

**Al Rajhi IPO Fund  
(Managed by Al Rajhi Capital)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2018**



**Ernst & Young & Co. (Certified Public Accountants)**  
**General Partnership**  
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**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF AL RAJHI IPO FUND  
(MANAGED BY AL RAJHI CAPITAL)**

**Opinion**

We have audited the financial statements of Al Rajhi IPO Fund (the "Fund") managed by Al Rajhi Capital (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, changes in equity attributable to the unitholders 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

**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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF AL RAJHI IPO FUND  
(MANAGED BY AL RAJHI CAPITAL) (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 judgment and maintain professional skepticism throughout the audit. We also:

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

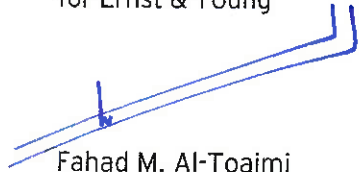
**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF AL RAJHI IPO FUND  
(MANAGED BY AL RAJHI CAPITAL) (CONTINUED)**

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

for Ernst & Young



Fahad M. Al-Toaimi  
Certified Public Accountant  
License No. 354

Riyadh: 28 Rajab 1440H  
(4 April 2019)



# AL RAJHI IPO FUND

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Note</i>	<b>31 December 2018 SR</b>	<b>31 December 2017 (Note 7) SR</b>	<b>1 January 2017 (Note 7) SR</b>
<b>ASSETS</b>				
Cash and cash equivalents		<b>540,496</b>	<b>878,530</b>	<b>6,255,897</b>
Financial assets at fair value through profit or loss	<b>8</b>	<b>14,532,362</b>	<b>31,760,151</b>	<b>40,196,150</b>
Dividends receivable		<b>27,393</b>	<b>-</b>	<b>80,366</b>
Prepayments		<b>-</b>	<b>5,000</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>15,100,251</b>	<b>32,643,681</b>	<b>46,532,413</b>
<b>LIABILITIES</b>				
Accrued expenses		<b>93,399</b>	<b>115,963</b>	<b>54,104</b>
<b>TOTAL LIABILITIES</b>		<b>93,399</b>	<b>115,963</b>	<b>54,104</b>
<b>EQUITY ATTRIBUTABLE TO THE UNITHOLDERS (TOTAL EQUITY)</b>		<b>15,006,852</b>	<b>32,527,718</b>	<b>46,478,309</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>15,100,251</b>	<b>32,643,681</b>	<b>46,532,413</b>
Units in issue		<b>1,635,278</b>	<b>3,211,726</b>	<b>4,216,418</b>
Net asset value per unit		<b>9.18</b>	<b>10.13</b>	<b>11.02</b>

The attached notes 1 to 17 form part of these financial statements.

# AL RAJHI IPO FUND

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Note</i>	<b>2018</b> <b>SR</b>	<b>2017</b> <b>SR</b>
<b>INCOME</b>			
Trading loss, net	9	<b>(1,461,164)</b>	<b>(2,625,792)</b>
<b>EXPENSES</b>			
Management fees	10	<b>(363,462)</b>	<b>(534,821)</b>
Purification charges	11	<b>(4,713)</b>	<b>(1,051)</b>
Other expenses		<b>(85,349)</b>	<b>(70,948)</b>
		<b>(453,524)</b>	<b>(606,820)</b>
<b>NET LOSS FOR THE YEAR</b>		<b>(1,914,688)</b>	<b>(3,232,612)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(1,914,688)</b>	<b>(3,232,612)</b>

The attached notes 1 to 17 form part of these financial statements.

**AL RAJHI IPO FUND****STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS**

For the year ended 31 December 2018

	<b>2018</b>	<b>2017</b>
	<b>SR</b>	<b>SR</b>
<b>EQUITY AT THE BEGINNING OF THE YEAR</b>	<b>32,527,718</b>	<b>46,478,309</b>
<b>CHANGES FROM THE OPERATIONS</b>		
Total comprehensive loss for the year	<b>(1,914,688)</b>	<b>(3,232,612)</b>
<b>CHANGES FROM UNIT TRANSACTIONS</b>		
Proceeds from units sold	<b>70,000</b>	<b>2,922,158</b>
Value of units redeemed	<b>(15,676,178)</b>	<b>(13,640,137)</b>
Net change from unit transactions	<b>(15,606,178)</b>	<b>(10,717,979)</b>
<b>EQUITY AT THE END OF THE YEAR</b>	<b>15,006,852</b>	<b>32,527,718</b>
Transactions in units during the year are summarised as follows:		
<b>UNITS AT THE BEGINNING OF THE YEAR</b>	<b>3,211,726</b>	<b>4,216,418</b>
Units sold	<b>7,020</b>	<b>279,215</b>
Units redeemed	<b>(1,583,468)</b>	<b>(1,283,907)</b>
Net decrease in units	<b>(1,576,448)</b>	<b>(1,004,692)</b>
<b>UNITS AT THE END OF THE YEAR</b>	<b>1,635,278</b>	<b>3,211,726</b>

The attached notes 1 to 17 form part of these financial statements.

# AL RAJHI IPO FUND

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 SR	2017 SR
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(1,914,688)	(3,232,612)
<i>Adjustments to reconcile net loss to net cash from operating activities:</i>		
Movement in unrealised losses on financial assets at fair value through profit or loss (note 9)	151,885	4,752,572
Changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	17,075,904	3,683,427
Dividends receivable	(27,393)	80,366
Accrued expenses	(22,564)	61,859
Prepayments	5,000	(5,000)
Net cash from operating activities	<u>15,268,144</u>	<u>5,340,612</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from units sold	70,000	2,922,158
Value of units redeemed	(15,676,178)	(13,640,137)
Net cash used in financing activities	<u>(15,606,178)</u>	<u>(10,717,979)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(338,034)</b>	<b>(5,377,367)</b>
Cash and cash equivalents at the beginning of the year	<u>878,530</u>	<u>6,255,897</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b><u>540,496</u></b>	<b><u>878,530</u></b>
<b><u>Operational cash flows from dividends:</u></b>		
Dividends received	<u>853,196</u>	<u>1,064,030</u>

The attached notes 1 to 17 form part of these financial statements.



# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS

31 December 2018

### 1. GENERAL

Al Rajhi IPO Fund (the “Fund”) is an open-ended fund created by an agreement between Al Rajhi Capital (the “Fund Manager”), a wholly owned subsidiary of the Al Rajhi Banking and Investment Corporation (the “Bank”) and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

Al Rajhi Capital  
P.O. Box 5561  
Riyadh 11432  
Kingdom of Saudi Arabia

The Fund aims to achieve capital growth over the medium to long term by investing mainly in the initial public offering in the Saudi Stock Exchange, and to invest in the rump offering of rights issues and by investing in the shares of the companies which have not been listed for more than five years or the last 20 equities listed on the Saudi Stock Exchange in accordance with the guidelines set out by the Fund’s Shariah Board.

The Fund was established on 21 Ramadan 1436H (corresponding to 8 July 2015) under the approval of the Capital Market Authority (“CMA”). The fund commenced its operations on 29 Dhual-Qa’dah 1436H (corresponding to 13 September 2015) and its first financial year ended on 31 December 2016.

### 2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006), and effective from 6 Safar 1438H (corresponding to 6 November 2016) by the New Investment Fund Regulations (“Amended Regulations”) published by the CMA on 16 Sha’aban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia.

### 3. BASIS OF PREPARATION

#### 3.1 STATEMENT OF COMPLIANCE

These are the Fund’s first annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“IFRS as endorsed in the KSA”).

For all years up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by the Saudi Organization of Certified Public Accountants (“SOCPA accounting standards”). The financial statements are the first annual financial statements of the Fund prepared in accordance with IFRS as endorsed in the KSA and IFRS 1 “First-time Adoption of International Financial Reporting Standards” has been applied.

Refer to Note 7 for information on how the Fund’s financial statements are impacted upon the adoption of IFRSs.

#### 3.2 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention, using the accruals basis of accounting except for investments held at fair value through profit or loss that are measured at fair value.

#### 3.3 FUNCTIONAL CURRENCY

These financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest SR.

31 December 2018

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Fund in preparing its financial statements.

##### *Financial instruments*

###### *Initial recognition*

The Fund records a financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets or financial liabilities are measured at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. In the case of financial assets or financial liabilities not at fair value through profit or loss, its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability is the initial recognition amount.

###### *Classification*

The Fund classifies its financial assets under the following categories:

- Fair value through profit or loss (“FVTPL”);
- Fair value through other comprehensive income (“FVTOCI”); and
- Amortised cost.

These classifications are on the basis of the business model of the Fund and how it manages the financial assets, and contractual cash flow characteristics.

The Fund measures financial assets at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

The Fund classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method except for financial liabilities at FVTPL.

The Fund designates a financial liability at FVTPL if doing so eliminates or significantly reduces measurement or recognition inconsistency or where a group of financial liabilities is managed and its performance is evaluated on a fair value basis.

###### *Derecognition of financial instruments*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund’s statement of financial position) when:

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

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund’s continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Financial instruments (continued)*

*Derecognition of financial instruments (continued)*

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

*Offsetting of financial instruments*

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

*Impairment of financial assets*

The Fund holds only trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses ("ECL") under IFRS 9 to all its trade receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date..

The Fund's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Fund uses the provision matrix as a practical expedient to measuring ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

Impaired debts, together with the associated allowances, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If a previous write-off is later recovered, the recovery is credited to the credit loss expense.

*Fair value measurement*

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Fair value measurement (continued)*

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

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 12.

#### *Trade date accounting*

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Fund commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

#### *Cash and cash equivalents*

For the purpose of the statement of cash flows, cash and cash equivalents includes bank balances with a maturity of three months or less.

#### *Provisions*

Provisions are recognised when the Fund has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured.

#### *Accrued expenses*

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not. These are initially recognized at fair value and subsequently at amortized cost using the effective interest rate method.

#### *Redeemable Units*

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the Unitholder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the Unitholder's rights to a pro rata share of the Fund's net assets
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument

In addition to the redeemable shares having all of the above features, the Fund must have no other financial instrument or contract that has:



# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Redeemable Units (continued)*

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in net assets attributable to the Unitholders. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

The capital of the Fund is SR 16,352,780 (31 December 2017: SR 32,117,260) divided into 1,635,278 (31 December 2017: 3,211,726) participating units of SR 10 par value. All issued participating units are fully paid. The Fund's capital is represented by these participating units and are classified as equity instruments. The shares are entitled to payment of a proportionate share of the Fund's net asset value upon winding up of the Fund.

#### *Management fees*

Fund management fees are recognised on an accruals basis (inclusive of value added tax for the year 2018) and charged to the statement of comprehensive income.

Fund management fees are charged at agreed rates with the Fund Manager and as stated in the terms and conditions of the Fund.

#### *Revenue recognition*

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- Identify the contract
- Identify performance obligation
- Determine the transaction price
- Allocation of the transaction price
- Recognize revenue

#### *Special commission income*

Special commission income is recognised on an effective yield basis.

#### *Net gain or loss on financial assets and liabilities at FVTPL*

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVTPL and exclude commission and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior year's unrealised gains and losses for financial instruments, which were realised in the reporting period. Realised gains and losses on disposal of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

#### *Dividend income*

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive the payment for dividend is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL is recognised in the statement of comprehensive income in a separate line item.

# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Expenses*

Expenses are measured and recognized as expenses on an accruals basis in the year in which they are incurred.

#### *Zakat*

Zakat at the Fund level is the obligation of the Unitholders and is not provided for in these financial statements.

#### *Foreign currencies*

Transactions in foreign currencies are translated into SR at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in statement of comprehensive income.

Monetary assets and liabilities denominated in foreign currencies are retranslated into SR at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange losses.

#### *Net asset value per unit*

The net asset value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at year end.

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

The preparation of the Fund's financial statements in conformity with the with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

#### *Going concern*

The Board of Directors, in conjunction with the Fund Manager made an assessment of the Fund's ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, they are not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### *Fair value Measurement*

The Fund measures its investments in financial instruments, such as equity instruments at fair value at each reporting date. 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. The principal or the most advantageous market must be accessible to the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

The Fund measures financial instruments at fair value at each reporting date. Fair values of those financial instruments are disclosed in note 12.

**6. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

*New standards, amendments and interpretations issued but not yet effective and not early adopted*

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

*IFRS 16 Leases*

In January 2016, the IASB issued the final version of IFRS 16 Leases which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective for annual years beginning on or after 1 January 2019 with early application permitted but only if it also applies IFRS 15 Revenue from Contracts with Customers.

*Amendments to IFRS 9: Prepayment Features with Negative Compensation*

IFRS 9 was early adopted by the Fund as part of the adoption of IFRS as endorsed in KSA in 2017. As per the amendment to IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted.

**7. FIRST TIME ADOPTION OF IFRS AS ENDORSED IN KSA**

These financial statements are the first annual financial statements of the Fund which have been prepared in accordance with IFRS as endorsed in KSA. For the years up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with SOCPA Accounting Standards.

Accordingly, the Fund has prepared the financial statements that comply with IFRS as endorsed in KSA that are applicable as at 31 December 2018, together with the comparative information for the year ended 31 December 2017. In preparing the financial statements, the Fund's opening statement of financial position was prepared as at 1 January 2017, the Fund's date of transition to IFRS as endorsed in KSA.

This note explains the principal adjustments made by the Fund in restating its financial statements prepared in accordance with SOCPA Accounting Standards, including the statement of financial position as at 1 January 2017 and the financial statements for the year ended 31 December 2017.

*Estimates*

The estimates at 1 January 2017 and at 31 December 2017 are consistent with those made for the same dates in accordance with SOCPA Accounting Standards (after adjustments to reflect any differences in accounting policies).

*Reconciliation between SOCPA accounting standards and IFRS as endorsed in KSA*

The Fund noted no transition adjustments to the statement of financial position (termed as "Balance Sheet" as per SOCPA Accounting Standards) and statement of comprehensive income (termed as "Statement of Operations" as per SOCPA Accounting Standards).

# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of the financial assets at fair value through profit or loss in equity investments on the last valuation day of the year is summarized below:

	31 December 2018		
	% of Market value	Market value SR	Cost SR
<i>Equity investments</i>			
AL Rajhi Commodity Fund - SAR	10.40	1,510,577	1,500,000
AL Rajhi Saudi Equity Fund	10.12	1,470,181	1,500,000
Saudi Ground Services Company	8.82	1,282,381	1,866,456
Saudi Company for Hardware and Tools	8.76	1,273,291	1,049,342
Dallah Healthcare Company	8.13	1,181,886	1,178,169
National Company for Learning and Education	7.92	1,150,544	966,416
Al Hammadi Company For Development and Investment	7.59	1,103,622	1,468,126
National Medical Care Company	7.44	1,080,796	1,111,104
Middle East Paper Company	7.43	1,078,960	900,728
Alinma Bank	6.59	957,393	665,317
Abdulmohsen Alhokair Group for Tourism and Development Co.	6.34	921,663	1,117,745
Fitness Time	5.81	844,897	747,188
	<u>95.35</u>	<u>13,856,191</u>	<u>14,070,591</u>
Other equities (individually less than 5%)	4.65	676,171	574,331
<b>Total financial assets at FVTPL</b>	<u><u>100.00</u></u>	<u><u>14,532,362</u></u>	<u><u>14,644,922</u></u>
	31 December 2017		
	% of Market value	Market value SR	Cost SR
<i>Equity investments</i>			
Saudi Ground Services Company	11.28	3,581,298	4,182,576
Al Hammadi Company For Development and Investment	9.31	2,957,389	2,994,353
Saudi Company for Hardware and Tools	9.16	2,908,742	2,367,451
Saudi Germany Hospital	9.07	2,881,348	3,523,072
Middle East Paper Company	8.20	2,603,795	1,949,154
Emaar Development Limited	7.83	2,490,889	2,950,892
Alandalus Property Company	6.28	1,993,050	1,597,170
Electrical Industries Company	5.84	1,853,806	1,823,450
Al Yamamah Steel	5.29	1,678,534	2,040,551
	<u>72.26</u>	<u>22,948,851</u>	<u>23,428,669</u>
Other equities (individually less than 5%)	27.74	8,811,300	8,595,927
<b>Total financial assets at FVTPL</b>	<u><u>100.00</u></u>	<u><u>31,760,151</u></u>	<u><u>32,024,596</u></u>



# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	1 January 2017		
	% of Market value	Market value SR	Cost SR
<i>Equity investments</i>			
Saudi Ground Services Company	15.11	6,073,091	4,260,022
Al Hammadi Company For Development and Investment	14.62	5,877,076	5,444,610
Saudi Germany Hospital	13.96	5,611,380	4,850,486
Saudi Company for Hardware and Tools	9.68	3,890,908	3,814,599
Abdulmohsen Alhokair Group for Tourism and Development	9.66	3,884,088	3,521,658
Bawani Company	7.89	3,171,120	2,851,036
Electrical Industries Company	7.00	2,813,370	2,381,804
Saudi Marketing Company	6.66	2,676,469	2,911,717
Alandalus Property Company	5.73	2,301,631	1,822,144
Al Yamamah Steel	5.68	2,283,623	2,588,749
Middle East Paper Company	4.01	1,613,394	1,261,198
Total financial assets at FVTPL	<u>100.00</u>	<u>40,196,150</u>	<u>35,708,023</u>

### 9. TRADING (LOSS), NET

	31 December 2018 SR	31 December 2017 SR
Realised (loss) gain on sale, net	(2,189,868)	1,143,116
Dividend income	880,589	983,664
Movement in unrealised gain (loss) on financial assets at FVTPL	(151,885)	(4,752,572)
	<u>(1,461,164)</u>	<u>(2,625,792)</u>

### 10. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts business with related parties. Related parties are limited to Al Rajhi Capital.

The Fund pays a management fee at a maximum rate of 1.5% per annum calculated on the net asset value at each valuation date. In addition, the Fund Manager also charges a fee at a maximum rate of 0.25% per annum of the average equity to meet other expenses of the Fund.

The management fees amounting to SR 363,462 (2017: 534,821) reflected in the statement of comprehensive income represent the fees charged by the Fund Manager during the year as described above. As at 31 December 2018, management fees amounting to SR 20,071 (31 December 2017: SR 41,461; 1 January 2017: SR Nil) are payable to the Fund Manager.

Board of Directors' fees amounting to SR Nil (2017: SR Nil) was charged during the year. As at 31 December 2018, Board of Directors' fees amounting to SR Nil (31 December 2017: SR Nil; 1 January 2017: SR Nil) is payable to the Fund's board.

The units in issue at 31 December 2018 include Nil units held by the employees of Al Rajhi IPO Fund (31 December 2017: Nil units; 1 January 2017: Nil).

The units in issue at 31 December 2018 include Nil units held by Al Rajhi Capital IPO Fund (31 December 2017: Nil units; 1 January 2017: Nil units).

At the end of the year, the cash balance with the Fund Manager is SR 11,861 (31 December 2017: SR 73,778; 1 January 2017: SR 88,558).

# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 11. PURIFICATION CHARGES

The purification charges amounting to SR 4,713 (2017: SR 1,051) represent charges incurred in respect of purification of the income generated from the investee companies in order to achieve a Sharia compliant return. These charges are calculated based on the Fund's Sharia Board approved formula and paid to charities recommended by the Fund's Sharia Board through the Fund Manager.

### 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### Determination of fair value and fair value hierarchy

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability the principal or the most advantageous market must be accessible to the Fund.

The Fund's financial assets consist of cash and cash equivalents and financial assets at FVTPL. The Fund's financial liabilities consist of accrued expenses.

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

#### Carrying amounts and fair value

SR	<i>Carrying value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>31 December 2018</b>					
<u>Financial assets measured at fair value</u>					
Financial assets at fair value through profit or loss	14,532,362	14,532,362	-	-	14,532,362
<b>Total</b>	<u>14,532,362</u>	<u>14,532,362</u>	<u>-</u>	<u>-</u>	<u>14,532,362</u>
<b>31 December 2017</b>					
<u>Financial assets measured at fair value</u>					
Financial assets at fair value through profit or loss	31,760,151	31,760,151	-	-	31,760,151
<b>Total</b>	<u>31,760,151</u>	<u>31,760,151</u>	<u>-</u>	<u>-</u>	<u>31,760,151</u>
<b>1 January 2017</b>					
<u>Financial assets measured at fair value</u>					
Financial assets at fair value through profit or loss	40,196,150	40,196,150	-	-	40,196,150
<b>Total</b>	<u>40,196,150</u>	<u>40,196,150</u>	<u>-</u>	<u>-</u>	<u>40,196,150</u>

# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 13. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

<i>As at 31 December 2018</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
<b>ASSETS</b>			
Cash and cash equivalents	540,496	-	540,496
Financial assets at fair value through profit or loss	14,532,362	-	14,532,362
Dividends receivable	27,393	-	27,393
<b>TOTAL ASSETS</b>	<b>15,100,251</b>	<b>-</b>	<b>15,100,251</b>
<b>LIABILITIES</b>			
Accrued expenses	93,399	-	93,399
<b>TOTAL LIABILITIES</b>	<b>93,399</b>	<b>-</b>	<b>93,399</b>
<i>As at 31 December 2017</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
<b>ASSETS</b>			
Cash and cash equivalents	878,530	-	878,530
Financial assets at fair value through profit or loss	31,760,151	-	31,760,151
Prepayments	5,000	-	5,000
<b>TOTAL ASSETS</b>	<b>32,643,681</b>	<b>-</b>	<b>32,643,681</b>
<b>LIABILITIES</b>			
Accrued expenses	115,963	-	115,963
<b>TOTAL LIABILITIES</b>	<b>115,963</b>	<b>-</b>	<b>115,963</b>
<i>As at 1 January 2017</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
<b>ASSETS</b>			
Cash and cash equivalents	6,255,897	-	6,255,897
Financial assets at fair value through profit or loss	40,196,150	-	40,196,150
Dividends receivable	80,366	-	80,366
<b>TOTAL ASSETS</b>	<b>46,532,413</b>	<b>-</b>	<b>46,532,413</b>
<b>LIABILITIES</b>			
Accrued expenses	54,104	-	54,104
<b>TOTAL LIABILITIES</b>	<b>54,104</b>	<b>-</b>	<b>54,104</b>

# AL RAJHI IPO FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2018

### 14. FINANCIAL RISK MANAGEMENT

#### *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 does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position.

	<i>31 December</i> <i>2018</i> <i>SR</i>	<i>31 December</i> <i>2017</i> <i>SR</i>	<i>1 January</i> <i>2017</i> <i>SR</i>
Cash and cash equivalents	540,496	878,530	6,255,897
Financial assets at fair value through profit or loss	14,532,362	31,760,151	40,196,150
	<u>15,072,858</u>	<u>32,638,681</u>	<u>46,452,047</u>

#### *Equity price risk*

Equity price risk is the risk that the fair value of equities changes as the result of changes in the levels of equity indices and the value of individual stocks.

The Fund's trading investments are subject to equity price risk. According to the Fund's management, the effect on the statement of comprehensive income as a result of a change in fair value of equity instruments due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

	<i>Change in</i> <i>equity price</i> <i>2018</i> <i>%</i>	<i>Effect on</i> <i>statement of</i> <i>comprehensive</i> <i>income</i> <i>2018</i> <i>SR</i>	<i>Change in equity</i> <i>price</i> <i>2017</i> <i>%</i>	<i>Effect on</i> <i>statement of</i> <i>comprehensive</i> <i>income</i> <i>2017</i> <i>SR</i>
S&P Saudi Arabia Shariah Dividend Custom Index	10%	1,249,783	10%	2,191,450

#### *Liquidity risk*

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's terms and conditions provide for the terms of subscriptions and redemptions of units and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions. However, the Fund is allowed to borrow in order to satisfy redemptions. The Fund's securities are considered to be readily realizable as they are all listed on stock markets. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

The undiscounted value of all financial liabilities of the Fund at the reporting date approximate to their carrying values and all are to be settled within one year from the reporting date.

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument may fluctuate due to change in foreign exchange rates. The fund views the Saudi Riyal as its functional currency. As the fund's financial assets and liabilities are denominated in its functional currency, the Fund is not subject to currency risk.

**14. FINANCIAL RISK MANAGEMENT (continued)**

***Market risk***

Market risk is the risk that changes in the market prices, such as foreign exchange rates, equity prices and interest rates, will affect the Fund's income or cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

**15. SUBSEQUENT EVENTS**

No events have occurred subsequent to the reporting date and before the issuance of these financial statements which require adjustment to, or disclosure, in these financial statements.

**16. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Fund Board on 4 April 2019 corresponding to 28 Rajab 1440H.

**17. LAST VALUATION DAY**

The last valuation day of the year was 31 December 2018 (2017: 31 December 2017).