-style-type: none"><li>▪ Danube – 14.01.2034</li><li>▪ McDonald's – 08.05.2033</li><li>▪ Red Tag – 29.12.2023</li></ul>
<b>Property Manager:</b>	Unified Asset Property Management Co.
<b>Average Valuation:</b>	SAR 60,771,698

## Kharj Plaza Complex

The Complex is located in Al-Kharj, Granada District, King Abdul Aziz Road, near Prince Sattam bin Abdulaziz University. The Complex is regarded as one of the most vital and active locations in Al-Khobar given it's in close proximity to neighboring residential districts and Prince Sattam bin Abdulaziz University, as well as its location on a main road in the City of Al-Kharj. It is comprised of 18 outlets, including restaurants, retail outlets and a supermarket.



<b>Location:</b>	Al-Jubail
<b>Land Area:</b>	39,750 sq. m.
<b>Leasable Area:</b>	15,537 sq. m.
<b>Sector:</b>	Commercial
<b>Property Age:</b>	7 years
<b>Annual Net Income:</b>	SAR 12,249,864
<b>Occupancy Rate based on the Leasable Area:</b>	99%
<b>Main Tenants / Lease Agreements Expiry Dates:</b>	<ul style="list-style-type: none"><li>▪ Hyper Panda – 25.12.2033</li><li>▪ McDonald’s – 08.12.2033</li><li>▪ Aljazeera Bank – 09.08.2025</li><li>▪ Home Center – 14.07.2024</li></ul>
<b>Property Manager:</b>	Unified Asset Property Management Co.
<b>Average Valuation:</b>	SAR 60,913,938

## Al Jubail Plaza Commercial Complex

The Complex is located in the City of Al-Jubail in the West Al-Mazarea Area, at the intersection of King Fahd Road and King Faisal Road West. The Complex is located in the heart of the City of Al-Jubail, and in close proximity to commercial and residential districts, including Al-Waha District and other neighboring residential districts. It is comprised of 27 outlets, including restaurants, shopping outlets, commercial bank, and a supermarket.



<b>Location:</b>	Dammam
<b>Land Area:</b>	10,769.50 sq. m.
<b>Leasable Area:</b>	5,596 sq. m.
<b>Sector:</b>	Commercial
<b>Property Age:</b>	10 years
<b>Annual Net Income:</b>	SAR 6,266,832
<b>Occupancy Rate based on the Leasable Area:</b>	98%
<b>Main Tenants / Lease Agreements Expiry Dates:</b>	<ul style="list-style-type: none"><li>▪ Danube – 01.03.2034</li><li>▪ McDonalds – 09.05.2033</li></ul>
<b>Property Manager:</b>	Unified Asset Property ManagementCo.
<b>Average Valuation:</b>	SAR 19,328,061

## Al Faisaliah Plaza Commercial Complex

The Complex is located in the City of Dammam, on King Fahad Road, Al-Omara District west of Al-Faisaliah District. The location of the Complex is considered to be the gate to the City of Dammam. It is also very strategically located in close proximity to all high-density residential districts. It is comprised of 29 outlets, including restaurants, shopping outlets and a supermarket.



<b>Location:</b>	Riyadh
<b>Land Area:</b>	10,000 sq. m.
<b>Sector:</b>	Commercial
<b>Property Age:</b>	6 years
<b>Annual Net Income:</b>	SAR 6,000,000
<b>Occupancy Rate:</b>	100%
<b>Number of Lease Agreements:</b>	One Lease Agreement
<b>Lease Term as at the Acquisition Date:</b>	15 years, including 10 years unbreakable, secured by promissory notes
<b>Lease Agreement Starting Date:</b>	01.01.2020
<b>Lease Agreement Expiry Date:</b>	31.12.2029, renewable for five additional years
<b>Tenant:</b>	Saleh Abdullah Al-Bazai & Sons Company
<b>Property Manager:</b>	Saleh Abdullah Al-Bazai & Sons Company
<b>Average Valuation:</b>	SAR 75,788,739

## Al Bazai Automotive Showrooms

Al-Bazai Automotive Showrooms are located on one of the main artery roads in the east end of the City of Riyadh at West Al-Nasseem District, directly on Khurais Road. They are purpose-built showrooms based on best specifications and standards for new automotive showrooms. They are fully leased for a term of up to 15 years to Saleh Abdullah Al-Bazai & Sons Company, authorized dealer of Toyota and Lexus in the Central Region and the exclusive agent of Skoda Auto in the Kingdom of Saudi Arabia.



<b>Location:</b>	Dubai - UAE
<b>Land Area:</b>	5,378 sq. m.
<b>Sector:</b>	Industrial
<b>Property Age:</b>	Two Year
<b>Annual Net Income:</b>	DHS 4,000,000
<b>Occupancy Rate:</b>	100%
<b>Number of Lease Agreements:</b>	One Lease Agreement
<b>Lease Term:</b>	25 years unbreakable, secured by certified cheques
<b>Lease Agreement Starting Date:</b>	01.10.2020
<b>Lease Agreement Expiry Date:</b>	30.09.2045
<b>Tenant:</b>	The Box Self Storage MDMS
<b>Property Manager:</b>	The Box Self Storage MDMS
<b>Average Valuation:</b>	AED 52,650,000

## The Box Self Storage Warehouse

The Box Self Storage Warehouse is located in the Emirate of Dubai, United Arab Emirates in Jebel Ali I Zone. It is subject to the laws and regulations of the Dubai Multi Commodities Center (DMCC) – Free Zone. It oversees Sheikh Zayed Road, the most important main road in the UAE. It is one of the largest self-storage facilities in the Middle East. It is comprised of a basement, a ground floor and three identical floors and a roof annex. It is purpose built in accordance with self-storage specifications and standards. The property is fully leased for a term of up to 25 years to The Box Self Storage MDMS in Dubai, a company specialized in the self-storage sector, with over 20 branches in Dubai, and multiple branches in the UAE, Qatar and Lebanon.



<b>Location:</b>	Riyadh
<b>Land Area:</b>	3,495.35 sq. m.
<b>Sector:</b>	Hospitality
<b>Property Age:</b>	One Year
<b>Annual Net Income:</b>	SAR 7,000,000
<b>Occupancy Rate:</b>	100%
<b>Number of Lease Agreements:</b>	One Lease Agreement
<b>Lease Term:</b>	10 years unbreakable, secured by promissory notes
<b>Tenant:</b>	Masaken Alsalam for Development and Commercial Investments
<b>Average Valuation:</b>	SAR 91,663,284

## Gardino Hotel

Gardino Hotel is located in Olaya District, Takhasusi Road, Riyadh. It is comprised of 94 rooms and suites and fully equipped with all services, including gym, event halls, restaurant, swimming pools and parking spaces. The Hotel has a prime location on one of the most important arteries of the City of Riyadh. It is leased to a leading Saudi Company specialized in leasing and operating hotels, under an unbreakable ten-year lease agreement.



<b>Location:</b>	Riyadh
<b>Land Area:</b>	3,212 sq. m.
<b>Sector:</b>	Administrative-Commercial
<b>Property Age:</b>	4 years
<b>Annual Net Income:</b>	SAR 22,072,986
<b>Occupancy Rate:</b>	98%
<b>Number of Lease Agreements:</b>	Multiple Lease Agreements
<b>Average Lease Term:</b>	1 Year
<b>Tenant:</b>	Multiple Tenants
<b>Average Valuation:</b>	SAR 254,993,263

## Verdun Tower

Verdun Tower is located in the Olaya district at the intersection of King Fahd Road with Prince Mohammed bin Abdulaziz Road (formerly known as Al Tahlia). The site is located on 4 streets, including King Fahd Road with a frontage with a length of 40.08 meters, and Prince Mohammed bin Abdulaziz Road with a frontage with a length of 43.81 meters and the tower is a commercial administrative building leased to several tenants and the tower consists of two floors, basement, ground floor, mezzanine and 8 repeated floors.



**Ratio of Leased and Non-Leased Properties to Total Owned Properties:**

Property Name	Lease Status	Property Percentage Leased	Ratio to Total Owned Properties
First Ajzala Residential Complex	Leased	%80	%10.27
Sea Shore Residential Complex	Leased	%60	%9.4
Radisson BLU Hotel Apartments	Leased	%80	%6.10
Pearl Residential Complex	Leased	%82	%23.44
Al Barakah Warehouses at Sulay	Leased	%100	%5.98
Al-Bazai Automotive Showrooms	Leased	%100	%5.13
The Box Self Storage Warehouse	Leased	%100	%3.56
Kharj Plaza	Leased	%95	%4.11
Al Orouba Plaza Complex	Leased	%96	%3.10
Al Faisaliah Plaza Commercial Complex	Leased	%98	%1.31
Al Jubail Plaza Commercial Complex	Leased	%99	%4.12
Gardino Hotel	Leased	%100	%6.20
Verdun Tower	Leased	%98	%17.26



### **Types of the Fund's Underlying Real Estate Assets:**

The Fund Manager will invest in diverse sectors, including without limitation, the industrial, residential, hospitality, commercial and agricultural sectors. The Fund may engage in two types of acquisitions, namely:

- Acquiring structurally developed properties capable of generating rental and periodic income.
- Acquiring long term leaseholds.

While the Fund basically invests in structurally developed real estate properties capable of generating rental and periodic income, the Fund will not invest in white lands. The Fund may invest up to a maximum of 25% of the Fund's total asset value according to the last audited financial statements in real estate development, or to renovate or redevelop Fund owned properties. The property selection criteria shall be as follows: (a) not less than 50% of the leasable area is leased; (b) structurally developed and generates annual rental yield; (c) located in areas within major cities, excluding Mecca and Medina; (d) the property does not require improvements with a cost exceeding 15% of the total acquisition cost.

**Percentage Rents of each of the Fund's Assets for 2022G:**

Property Name	Percentage rent of each property
First Ajzala Residential Complex	9.11%
Sea Shore Residential Complex	8.88%
Radisson BLU Hotel Apartments	7.22%
Pearl Residential Complex	20.95%
Al Barakah Warehouses at Sulay	2.41%
Al-Bazai Automotive Showrooms	5.50%
The Box Self Storage Warehouse	4.08%
Gardino Hotel	6.99%
Al Kharj Plaza	3.85%
Al Orouba Plaza Complex	6.93%
Al Jubail Plaza Commercial Complex	7.12%
Al Faisaliah Plaza Commercial Complex	4.49%
Verdun Tower	12.47%

**Ratio of Uncollected Revenues and Ratio of Non-Cash Expenses:**

Description	Percentage
Ratio of Uncollected Revenues to Total Revenues	31.43%
Ratio of Non-Cash Expenses to Fund's Net Profits	386.96%

### Comparison Table Covering the Fund's Performance Record and Total Return:

Year	Fund's NAV (SAR)	Fund's NAV per Unit (SAR)	Highest NAV per Unit (SAR)	Lowest NAV per Unit (SAR)	Number of Issued Units	Dividends per Unit (SAR)	Ratio of Costs Borne by the Fund to Total Assets*
2018G (17 months)	848,631,161	9.64	10.13	9.64	88 million Units	0.98	2.17%
2019G	907,224,375	10.31	10.31	10.11		0.7	2.35%
2020G	881,700,719	10.02	10.22	10.02		0.65	2.40%
2021G	858,769,600	9.76	9.89	9.76		0.6	2.45%
2022G	816,870,039	9.28	9.61	9.28		0.5	3.36%

\* Actual Costs of the Fund:

Fund Costs = Management Fees + Operating Expenses + Financing Costs

\*\* Method of Calculation of Total Return:

Total Return = Total Revenues – Management Fees – Operating Expenses – Financing Costs

#### Fund's Total Return

Fund's Total Return	2018G (18 Months)	2019G	2020G	2021G	2022G
	101,119,458	64,529,997	61,133,301	53,585,495	45,176,212

**Ratio of Borrowed Assets to Total Asset Value:**

Description	2018	2019	2020	2021	2022
Fund Total Asset Value	1,057,665,310	1,273,887,151	1,354,139,832	1,441,771,036	1,657,160,017
Fund Total Loans	165,150,000	191,165,228	311,389,561	413,676,688	668,556,977
Ratio of Loans to Fund Total/Asset Value	15.61%	15.01%	23.00%	28.69%	40.34%
Exposure Period	6.49	5.68	5.28	4.86	4.79
Maturity Date	26.06.2025	03.09.2025	12.04.2026	08.11.2026	14.10.2027

**Service Charges, Commissions and Fees Incurred by the Fund to Third Parties in 2022G:**

Service	Service Provider	Value (SAR)
Custodian	Alinma Investment Company	100,000
Auditor	Allied Accountants Professional Services (RSM)	75,000
Listing and Trading	Saudi Stock Exchange (Tadawul)	285,592
Administering the Unitholders Register	Securities Depository Center Co. (Edaa)	400,000
Property Manager	Unified Asset and Property Management Company	899,168
	Reyadah	276,676
Property Valuers	Olat Valuation Company (OPM) Abaad Advanced Company & Associate for Real Estate Valuation (Abaad) Valuation Expert Company (ValuStrat) JLL Valuation Saudi Arabia Limited Sima and Partner valuation	434,826
Shari'a Advisor	Shariyah Review Bureau W.L.L.	33,000

**Ratio of Total Expenses to Total Assets in 2022G: 4.32%**

The Fund Manager declares that the Fund manager did not receive any special commissions in 2022G. The Fund Manager further declares that there are no circumstances where the Fund Manager has decided to waive or reduce any fees which it did not disclose.



## Board of Directors of Musharaka REIT Fund

The Fund Board oversees the Fund. It is comprised of a minimum of 3 members and a maximum of 11 members, serving for a term of not more than five years. Their membership term may be extended for a similar period. One third of the directors shall be independent, and in all events, the number of independent directors shall not be less than two directors. The term of the Fund Board starts as of the date of CMA's approval of the establishment of the Fund. The Fund Manager shall be entitled to replace directors during the term of the Fund, subject to receiving the prior approval of the CMA, and subsequently notifying the Unitholders of such change. The Fund Board shall meet at least twice a year to oversee the Fund's compliance with all regulations, approve Fund plans, review progress reports, and approve material contracts. The Fund Board shall have the responsibility of overseeing the Fund to ensure the best interest of the Unitholders.

### Fund Board Members

#### **Mr. Ibrahim bin Fahad Alassaf (Chairman of the Board)**

Mr. Alassaf has over 25 years of experience, during which he held leadership positions in finance and investment planning. He also has extensive experience in the real estate investment sector and has managed many successful investments locally and regionally. Mr. Alassaf holds an MBA (Banking and Finance) and a bachelor's in accounting from King Fahad University of Petroleum and Minerals (KFUPM). He is currently the CEO of Musharaka Capital.

#### **Dr. Jassim bin Shaheen Al Romaihi (Independent Director)**

Dr. Jassim Al Romaihi's practical and academic experience extends 30 years, in the financial, accounting and management fields, in addition to his expertise in financial and strategic planning, corporate governance and project management. Dr. Jassim Al Romaihi holds a PhD in Accounting from University of Dundee, United Kingdom, a Master Degree in Accounting from the University of Missouri, USA and a Bachelor of Science in Accounting from King Saud University. He is the Founder and former CEO of Razen Knowledge Holding. He held the position of Deputy CEO of Mezat Al-Khaleej Holding Company and is currently a freelance financial and management advisor.

#### **Mr. Ahmed Ismail (Independent Director)**

Mr. Ahmed Ismail has over 23 years of experience in the Saudi banking sector and financial companies. He held leadership positions and specialized in the credit and business development fields. He holds an MBA from the University of Hull, United Kingdom and a bachelor's in industrial management from King Fahad University of Petroleum and Minerals (KFUPM). He is currently the CEO of Remas Consulting. He previously held the position of CEO of Saudi Global Investment House for the period from 2008 to 2010 and was appointed in 2007 as Head of Corporate Financing at Saudi Hollandi Bank. He also was appointed in 1992 as Senior Credit Manager at Samba Financial Group.

## Board of Directors Meetings

### First Meeting: Board Meeting Held on 20 January 2022G:

#### Agenda of the Meeting:

- Overview of latest developments and events of Musharaka REIT Fund.
- Discuss the property managers proposals to operate the residentials compounds.
- Discuss the possibility of carrying out comprehensive reinvention for Al Barka Warehouse .
- Discuss the distributions of cash dividends to unitholders.

#### Following discussion, the Board resolved as follows:

- To approve on distributing dividends to the unitholders of Musharaka REIT fund for the period 1/07/2021 to 31/12/2021, at the rate of 0.30 riyals per unit and a total amount of SAR 26,400,000 after deducting the zakat provisions for the year of 2021.

### Second Meeting: Board Meeting Held on 29 March 2022G:

#### Agenda of the Meeting:

- DISCUSS the approval of the audited annual financial statements of Musharaka REIT Fund for the period ending on 31/12/2021.

#### Following discussion, the Board resolved as follows:

- Approval of the annual financial statements of Musharaka REIT Fund for the period from 01/01/2021 to 31/12/2021.

### Third Meeting: Board Meeting Held on 08 November 2022G:

#### Agenda of the Meeting:

- Discuss the credit facility agreement provided by Bank AL Jazira for the benefit of Musharaka REIT Fund.
- Discuss the fund manager's initiative to reduce management fees on properties acquired through banking facilities.

#### Following discussion, the Board resolved as follows:

- The members of the Board approved all documents and terms of the new facility agreement with Bank AL Jazira



**Fourth Meeting: Board Meeting Held on 27 December 2022G:**

**Agenda of the Meeting:**

- Discuss of latest developments and events of Musharaka REIT Fund (Monitoring the fund's properties operation and management and discussed signing the banking facilities agreement).
- Discuss the current situation of Al Baraka warehouses.
- Discuss the fund manager's compliance with the applicable regulations.
- Discuss external violations from the Capital Market Authority.
- Present the annual evaluation report of service providers.
- Present the annual filed complaints report.

**Following discussion, the Board resolved as follows:**

- The members of the Council approved the increases in the actual costs related to the renovation of the Al Baraka warehouses.



# Board decisions during the year of 2022

## **Decision to authorize the Fund Manager to sign the agreement to acquire the Verdun Tower signed on March 3, 2022**

- Approval of the acquisition of Verdun Tower worth SAR 235 million excluding real estate transaction tax and pursuit commission.

## **Decision to approve the signing of operational contracts for the Fund signed on 02 March 2022**

- Approval of the offer of Riyadh Al-Benyan Real Estate Development and Investment Company and appointing it as the main operator of the Pearl Residential Complex property.

## **Decision to approve Bank AlJazira financing offer signed on 13 April 2022**

- Approval of the offer of banking facilities submitted by Bank AlJazira for the benefit of the Fund.

## **Decision to approve the lease contract of Albaraka warehouses and approve the appointment of a security and safety consultant for warehouses signed on June 6, 2022**

- Approval of the lease contract of Al Baraka warehouse on Maersk according to the agreed rental values.
- Approving the renewal of security, safety and firefighting systems for Al Baraka warehouses in accordance with the requirements of the Civil Defense and the relevant concerned authorities
- Approving the business offer submitted by the World of Prevention for Safety Company to carry out security, safety and firefighting works, approving the associated costs according to what was stated in the technical report, and authorizing the fund manager to sign and carry out all necessary work.

## **Decision to approve the Signing of Operational Contracts for the Fund signed on 27 June 2022**

- Approval of the offers of Painite Company and appointing them as the main operator of the properties of Ajzala Residential Complex and Sea Shore Residential Complex.



**Decision to approve cash dividends to the unitholders of the Fund signed on 14 July 2022**

- Approval of distributing cash dividends to unitholders at the rate of 30 halalas per unit for the period from 01/01/2022 to 30/06/2022 and the total amounts distributed are 26,400,000 riyals

**Decision to approve the fees of the external auditor of Musharaka REIT Fund for the year 2022 signed on July 17, 2022**

- Approval of the appointment of the external auditor (RSM) for the year 2022 with a value of 75 thousand riyals.

**Decision to approve Passing to Approve the Board of Directors' Approval of the Interim Financial Statements (Semi-Annual) of Musharaka REIT Fund signed on 21 August 2022**

- The Board of Directors approved the interim financial statements (semi-annual) of Musharaka REIT Fund for the period from 01 January 2022 to 30 June 2022



# Musharaka REIT Fund Risk Assessment Report

**Fund's 2022 Annual Risk Assessment ReportMusharaka REIT**

**Fund**

	Risks	Probability of Occurrence	Effect On				Risk Assessment		
			Scope of Work	Time	Cost	Quality of Work	Average Effect	Effect Percent	Risk Level
1	Market Risks	40%	90%	50%	60%	80%	70%	28%	Medium
2	Liquidity Risks	50%	70%	30%	30%	70%	50%	25%	Medium
3	Distributions Fluctuation Risks	60%	40%	30%	30%	80%	45%	27%	Medium
4	Financing Default Risks	50%	60%	50%	60%	60%	58%	29%	Medium
5	Employee Risks	20%	20%	60%	50%	25%	39%	8%	Low
6	Regulatory Risks	10%	90%	30%	20%	40%	45%	5%	Low
7	Lack of Investment Opportunity Risks	40%	75%	95%	50%	50%	68%	27%	Medium
8	Tenant Creditworthiness Risk	70%	100%	60%	70%	70%	75%	53%	Medium
9	Lease Agreements Renewal Risks	85%	100%	55%	80%	90%	81%	69%	High
10	Property Valuation Risks	10%	100%	30%	60%	100%	73%	7%	Low
11	Risks of Non-Compliance with Applicable Laws	20%	50%	30%	30%	100%	53%	11%	Low
12	Real Estate Sector Investment Risks	50%	1000%	50%	40%	50%	60%	30%	Medium
13	Real Estate Development Risks	10%	100%	50%	40%	30%	55%	6%	Low
14	Uninsured Loss Risks	10%	100%	50%	90%	100%	85%	9%	Low
15	Impairment of Fund Assets Risks	25%	100%	20%	80%	30%	58%	14%	Low
16	Geographic Concentration Risks	50%	100%	20%	20%	70%	53%	26%	Medium
17	Risks of Inability of Exit Fund Investment on Good Terms	30%	100%	50%	50%	100%	75%	23%	Medium
18	Political and Economic Instability Risks	25%	100%	100%	100%	100%	100%	25%	Medium
19	Risks of Investing outside Saudi Arabia	25%	100%	50%	60%	60%	68%	17%	Low
20	Conflict of Interests Risks	10%	100%	30%	50%	100%	68%	7%	Low

■ Low risks are risk levels ranging between 0% to 20% Medium risks are risk levels ranging between 21% to 59% High risks are risk levels ranging between 59% to 100%



## Financial Statements

For the Period from

01 January 2022 to 31 December 2022 and the

Auditor's Report





# RSM

شركة آر إس إم المحاسبون المتحدون للإستشارات المهنية  
RSM Allied Accountants Professional Services Co.

**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022  
AND INDEPENDENT AUDITOR'S REPORT**

**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)

**Financial statements for the year ended 31 December 2022 and independent auditor's report**

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## INDEPENDENT AUDITOR'S REPORT

### To the Unitholders Musharaka REIT Fund

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Musharaka REIT Fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2022, and the statements of profit or loss and other comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that are endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. 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 there on, and we do not provide a separate opinion on these matters.

*Independent auditor's report to the unitholders of Musharaka REIT Fund (continued)*

Impairment of investment properties	
Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2022, the carrying value of the Fund's investment properties amounted to SR 1.3 billion.</p> <p>At the end of each reporting period, the Fund Manager assesses whether there is any indication that investment properties may be impaired.</p> <p>As part of the assessment of impairment on its investment properties, the Fund uses valuations carried out by third party valuers to ascertain the fair value of these properties.</p> <p>We considered this as a key audit matter as the assessment for impairment involves significant judgement that could have a material impact on the financial statements of the Fund."</p> <p>Refer to Note 2.15 of the financial statements on the accounting policy for impairment of non-financial assets and Note 10 for the disclosures on investment properties.</p>	<p>We have performed the following as part of our audit:</p> <ul style="list-style-type: none"> <li>• Reviewed management assessment for the existence of impairment indicators on investment properties;</li> <li>• Assessed the independence, professional qualifications, competence and experience of the Fund's independent valuers engaged;</li> <li>• Met with the Fund's independent valuers to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by them to support their assumptions;</li> <li>• Agreed the specific details (area, location etc.) of the investment properties as per the valuation reports with the Fund records and title deeds of the investment properties;</li> <li>• Compared the recoverable amount of the investment properties as per the Valuation Report to their carrying values to determine whether the recognition of any impairment loss is required; and</li> <li>• Assessed the appropriateness and adequacy of the accounting treatment and policies used and disclosures made in the Fund's financial statements including disclosure of key assumptions and judgments</li> </ul>

**Other matter**

The financial statements of the Fund for the year ended 31 December 2021 were audited by another auditor who expressed unmodified opinion on those financial statements dated 29 March 2022.

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

Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the Fund terms and conditions, and for such internal control as Fund manager determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Funds'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 Fund manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance i.e. Board of Directors, are responsible for overseeing the Fund's financial reporting process.

***Independent auditor's report to the unitholders of Musharaka REIT Fund (continued)*****Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of Fund manager'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 Funds's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**RSM Allied Accountants Professional Services**

**Mohammed Bin Farhan Bin Nader**  
License No. 435

Al-Khobar, Saudi Arabia  
30 March 2023 (corresponding to 8th Ramadan, 1444H)



**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**Statement of profit or loss and other comprehensive income**

(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2022	2021
Rental revenue	4	100,616,509	88,784,030
Finance income	7	11,596,685	11,911,540
<b>Total income</b>		<b>112,213,194</b>	<b>100,695,570</b>
Depreciation	10	(28,689,703)	(23,529,595)
Fund management fee	5	(15,780,449)	(16,629,524)
Other operating expenses	6	(13,668,354)	(7,818,848)
Impairment loss on investment properties	10	(8,439,546)	(4,704,234)
Allowance for expected credit losses	12	(5,050,770)	116,394
<b>Total expenses</b>		<b>(71,628,822)</b>	<b>(52,565,807)</b>
<b>Total income from operations</b>		<b>40,584,372</b>	<b>48,129,763</b>
Unrealised gain at investments in fair value through profit or loss	14	30,000	63,100
Finance costs	8	(32,282,156)	(17,184,509)
Finance income on short-term murabha deposit	15	288,750	
Other income	17	320,000	820,000
<b>Profit before zakat</b>		<b>8,940,966</b>	<b>31,828,354</b>
Zakat	9	1,959,473	(1,959,473)
<b>Profit for the year</b>		<b>10,900,439</b>	<b>29,868,881</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>10,900,439</b>	<b>29,868,881</b>
<b>Weighted average number of units outstanding</b>		<b>88,000,000</b>	<b>88,000,000</b>
<b>Basic and diluted earnings per unit</b>		<b>0.12</b>	<b>0.34</b>

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

**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)

**Statement of financial position**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December	
		2022	2021
<b>Assets</b>			
Investment properties	10	1,334,991,726	1,108,922,475
Net investment in finance leases	11	219,945,398	230,425,626
Lease rental receivables	12	26,705,723	35,516,432
Prepayments and other assets	13	3,718,823	3,489,350
Investments carried at fair value through profit or loss	14	5,312,150	5,282,150
Short-term murabaha deposit	15	35,000,000	-
Cash at banks		31,486,197	58,135,003
<b>Total assets</b>		<b>1,657,160,017</b>	<b>1,441,771,036</b>
<b>Liabilities</b>			
Borrowings	16	657,438,425	405,265,264
Lease liabilities	17	139,419,106	142,220,187
Unearned rental revenue	18	15,595,152	17,855,057
Accrued expenses and other liabilities	19	20,370,576	5,836,612
Accrued fund management fee	20	7,466,719	9,864,843
Zakat provision	9	-	1,959,473
<b>Total liabilities</b>		<b>840,289,978</b>	<b>583,001,436</b>
<b>Net assets attributable to unit holders</b>		<b>816,870,039</b>	<b>858,769,600</b>
Units in issue		<b>88,000,000</b>	<b>88,000,000</b>
Per unit value (Saudi Riyals)		<b>9.28</b>	<b>9.76</b>

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

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**Statement of changes in net assets attributable to unitholders**

(All amounts in Saudi Riyals unless otherwise stated)

	<b>For the year ended 31 December</b>	
	<b>2022</b>	<b>2021</b>
<b>Net assets attributable to unitholders at 1 January</b>	<b>858,769,600</b>	<b>881,700,719</b>
<b>Change from operations</b>		
Total comprehensive income for the year	<b>10,900,439</b>	29,868,881
Dividends (Note 23)	<b>(52,800,000)</b>	(52,800,000)
	<b>(41,899,561)</b>	(22,931,119)
<b>Net assets attributable to unitholders at 31 December</b>	<b>816,870,039</b>	<b>858,769,600</b>

The accompanying notes form are an integral part of these financial statements.

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**Statement of cash flows**

(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2022	2021
<b>Cash flow from operating activities</b>			
<b>Profit for the year</b>		<b>8,940,966</b>	<b>31,828,354</b>
<b>Adjustment for:</b>			
Depreciation and amortization	10	28,689,703	23,529,595
Impairment loss on investment properties	10	8,439,546	4,704,234
Allowance for expected credit losses	12	5,050,770	(116,394)
Unrealised gain on investments carried at fair value through profit or loss	14	(318,750)	(63,100)
Finance costs	8	32,282,156	17,184,509
Finance income	7	(11,596,685)	(11,911,540)
Rent concession on lease liabilities	17	(320,000)	(820,000)
<b>Changes in operating assets and liabilities:</b>			
Decrease (increase) in lease rental receivables		8,810,709	(24,516,382)
(Increase) decrease in prepayments and other assets		(229,473)	355,825
Increase in unearned rental revenue		2,259,905	10,586,520
Increase in accrued fund management fee	20	2,398,124	1,063,800
Decrease in accrued expenses and other liabilities	19	(14,533,964)	(1,140,617)
<b>Cash generated from operations</b>		<b>69,873,007</b>	<b>50,684,804</b>
Finance cost paid	17	(13,866,828)	(9,666,340)
<b>Net cash inflow from operating activities</b>		<b>56,006,179</b>	<b>41,018,464</b>
<b>Cash flow from investing activities</b>			
Additions to investment properties	10	(260,291,493)	(95,926,251)
Finance income received	11	22,076,913	28,745,912
Placement of short-term murabaha deposit	15	(35,000,000)	-
<b>Net cash outflow from investing activities</b>		<b>(273,214,580)</b>	<b>(67,180,339)</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings	16	254,879,595	101,627,757
Repayment of lease liabilities	17	(11,520,000)	(10,170,000)
Dividends paid	23	(52,800,000)	(52,329,920)
<b>Net cash inflow from financing activities</b>		<b>190,559,595</b>	<b>39,127,837</b>
<b>Net change in cash at banks</b>		<b>(26,648,806)</b>	<b>12,965,962</b>
Cash at banks at beginning of year		58,135,003	45,169,041
<b>Cash at banks at end of year</b>		<b>31,486,197</b>	<b>58,135,003</b>
<b>Non-cash financing activity</b>			
Amortization of loan arrangement fee	8	2,633,765	1,977,359
Additions to right-of-use assets and lease liabilities	10, 17	2,907,007	-

The accompanying notes form an integral part of this financial information.

## **MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

### **Notes to the financial statements for the year ended 31 December 2022**

(All amounts in Saudi Riyals unless otherwise stated)

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#### **1 GENERAL INFORMATION**

Musharaka REIT Fund (the “Fund”) is a closed-ended Shari’ah-compliant real estate investment traded 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 the board of the Capital Market Authority (“CMA”).

The Fund is listed and traded in the Saudi Stock Exchange (“Tadawul” or “Saudi exchange”) and is managed by Musharaka Capital Company (the “Fund Manager”).

The registered address of the Fund Manager is P.O.Box 712, Al Khobar 31952, Kingdom of Saudi Arabia.

The offering of the units of the Fund has been approved by the CMA on 23 Ramadan 1438 H (corresponding to 17 July 2017) and started its operations on 25 Dhul Qadah 1438H (corresponding to 17 August 2017). The Fund's term is 99 years and is extendable for additional two years at the discretion of the Fund Manager after obtaining CMA approval.

During 2021, the Fund’s board of directors and Capital Market Authority (“CMA”) issued approval for a change in the terms and conditions of the Fund converting the Fund into a closed-ended Traded Real Estate Investment Fund that takes the form of a special purpose entity.

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.

#### **2 BASIS OF PREPARATION SIGNIFICANT ACCOUNTING POLICIES**

##### **2.1 Basis of preparation**

These financial statements of fund have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) that are endorsed in the Fund the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

##### **2.2 Historical cost convention**

The financial statement have been prepared on a historical cost basis except for investments carried at fair value through profit or loss (“FVTPL”).

##### **2.3 Functional and presentation currency**

Items included in the financial statement of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Saudi Arabian Riyals (“Saudi Riyals”) which is the Fund’s functional currency.



## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### Notes to the financial statements for the year ended 31 December 2022 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

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## 2 BASIS OF PREPARATION SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 New and amended Standards adopted by the Company

The Fund has applied the following standards and amendments for the first time for its reporting period commencing on or after 1 January 2022:

- Interest Rate Benchmark Reform phase 2 - amendments to IFRS 9 'Financial instruments', IAS 39 'Financial instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases', address the financial reporting impacts due to the interest rate benchmark reform, including the replacement of an IBOR benchmark rate with an alternative benchmark rate. Phase 2 is effective for financial reporting periods beginning on or after January 1, 2021;
- Covid-19-Related Rent Concessions - amendment to IFRS 16 'Leases', which extends the practical relief provided to lessees from performing lease modification accounting on a COVID-19-related rent concession when certain criteria are met. The amendment is applicable for lease payments due on or before 30 June 2021, and
- Lessor forgiveness of lease payment (IFRS 9 and IFRS 16)

No material impact was identified upon adoption of the new and amended standards.

### 2.5 Standards issued but not yet effective

Certain new accounting standards, amendments and interpretations have been published that are mandatory for 31 December 2023 reporting periods and have not been early adopted by the Fund. The management is in process of assessing the impact of new standards and interpretation on its financial statements.

### 2.6 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.

### 2.7 Earnings per unit

Earnings per unit ("EPU") is calculated by dividing the total comprehensive income attributable to unit holders of the Fund by the weighted average number of units outstanding during the year.

### 2.8 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.

An investment property is derecognized on sale or disposal when permanently withdrawn or when transferred to inventory properties. Any gain or loss arising from de-recognition of the property is recognized in the profit or loss immediately.

Investment properties also include properties under construction for future use as investment properties. These are carried at fair value, or at cost where fair value cannot be reliably determined and the construction is incomplete.

**2 BASIS OF PREPARATION SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.9 Leases**

At the inception of the contract, the Fund assesses whether a contract is or contains a lease. The Fund recognises a Right of Use ("RoU") asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Fund recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Lease liabilities**

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Fund, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the RoU asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Fund:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

**Right-of-use (RoU) assets**

The RoU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

RoU assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the RoU asset reflects that the Company expects to exercise a purchase option, the related RoU asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The RoU assets are presented as a separate line in the statement of financial position.

The Fund determines whether a RoU asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the RoU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the profit or loss.

**Net investment in finance lease**

Net investment in finance lease includes gross investment in finance lease and related unearned income (if any).

Gross investments in finance lease include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### Notes to the financial statements for the year ended 31 December 2022 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

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## 2 BASIS OF PREPARATION SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date.

### 2.11 Borrowings

Borrowings are initially recognised at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, long-term borrowings are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the underlying contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or financial costs.

Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

### 2.12 Net assets value per unit

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

### 2.13 Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Fund. Unpaid dividends to the unit holders are recognized as a liability in the financial statements in the period in which the dividends are declared by the Fund's Board.

### 2.14 Financial instruments

#### 2.14.1 Financial assets

##### (i) Classification

#### 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 lease receivables, investment in finance lease and cash and cash equivalents.

The Fund classifies its financial assets as measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

## MUSHARAKA REIT FUND

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### Notes to the financial statements for the year ended 31 December 2022 (continued)

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## 2 BASIS OF PREPARATION SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.14 Financial instruments (continued)

#### 2.14.1 Financial assets (continued)

##### (i) Classification (continued)

#### Financial assets at fair value through profit or loss

Financial assets are classified as investments at fair value through profit or loss if they are acquired for the purpose of selling or repurchasing them in the near term. The Fund designated its holding in a local quoted securities portfolio as financial assets at fair value through profit or loss. Such investments are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of profit or loss.

##### (ii) Recognition and derecognition

At initial recognition, the Fund measure financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transactions cost of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Fund derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

##### (iii) Measurement

Subsequent measurement of financial assets depends on the Fund's business model for managing the assets and the cash flow characteristics of the assets. Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest are measured at amortised cost. A gain or loss on a financial instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is calculated using the effective interest rate method.

Currently, the Fund does not hold any equity instruments, therefore the related accounting policies are not presented.

#### 2.14.2 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit or loss.

#### 2.14.3 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

## MUSHARAKA REIT FUND

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### Notes to the financial statements for the year ended 31 December 2022 (continued)

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## 2 BASIS OF PREPARATION SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.15 Impairment of financial and non-financial assets

#### 2.15.1 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that a non-financial 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 cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Fund's of assets. Where the carrying amount of an asset 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 pre-tax 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 to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairment losses from continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

#### 2.15.2 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. Collateralized debts are assessed by management for Expected Credit Loss (ECL) on an individual basis, whereby the debt is assessed in conjunction with underlying collateralization upon which ECL is calculated.

### 2.16 Financial income and cost

Financial income is measured using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset.

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

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of this 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 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 years.

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

## **MUSHARAKA REIT FUND**

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### **Notes to the financial statements for the year ended 31 December 2022 (continued)**

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#### **3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)**

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

##### **Valuation of investment properties**

The Fund hires the services of third parties 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. The key assumptions used to determine fair values of investment properties are disclosed in Note 8.

##### **Useful lives of investment properties**

The Fund Manager determines the estimated useful lives of its investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the property or physical wear and tear. The Fund 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 such assets.

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

The Fund uses a provision matrix to calculate Expected Credit Losses ("ECLs") for lease receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type, and coverage by guarantees and other forms of credit insurance).

The provision matrix is initially based on the Fund's historically observed default rates. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. At every reporting date, the historically observed default rates are updated and changes in the forward looking estimates are analysed.

The assessment of the correlation between historically observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the lease receivables is disclosed in Note 12.

#### **4 RENTAL REVENUE**

During the year ended 31 December 2022, the Fund has earned revenue of Saudi Riyals 112.2 million (2021: Saudi Riyals 100.7 million) from rentals of investment properties, that is recorded on an accrual basis in accordance with the terms of the corresponding contracts. Revenue also includes, rental revenue amounting to Saudi Riyals 8.5 million (2021: Saudi Riyals 13.4 million) earned through related party, (also see Note 20).

**MUSHARAKA REIT FUND**  
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Notes to the financial statements for the year ended 31 December 2022 (continued)  
(All amounts in Saudi Riyals unless otherwise stated)

**5 FUND MANAGEMENT FEE**

The Fund is managed and administered by the Fund Manager. For these services, the Fund calculates the management fee, as set out in the Fund's terms and conditions, at an annual rate of 1.2% of the Fund's total assets after deducting accrued fee and expenses. For the year ended 2022 management fee amounted to Saudi Riyals 15.7 million (2021: Saudi Riyals 16.6 million).

**6 OTHER OPERATING EXPENSES**

		2022	2021
	<b>Note</b>		
Properties maintenance expenses	6.1	7,624,784	1,270,142
Manpower expenses	6.1	2,442,183	-
Fees and subscriptions		901,091	2,533,932
Property management fee		899,168	1,237,571
Valuation fee		434,826	268,130
Board of director's fee		30,000	30,000
Others		1,336,302	2,479,073
		<b>13,668,354</b>	<b>7,818,848</b>

6.1 This represent the expenses incurred on residential properties, commercial properties and hotel apartments i.e. maintenance, utilities, and other miscellaneous operating expenses, such properties are managed by the Fund, which were previously leased and managed by third parties.

**7 FINANCE INCOME**

	2022	2021
Finance income on investment in finance leases (Note 11)	11,596,685	11,911,540

**8 FINANCE COST**

		2022	2021
	<b>Note</b>		
Finance cost on borrowings (Note 16)		23,516,480	8,950,014
Finance cost on lease liabilities (Note 17)		6,131,911	6,371,246
Amortization of loan arrangement fee	8.1	2,633,765	1,863,249
		<b>32,282,156</b>	<b>17,184,509</b>

8.1 Loan arrangement fee constitutes administrative and consultancy fee on the unavailed loan facility arrange by the Fund. Such arrangement fee for the loan is amortized over the loan term once the loan facilities are withdrawn.

**9 ZAKAT PROVISION**

During 2021, zakat provision amounting to Saudi Riyals 1.96 million was recognized in the books of accounts by the Fund manager, and the registration process with the ZATCA was initiated. However, based on the ZATCA resolution no 29791 (the "Resolution") issued in 2022, such provision was reversed. The Resolution stated that investment funds are not required to pay any zakat and are only required to be registered with the ZATCA. The Resolution further explained that the unitholders are responsible to pay the zakat in lieu of their investments in funds without any liability on part of the funds.

**MUSHARAKA REIT FUND**  
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Notes to the financial statements for the year ended 31 December 2022 (continued)  
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**10 INVESTMENT PROPERTIES**

		2022	2021
Owned investment properties	Note 10.1	1,247,386,713	1,016,931,494
Right of use assets	10.2	87,605,013	91,990,981
		<b>1,334,991,726</b>	<b>1,108,922,475</b>

**10.1 Owned investment properties**

	Land	Buildings	Furniture and fixtures	Leasehold improvements	Total
<b>2022</b>					
<b>Cost</b>					
At 1 January	563,786,444	473,270,581	66,561,648	-	1,103,618,673
Additions during the year	76,135,145	177,371,107	-	6,785,241	260,291,493
<b>At 31 December</b>	<b>639,921,589</b>	<b>650,641,688</b>	<b>66,561,648</b>	<b>6,785,241</b>	<b>1,363,910,166</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January	11,786,649	51,501,002	23,399,528	-	86,687,179
Charge for the period		14,744,209	6,652,519		21,396,728
Impairment charge for the year	7,692,167	747,379	-	-	8,439,546
<b>At 31 December</b>	<b>19,478,816</b>	<b>66,992,590</b>	<b>30,052,047</b>	<b>-</b>	<b>116,523,453</b>
<b>Net book value at 31 December</b>	<b>620,442,773</b>	<b>583,649,098</b>	<b>36,509,601</b>	<b>6,785,241</b>	<b>1,247,386,713</b>

	Land	Buildings	Furniture and fixtures	Leasehold improvements	Total
<b>2021</b>					
<b>Cost</b>					
At 1 January	529,376,947	424,184,388	52,678,780	-	1,006,240,115
Additions during the year	34,409,497	49,086,193	13,882,868	-	97,378,558
<b>At 31 December</b>	<b>563,786,444</b>	<b>473,270,581</b>	<b>66,561,648</b>	<b>-</b>	<b>1,103,618,673</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January	7,082,415	40,660,071	17,750,589	-	65,493,075
Charge for the year	-	10,840,931	5,648,939	-	16,489,870
Impairment charge for the year	4,704,234	-	-	-	4,704,234
<b>At 31 December</b>	<b>11,786,649</b>	<b>51,501,002</b>	<b>23,399,528</b>	<b>-</b>	<b>86,687,179</b>
<b>Net book value at 31 December</b>	<b>551,999,795</b>	<b>421,769,579</b>	<b>43,162,120</b>	<b>-</b>	<b>1,016,931,494</b>



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### Notes to the financial statements for the year ended 31 December 2022 (continued)

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#### 10 INVESTMENT PROPERTIES (continued)

##### 10.1 Owned investment properties (continued)

Owned investment properties comprise the Fund's investments in various residential compounds, warehousing facilities, showrooms, retail, hotels, hotel apartments, commercial and administrative buildings located within the Kingdom of Saudi Arabia except for one warehouse in the United Arab Emirates ("UAE").

Investment properties as of 31 December 2022 with a net book value of Saudi Riyals 1,145.56 million (31 December 2021: Saudi Riyals 799.54 million) are pledged as security against borrowings obtained from Bank Al Rajhi (also see Note 16).

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 carried out by two independent evaluators.

Additions during 2022 represent the acquisition of Verdun Tower in Riyadh, by the Fund with a total investment of Saudi Riyals 253.5 million (Saudi Riyals 76.1 million related to land and Saudi Riyals 177.3 million related to Building), including acquisition costs.

The fair values of the properties are based on valuations performed by the following independent valuers accredited by the Saudi Authority for Accredited Valuers:

- Olaat Valuation Company;
- Abaad Real Estate Valuation;
- ValuStrat consulting;
- Sima and partner property valuation; and
- JLL Valuation

As at 31 December 2022, the average valuation of the above investment properties amounted to Saudi Riyals 1,351.20 million (31 December 2021: Saudi Riyals 1,063.56 million). Key assumptions used for the valuation of investment properties include discount rate at 8% to 11% (31 December 2021: 8% to 10%) and income Cap rate ranging from 7.5% to 8.5% (31 December 2021: 8% to 10%). Based on the valuation as of 31 December 2022, the Fund has recognized an impairment loss amounting to Saudi Riyals 8.4 million (31 December 2021: 4.7 million) on such properties.

##### Fair value hierarchy

The fair value of investment properties is classified in the level - 2 of fair value hierarchy, as the valuation is carried out with reference to the observable market data, among other factors.

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

**MUSHARAKA REIT FUND**

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**Notes to the financial statements for the year ended 31 December 2022 (continued)**

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**10 INVESTMENT PROPERTIES (continued)****10.2 Right of use assets**

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<b><u>2022</u></b>			
<b>Cost</b>			
At 1 January	58,403,266	58,430,976	116,834,242
Additions during the year	2,907,007	-	2,907,007
At 31 December	<b>61,310,273</b>	<b>58,430,976</b>	<b>119,741,249</b>
<b>Accumulated depreciation</b>			
At 1 January	12,709,490	12,133,771	24,843,261
Charge for the year	3,755,555	3,537,420	7,292,975
At 31 December	<b>16,465,045</b>	<b>15,671,191</b>	<b>32,136,236</b>
<b>Net book value at 31 December</b>	<b>44,845,228</b>	<b>42,759,785</b>	<b>87,605,013</b>
<b><u>2021</u></b>			
<b>Cost</b>			
At 1 January and 31 December	58,403,266	58,430,976	116,834,242
<b>Accumulated depreciation</b>			
At 1 January	9,206,934	8,596,602	17,803,536
Charge for the year	3,502,556	3,537,169	7,039,725
At 31 December	<b>12,709,490</b>	<b>12,133,771</b>	<b>24,843,261</b>
<b>Net book value at 31 December</b>	<b>45,693,776</b>	<b>46,297,205</b>	<b>91,990,981</b>

The Fund has acquired right of use ("ROU") for certain commercial properties, i.e. land and building for a 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 Abaad Real Estate Valuation (31 December 2021: Olaat Valuation Company and Abaad Real Estate Valuation,) all are independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 31 December 2022, the average valuation of the buildings amounted to Saudi Riyals 62.3 million (31 December 2021: Saudi Riyals 66.5 million) calculated by allocating the overall average valuation of the acquired right-of-use for buildings amounting to Saudi Riyals 126.1 million (31 December 2021: Saudi Riyals 134.4 million) to the remaining area after the derecognition of the portion of buildings that was derecognised on finance lease arrangements. Key assumptions used for the valuation of the ROU include discount rate ranging from 9.5% to 12% (31 December 2021: 7.5% to 12%).

**Fair value hierarchy**

The fair value of investment properties is classified in the level-2 of fair value hierarchy.

Any significant changes 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.

**MUSHARAKA REIT FUND**

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**Notes to the financial statements for the year ended 31 December 2022 (continued)**

(All amounts in Saudi Riyals unless otherwise stated)

**11 NET INVESTMENT IN FINANCE LEASES**

Net investment in finance leases consists of:

	2022	2021
Gross investment in finance leases	334,727,768	356,804,687
Less: Unearned finance income	(114,782,370)	(126,379,061)
	<u>219,945,398</u>	<u>230,425,626</u>

The maturity analysis of investment in finance leases as at 31 December 2022 is as follows:

	Less than one year	Two to five years	More than five years	Total
Gross lease receivables	20,822,533	101,396,000	212,509,235	334,727,768
Finance income	(11,048,135)	(43,473,230)	(60,261,005)	(114,782,370)
	<u>9,774,398</u>	<u>57,922,770</u>	<u>152,248,230</u>	<u>219,945,398</u>

The maturity analysis of investment in finance lease as at 31 December 2021 is as follows:

	Less than one year	Two to five years	More than five years	Total
Gross lease receivables	22,753,525	86,525,469	247,525,693	356,804,687
Finance income	(9,674,608)	(41,980,469)	(74,723,984)	(126,379,061)
	<u>13,078,917</u>	<u>44,545,000</u>	<u>172,801,709</u>	<u>230,425,626</u>

Net investment in finance lease does not include any receivable balances which are either past due or impaired.

**12 LEASE RENTAL RECEIVABLES**

		2022	2021
Lease receivables:	Note		
- Billed		35,273,665	40,621,109
- Unbilled		3,757,566	3,004,909
<b>Total receivables</b>	12.1	<u>39,031,231</u>	43,626,018
Less: allowance for expected credit losses	12.2	<u>(12,325,508)</u>	(8,109,586)
		<u>26,705,723</u>	<u>35,516,432</u>

**12.1 An aged analysis of lease receivables as at 31 December 2022 and 31 December 2021 is as follows:**

	Neither past due nor impaired	< 180 days	181-270 days	270-365 days	> 365 days	Total
At 31 December 2022	3,757,566	12,700,930	2,526,684	12,958,236	7,087,815	39,031,231
At 31 December 2021	3,004,909	25,907,518	1,784,617	6,301,667	6,627,307	43,626,018

**MUSHARAKA REIT FUND**  
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Notes to the financial statements for the year ended 31 December 2022 (continued)  
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**12 LEASE RENTAL RECEIVABLES (continued)**

12.2 Movement in allowance for expected credit losses is as follows:

	2022	2021
At the beginning of the year	8,109,586	8,888,208
Provision charged during the year	5,050,770	(116,394)
Written - off during the year	(834,848)	(662,228)
At the end of year	<u>12,325,508</u>	<u>8,109,586</u>

Lease rental receivables include certain amounts that are past due but not impaired. Based on historical experience, it is expected that all receivables for lease contracts that have not been fully impaired will be collected. Further, the Fund also has other guarantees in the form of promissory notes issued for such parties.

**13 PREPAYMENTS AND OTHER ASSETS**

	Note	2022	2021
Deferred loan arrangement fee	13.1	-	3,489,350
Prepaid expenses and other assets		2,985,559	-
Value added tax (VAT) receivable		733,264	-
		<u>3,718,823</u>	<u>3,489,350</u>

13.1 Deferred loan arrangement fee constitutes administrative and consultancy fee on the unavailed loan facility.

**14 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS**

During 2020, the Fund made an investment in Musharaka Murabahat and Sukuk Fund which is an open-ended investment fund, managed by Musharaka Capital Company. The Fund recognised this investment at fair value through profit or loss ("FVTPL").

**15 SHORT TERM MURABAHA DEPOSIT**

Short-term Murabaha deposit represent amounts invested by the Fund in Murabaha deposits held with a local financial institution, and have an original maturity of more than 3 months from the placement date with a profit rates 4.5% (31 December 2021: Nil) per annum. As at year end, accrued finance income on such deposit amounted to Saudi Riyals 0.3 million (31 December 2021: Nil).

**16 BORROWINGS**

	2022	2021
Long-term loan	668,556,977	413,676,688
Less: transaction costs	(11,118,552)	(8,411,424)
	<u>657,438,425</u>	<u>405,265,264</u>

**MUSHARAKA REIT FUND**

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**Notes to the financial statements for the year ended 31 December 2022 (continued)**

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**16 BORROWINGS (continued)**

During 2018, the Fund entered into a Sharia compliant borrowing arrangement facility, with a local commercial bank in the form of long-term loans with a total facility limit of Saudi Riyals 400 million to finance the acquisition of income generating assets. Further, during 2021, the Fund has increased its credit facility limit from Saudi Riyals 400 million to Saudi Riyals 1 billion. These facilities carry interest at SIBOR (6 months) plus margin, which is commensurate with the market rate, and 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 Fund has withdrawn Saudi Riyals 668.55 million till 31 December 2022 (31 December 2021: Saudi Riyals 413.67 million) for the purpose of acquiring investment properties. The loan is secured by a mortgage on certain investment properties (see Note 10).

**17 LEASE LIABILITIES**

	2022	2021
Gross lease liabilities	183,026,283	191,716,280
Less: finance charges not yet due	(43,607,177)	(49,496,093)
	<u>139,419,106</u>	<u>142,220,187</u>
	2022	2021
At 1 January	142,220,187	146,838,941
Addition	2,907,007	-
Finance cost for the year	6,131,912	6,371,246
Rent concession	(320,000)	(820,000)
Payments	(11,520,000)	(10,170,000)
<b>At 31 December</b>	<u>139,419,106</u>	<u>142,220,187</u>

Lease liabilities represents present value of minimum lease payments for land lease. During the year ended 31 December 2022, the Fund received concession on one of the land parcels carried under lease arrangements for an amount of Saudi Riyals 320,000 (2021: Saudi Riyals 820,000) and has been recognised as other income.

The maturity analysis of lease liabilities as at 31 December 2022 is as follows:

	Less than one year	Two to five years	More than five years	Total
Principal amount of lease liabilities	14,986,735	52,888,000	115,151,548	183,026,283
Finance cost not yet due	(6,334,077)	(19,949,074)	(17,324,026)	(43,607,177)
	<u>8,652,658</u>	<u>32,938,926</u>	<u>97,827,522</u>	<u>139,419,106</u>

The maturity analysis of lease liabilities as at 31 December 2021 is as follows:

	Less than one year	Two to five years	More than five years	Total
Principal amount of lease liabilities	19,210,000	51,106,000	121,400,280	191,716,280
Finance cost not yet due	(4,819,816)	(21,847,940)	(22,828,337)	(49,496,093)
	<u>14,390,184</u>	<u>29,258,060</u>	<u>98,571,943</u>	<u>142,220,187</u>

**MUSHARAKA REIT FUND**

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**Notes to the financial statements for the year ended 31 December 2022 (continued)**

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**18 UNEARNED RENTAL REVENUE**

This represent rental income received in advance and receivable in respect of operating leases of investment properties.

**19 ACCRUED EXPENSES AND OTHER LIABILITIES**

	2022	2021
Accrued finance costs	11,169,956	2,231,893
Property operating expenses	4,694,914	-
Security deposits	3,253,136	1,114,347
Accrued expenses	432,469	2,086,728
Other	820,101	403,644
	<u>20,370,576</u>	<u>5,836,612</u>

**20 RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties represent the Fund Manager, Al-Inma Investment Company (Custodian), the unitholders, the Fund's Board and the Fund Sharia Committee.

The following table represents details of transactions that have been entered into with the related parties:

## a) Related parties transactions

Related party	Nature of transaction with related party	2022	2021
Fund Manager	Management fees	15,780,449	16,629,524
	Commission on purchase of investment property	2,350,000	855,000
	Loan arrangement fee	-	1,444,500
Fund Board	Board of Directors remunerations	30,000	30,000
Sharia Committee	Sharia Committee remunerations	33,000	33,000
Custodian	Custody fee	100,000	100,000
Units holder	Rental revenue	8,580,822	13,481,532

The Fund Manager's investment in the Fund at 31 December 2022 is 4.64 million units (31 December 2021 is 4.64 million units)

## b) Due to related parties

Related party	2022	2021
Fund Manager (accrued management fee)	7,466,719	9,864,843
Custodian (presented under accrued expenses)	141,667	191,667
	<u>7,608,386</u>	<u>10,056,510</u>

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### Notes to the financial statements for the year ended 31 December 2022 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

#### 20 RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

The basis and term of payment 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 after deducting accrued fees and expenses	Every six (6) months
Board of Directors remuneration	Saudi Riyals 5,000 per meeting only payable to the independent members, maximum up to Saudi Riyals 80,000 per annum for all members.	After the meeting of the Board of Directors
Sharia Committee remuneration	Saudi Riyals 33,000 per annum	Every six (6) months
Custody fees	Saudi Riyals 100,000 per annum	Annually
Debt arrangement fees	Up to 1.5% of the arranged facility	Upon arrangement

#### 21 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and controls financial risks in close co-operation with the Fund's operating units. The most important types of risk are credit risk, currency risk and fair value and cash flow interest rate risks.

The Board of Directors has overall responsibility for establishment and oversight of the Fund's risk management framework. The executive management team is responsible for developing and monitoring the Fund's risk management policies. The team regularly meets and any changes and compliance issues are reported to the Board of Directors.

Risk management systems are reviewed regularly by the executive management team to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees compliance by management with the Fund's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

Financial instruments carried on the statement of financial position include cash and cash equivalents, trade and other receivables, investments, borrowings, accounts payable and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability are offset and net amounts reported in the financial statements, when the Fund 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.

## MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

### Notes to the financial statements for the year ended 31 December 2022 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

## 21 FINANCIAL RISK MANAGEMENT (continued)

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

### Fair value and cash flow Interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial positions and cash flows. The Fund's interest rate risks arise mainly from its borrowings, which are at floating rate of interest and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates. The interest rate profile of the Fund's interest-bearing financial instruments as reported to the management of the Fund is as follows:

If Saudi Interbank Offered Rate ("SIBOR") had been 1% higher or lower with all other variables held constant, the impact on the equity and profit before zakat for the year ended 31 December 2022 would have been Saudi Riyals 2.1 million (2021: Saudi Riyals 2.1 million).

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's transactions are principally in Saudi Riyals and US Dollars. The Fund's management monitors such fluctuations and manages its effect on the financial statements accordingly.

### Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund has no significant concentration of credit risk. To reduce exposure to credit risk the Fund has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Fund has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored.

The Fund's gross maximum exposure to credit risk at the reporting date is as follows:

	2022	2021
<b>Financial assets</b>		
Investments carried at fair value through profit or loss	5,312,150	5,282,150
Net investment in finance leases	219,945,398	230,425,626
Lease receivables	26,705,723	35,516,432
Prepayments and other assets	3,718,823	3,489,350
Short-term Murabaha deposit	35,000,000	-
Cash and cash equivalents (excluding cash in hand)	31,486,197	58,135,003
	<u>322,168,291</u>	<u>332,848,561</u>



**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2022 (continued)  
(All amounts in Saudi Riyals unless otherwise stated)

**21 FINANCIAL RISK MANAGEMENT (continued)**

**Provisioning policy**

The Fund allocates each exposure to a credit risk grade-based credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of the customers on due dates.

The loss allowances is measured on lifetime ECLs: ECLs result from all possible default events over the expected life of a financial instrument.

**Liquidity risk**

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

2022	Carrying amount	Total	Contractual cash flows		
			Less than 1 year	1 year to 5 years	More than 5 years
<i>Non-derivative financial liabilities</i>					
Borrowings	657,438,425	668,556,977	-	343,612,728	324,944,249
Lease liabilities	139,419,106	183,026,283	14,986,735	52,888,000	115,151,548
Unearned rental revenue	15,595,152	15,595,152	15,595,152	-	-
Accrued fund management fees	7,466,719	7,466,719	7,466,719	-	-
Accrued expenses and other liabilities	20,370,576	20,370,576	20,370,576	-	-
	<u>840,289,979</u>	<u>895,015,708</u>	<u>58,419,183</u>	<u>396,500,728</u>	<u>440,095,797</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

2021	Carrying amount	Total	Contractual cash flows		
			Less than 1 year	1 year to 5 years	More than 5 years
<i>Non-derivative financial liabilities</i>					
Borrowings	405,265,264	413,676,688	-	212,614,003	201,062,685
Lease liabilities	142,220,187	191,716,280	19,210,000	51,106,000	121,400,280
Unearned rental revenue	17,855,057	17,855,057	17,855,057	-	-
Accrued fund management fees	9,864,843	9,864,843	9,864,843	-	-
Accrued expenses and other liabilities	5,836,612	5,836,612	5,836,612	-	-
	<u>581,041,963</u>	<u>638,949,480</u>	<u>52,766,512</u>	<u>263,720,003</u>	<u>322,462,965</u>

**Capital risk management**

The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

**MUSHARAKA REIT FUND**  
(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2022 (continued)  
(All amounts in Saudi Riyals unless otherwise stated)

**21 FINANCIAL RISK MANAGEMENT (continued)**

**Fair value of assets and liabilities**

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

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

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a market price, because this price reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

The fair value hierarchy has the following levels:

Level 1 - quoted (unadjusted) market price in active markets for identical assets or liabilities;

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	As at 31 December 2022						
	Carrying Amount			Fair value			
	Fair value	Amortized cost	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>							
Investments at fair value through profit or loss	5,312,150	-	5,312,150	5,312,150	-	-	5,312,150
Net investment in finance leases	-	219,945,398	219,945,398	-	-	-	-
Lease rental receivables	-	26,705,723	26,705,723	-	-	-	-
Prepayments and other assets	-	3,718,823	3,718,823	-	-	-	-
Short-term Murabha deposit	-	35,000,000	35,000,000	-	-	-	-
Cash at banks	-	31,486,197	31,486,197	-	-	-	-
	<b>5,312,150</b>	<b>316,856,141</b>	<b>322,168,291</b>	<b>5,312,150</b>	<b>-</b>	<b>-</b>	<b>5,312,150</b>

**MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

**Notes to the financial statements for the year ended 31 December 2022 (continued)**

(All amounts in Saudi Riyals unless otherwise stated)

**21 FINANCIAL RISK MANAGEMENT (continued)****Financial liabilities**

Borrowings	668,556,977	668,556,977	668,556,977	-	-	-	-
Lease liabilities	-	139,419,106	139,419,106	-	-	-	-
Unearned rental revenue	-	15,595,152	15,595,152	-	-	-	-
Accrued fund management fees	-	7,466,719	7,466,719	-	-	-	-
Accrued expenses and other liabilities	-	20,370,576	20,370,576	-	-	-	-
	<u>668,556,977</u>	<u>851,408,530</u>	<u>851,408,530</u>	-	-	-	-

**As at 31 December 2021**

	Carrying Amount			Fair value			Total
	Fair value	Amortized cost	Total	Level 1	Level 2	Level 3	
<b>Financial assets</b>							
Investments at fair value through profit or loss	5,282,150	-	5,282,150	5,282,150	-	-	5,282,150
Net investment in finance leases	-	230,425,626	230,425,626	-	-	-	-
Lease receivable	-	35,516,432	35,516,432	-	-	-	-
Prepayments and other assets	-	3,489,350	3,489,350	-	-	-	-
Cash at banks	-	58,135,003	58,135,003	-	-	-	-
	<u>5,282,150</u>	<u>327,566,411</u>	<u>332,848,561</u>	<u>5,282,150</u>	-	-	<u>5,282,150</u>

**Financial liabilities**

Borrowings	413,676,688	-	413,676,688	413,676,688	-	-	413,676,688
Lease liabilities	-	142,220,187	142,220,187	-	-	-	-
Unearned rental revenue	-	17,855,057	17,855,057	-	-	-	-
Accrued fund management fees	-	9,864,843	9,864,843	-	-	-	-
Accrued expenses and other liabilities	-	5,836,612	5,836,612	-	-	-	-
	<u>413,676,688</u>	<u>175,776,699</u>	<u>589,453,387</u>	<u>413,676,688</u>	-	-	<u>413,676,688</u>

**Measurement of fair values**

The valuation of public traded investment classified under level 1 is based upon the closing market price of that security as of the valuation date, less a discount if the security is restricted. The fair value of level 2 fixed-income investment and funds are taken from reliable and third-party sources. Fair values of other investments classified in Level 3 are, where applicable, determined based on discounted cash flows.

Cash and cash equivalents, receivables from related parties and the financial liabilities except employee benefit obligations are measured at amortised cost.

## **MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

### **Notes to the financial statements for the year ended 31 December 2022 (continued)**

(All amounts in Saudi Riyals unless otherwise stated)

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#### **22 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

Non-current portion of net investment in finance leases (Note 11), long term loan and non-current portion of lease liabilities (Note 17) are expected to be realized after twelve (12) months from the reporting date. All other financial assets and liabilities are of a current nature.

#### **23 DIVIDENDS**

During 2022, the Fund paid dividends of Saudi Riyals 52.8 million (2021: Saudi Riyals 52.8 million). 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.

#### **24 SUBSEQUENT EVENTS**

On 23 Jan 2023, the Fund's Board approved to distribute dividends with regards to the year ended 31 December 2022, amounting to Saudi Riyals 0.2 per unit, totaling to Saudi Riyals 17.6 million to its unitholders.

#### **25 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Fund's Board on 30 March 2022 (corresponding to 8th Ramadan, 1444H).